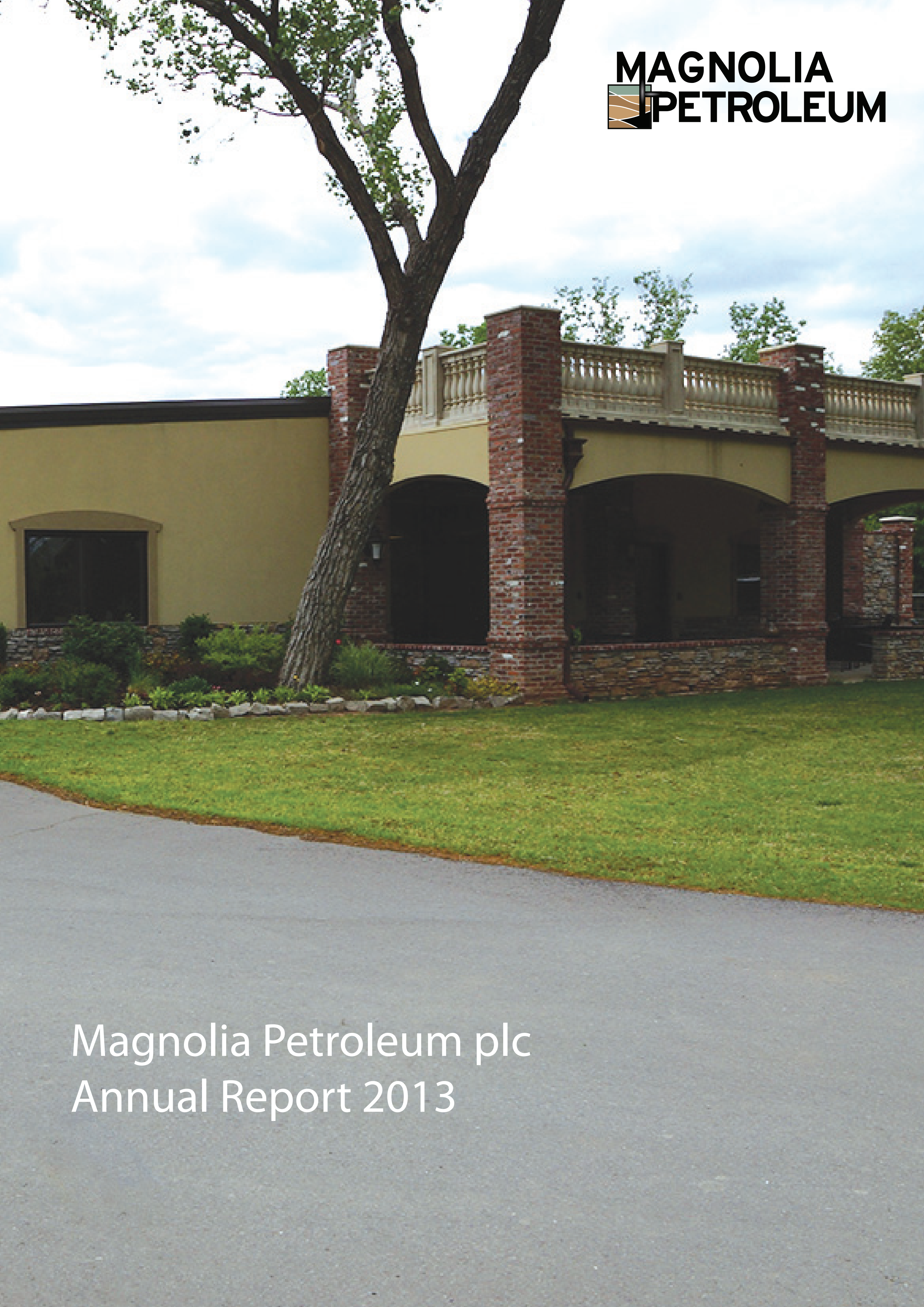

Magnolia Petroleum plc
Annual Report 2013

CONTENTS

OFFICERS AND PROFESSIONAL ADVISORS

Directors	Dr John Malcolm Cubitt (Non-Executive Chairman) Steven Otis Snead (Chief Executive Officer) Rita Fern Whittington (Chief Operations Officer) Gavin John Burnell (Non-Executive Director) Ronald Sanford Harwood (Non-Executive Director)
Secretary	Stanley Anthony Salter
Registered Office	Suite 321 19-21 Crawford Street London W1H 1PJ
Nominated Advisor	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX
Broker	Northland Capital Partners Limited 60 Gresham Street London EC2V 7BB
Legal Advisors	Pray Walker, P.C. 100 W.5th Street Suite 900 Tulsa OK 74103, USA
Independent Auditor	PKF Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
Registered Number	05566066

CHIEF EXECUTIVE OFFICER'S STATEMENT

By focusing on proven US onshore formations and participating alongside established operators in multiple wells, Magnolia provides shareholders with exposure to the high growth associated with the junior oil and gas sector, while minimising exploration risk. The financial year ended 31 December 2013, our second full year on AIM, clearly shows our business model is delivering with excellent growth recorded in terms of revenues and production. In the year to 31 December 2013, our revenues grew 244% to US$2,443,244 which, when added to 2012's excellent performance, means that since end of December 2011, our revenues have risen ten-fold while our well count has trebled to 184.

What makes this excellent growth all the more notable is that it is not the result of wildcat exploration in frontier jurisdictions with poor infrastructure and high costs. Instead we deployed our combined experience and expertise to acquire leases in proven US onshore formations such as the Bakken in North Dakota and the Woodford / Mississippi Lime in Oklahoma. Here the big unknown with regards to drilling is not if hydrocarbons are found but how much. Once leases have been secured we participate in drilling on our acreage alongside established operators, such as Statoil, Continental, Marathon and Devon Energy.

The strong growth we have seen to date is set to continue in the year ahead and beyond. Even though we have increased our well count since year end to over 200 wells (including those wells waiting to spud), our 13,500 plus net mineral acres still hold over 600 potential drilling locations, providing a long pipeline of future drilling activity.

Furthermore, the appetite among operators to drill in our areas of interest continues to rise from already elevated levels. In North Dakota it has become standard practice for operators to drill up to eight wells on individual spacing units targeting the Bakken and Three Forks Sanish formations. Magnolia has already participated in multiple drilling on single units in North Dakota with Statoil for the prolific Jake wells and with Kodiak for the Skunk Creek wells. We have long held the view that with the Woodford lying below the Mississippi Lime formation, it was a matter of time before operators looked to do the same in Oklahoma and post period end we were informed by an operator (Devon Energy) that eight wells will be drilled on a single unit in Oklahoma. If, as we expect, the trend to drill eight wells concurrently gathers pace in Oklahoma, our drilling activity is set to increase markedly, and post period end we have already seen our well count (including those waiting to spud) grow from 184 to 219, thanks in part to this acceleration in infill drilling activity.

As more and more horizontal wells are drilled in Oklahoma, our own and other operators' understanding of the geology of both the Mississippi Lime and Woodford has improved markedly. A more refined view of the Mississippi Lime is that it is comprised of multiple wedges, which if encountered can be highly productive, while the Woodford, which is a source rock, is increasingly seen as being the more prospective of the two formations. Hitting or missing one of these wedges explains the variance we are seeing in production rates for wells drilled to the Mississippi Lime. As announced by Magnolia on 6 May 2014 as a result of the increased understanding of the geology in the Mississippi Lime and Woodford, engineers are taking a more cautious view of the valuation of the 2P and 3P reserves and we therefore believe we should anticipate a significant downgrade in our reserves. However, certain operators are having more success than others in using the available technology to firstly identify these productive wedges and secondly to drill and complete the wells. Thanks to having drilled alongside most operators in Oklahoma, we know which ones are having the most success and we will continue to participate alongside these consistently strong performers.

We have identified a number of these Mississippi Lime wedges on leases where we are the operator and where we hold interests of up to 100%. As a result in the year ahead, Magnolia plans to drill vertical wells on these leases targeting Mississippi Lime wedges. Vertical wells are considerably cheaper to drill than horizontals and therefore offer low cost opportunities for strong production and reserves growth in the near term.

Both the increase in drilling and multiple new well proposals we are seeing are very welcome as they promise to accelerate the process by which we will prove up the reserves on our US onshore leases. To take advantage of this step-up in activity we need to be in a position to fund our share of drilling costs. In line with our strategy, higher revenues generated from our growing production are increasingly funding our participation in new wells. To augment our revenues and provide us with the flexibility to participate in drilling as and when suitable opportunities arise, during the year we secured a US$5 million revolving credit facility with an initial drawdown of $1.6m which was subsequently increased to $2.1m after the period end. This in itself is a major milestone for Magnolia as it represents third party recognition of the progress we have made.

Outlook

The current year has started strongly with Magnolia participating in 35 new wells, a 19% increase on our total well count as at year end. With a long pipeline of new wells, funding in place to cover our share of costs, an excellent drilling success rate and growing appetite among leading operators to maximise the recovery of reserves on individual spacing units in Oklahoma through infill drilling, we are well placed to deliver on our objective and prove up the reserves on our leases. Already, the value of Magnolia's proven developed producing reserves stands at US$8.416 million. In 12 months' time, we expect to report additional growth in production, revenue and producing reserves.

Finally, I would like to thank the Board, management team and all our advisers for their hard work during the year and also to our shareholders for their continued support over the last twelve months.

Steven Snead
Chief Executive Officer

13 May 2014

CHIEF OPERATIONS OFFICER'S REPORT

The Bakken/Three Forks Sanish Formations, North Dakota

In 2013, a total of 12 wells targeting the Bakken and Three Forks Sanish formations in North Dakota commenced production, bringing the total number of producing wells in these formations in which Magnolia has an interest to 34. Of the wells reported during the year, eight are producing from the Bakken, a reservoir which currently produces over 850,000 bopd and is estimated to hold an estimated mean of 3.65 billion barrels of undiscovered, technically recoverable oil (2013 US Geological Survey). Initial production rates for these eight wells were:

- BB Rice 2-29: 2,060 boepd
- Gustafson 31-30H: 1,216 boepd
- Helgeson 41-30H: 1,401 boepd
- Curtis Kerr 24-8H: 1,496 boepd
- Nicky Kerr 14-8: 1,501 boepd
- Jake 2-11-4H: 2,543 boepd
- Jake 2-11-6H: 3,315 boepd
- Jake 2-11#1H: 3,928 boepd

Initial production rates for the four wells that commenced production from the Three Forks Sanish formation, a separate reservoir lying directly below the Bakken which is estimated to hold as much as 3.73 billion barrels of recoverable oil (2013 US Geological Survey), were as follows:

- BB Rice 3-29: 2,207 boepd
- Jake 2-11-3TFH: 2,300 boepd
- Jake 2-11-5TFH: 2,430 bopd
- Jake 2-11-2TFH: 2,244 boepd

Boepd : Barrels of oil equivalent per day
Bopd: Barrels of oil per day

Magnolia holds leases in respect of 11,520 gross acres across 28 sections, equating to 421 net mineral acres within the boundaries of the Bakken/TFS formations. As the Three Forks Sanish lies beneath the Bakken, the number of wells which can be drilled per section doubles to eight (four per formation), providing Magnolia with a total of 120 proven development locations on its acreage, 60 on the Bakken and 60 on the Three Forks Sanish, as set out in the Updated Reserves Report by Moyes & Co. dated 8 April 2013.

Mississippi Lime Formation, Oklahoma

Since its admission to AIM in November 2011, Magnolia has acquired approximately 5,500 net mineral acres in the Mississippi Lime. The acquired acreage includes leases with working interests of up to 100%.

Initial production rates for 16 producing wells targeting the Mississippi Lime were reported during 2013:

- Nighswonger Farms 2815 1-13H: 107 boepd
- Sullins 1-6H : 296 boepd
- Montecristo 6-1H: 50 boepd
- Cordray-Ritter 4-28-14 1H: 762 boepd
- Mack 10-27-17: 252 boepd
- Campbell 1-17H: 390 boepd
- Wolf 1H-25: 195 boepd

Mississippi Lime Formation, Oklahoma (continued)

- McClure 36-2H: 90 boepd
- Peck 1-5H: 631 boepd
- Voise 1-10H: 105 boepd
- Roger Swartz (vertical): 17 bopd
- Flinders 1-25H: 143 boepd
- Great White: 455 boepd
- Joan 1-21 (vertical): 12 bopd
- JKL 1-08H: 549 bopd
- JKL 1-04H: 40 bopd

During the year, Magnolia elected to participate in a further 15 wells targeting the Mississippi Lime for which initial production rates have either been reported post period end or are at various stages of development.

The Mississippi Lime is an historic oil and gas system that has been producing at depths ranging from 4,500 to 7,000 feet from several thousand vertical wells for over 50 years. As with the Bakken, new technology and horizontal drilling has reopened the oil play. Due to the relatively shallow depths and less tight rock formation, drilling costs at between US$2.4 million and US$3.5 million per well in the Mississippi Lime and are considerably lower than those in the Bakken, which should lead to shorter pay-out periods than with the Bakken wells.

Woodford/Hunton Formations, Oklahoma

In 2013, Magnolia reported initial production rates for 9 wells during the period under review:

- JoAnn1H-18 targeting the Woodford: 1,170 boepd
- Beebe 24-W1H targeting the Woodford: 73 boepd
- Kelly 1-2H targeting the Woodford: 1,291 boepd
- Campbell 1-H targeting the Woodford: 615 boepd
- Forrest 1-8H targeting the Woodford: 1,272 boepd
- Omega 1-33H targeting the Hunton: 692 mcf
- Condit 1-5H targeting the Woodford: 1,546 boepd
- Robison 4-1MWH targeting the Woodford: 777 boepd
- Sympson 1-6H targeting the Woodford: 758 boepd

During the year, Magnolia elected to participate in a further 15 wells targeting the Woodford/Hunton formations for which initial production rates have either been reported post period end or are at various stages of development.

Like the Bakken, the Woodford / Hunton formations in Oklahoma are established reservoirs that have been reopened following the introduction of horizontal drilling and stimulation technology. As a result the Woodford oil play in particular is increasingly being drilled by leading operators.

Summary

During the year initial production rates were reported for 43 new wells in proven US onshore formations such as the Bakken and Three Forks Sanish, North Dakota and Mississippi Lime and Woodford, Oklahoma. A number of these new wells achieved the best initial production rates for wells in which Magnolia has an interest, notably the Statoil operated Jake wells in the Bakken and Three Forks Sanish formations in North Dakota. This highlights how operators' increased knowledge of the geology of US plays and further advances in equipment and technology are allowing more of the reserves to be recovered, which has contributed to the USGS doubling its estimate of mean undiscovered and technically recoverable oil from the Bakken and TFS to 7.38 billion barrels. As the growth reported in 2013 and the progress made in 2014 to date shows, this is an exciting time for oil and gas companies operating in US onshore plays, and as a result further strong growth in Magnolia's production and reserves is expected in the year ahead.

Rita Whittington
Chief Operations Officer

13 May 2014

STRATEGIC REPORT

The Directors of the Company and its subsidiary undertaking (which together comprise the Group) present their Strategic Report on the Group for the year ended 31 December 2013.

The Strategic Report is a new statutory requirement under section 414a of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and is intended to provide fair and balanced information that enables the Directors to be satisfied that they have complied with section 172 of the Companies Act, which sets out the Directors duty to promote the success of the Company.

Principal Activities

The principal activity of the Group is onshore oil and gas exploration and production in the United States of America. Magnolia Petroleum Plc acts as a holding company and provides direction and other services to its subsidiary.

The Company subsidiary is Magnolia Petroleum Inc. ("Magnolia"), an independent oil and gas exploration and production company based near Tulsa, Oklahoma, USA. Magnolia's core area of business is in the Bakken/Three Forks Sanish area in North Dakota and Montana, the emerging Woodford/Hunton oil and gas formations in Oklahoma and the Mississippi Formation in Oklahoma, United States.

Organisation Review

The Board is responsible for providing strategic direction for the Group. This incorporates setting out objectives, management policies and performance criteria. The Board assesses its performance against these on a monthly basis.

Composition of the Board at 31 December 2013 was two Executive Directors and three Non-Executive Directors. The Board believes that the present composition provides an appropriate mix to conduct the Group's affairs.

Strategic approach

The Board's strategic intent is to maximise shareholder value through the continuing investment into new wells and leases in proven US onshore formations and participating alongside established operators in multiple wells.

Magnolia provides shareholders with exposure to the high growth associated with the junior oil and gas sector, while minimising exploration risk. This is achieved with a low overhead base.

Financial Review

During the year, net production generated revenues of US$2,443,244, a 244% increase on last year's US$709,395. EBITDA (after removal of non cash items) totalled US$975,622 against a loss of US$359,944 in 2012. These funds were reinvested into drilling new wells. The loss for the year was US$281,817 (2012: US$1,075,178).

Tangible assets as at end December 2013 stood at US$8,352,385, a 143% increase over the year (2012: US$3,437,869) while intangible assets (new leases and wells that are drilling but not yet completed) increased to US$6,400,258 from US$6,200,828 in 2012. In line with our policy to invest as much of our revenues into drilling new wells and acquiring additional leases, administrative costs continue to be tightly managed.

During the year, US$2.3 million (equivalent to £1.5 million) was raised via a placing to fund new wells, notably six Statoil operated wells in North Dakota. As a result, 60,000,000 new ordinary shares in the Company were issued. In addition the Company secured a three year $5m revolving credit facility. An initial borrowing base of US$1.6m was agreed which was subsequently increased to US$2.1m after the year end. No funds were raised in 2013 using the EFF with Darwin and post period end it was mutually agreed to cancel the facility.

Key Performance Indicators

The Board monitors the overall performance of the Group by reference to Key Performance Indicators ("KPIs"). KPIs for the year, together with comparative data, are presented below:

	2013	*2012*
Revenue	$2,443,244	$709,395
Gross profit margin (excluding depreciation)	73.77%	71.77%

Participations in well drilling programmes are monitored on an individual project basis in terms of revenue and cost per barrel of oil or mcf (one thousand cubic feet) of gas, together with the anticipated payback period on each project.

Risks and Uncertainties

The Group's activities expose it to a variety of risks and uncertainties.

Market risk

The Group operates in an international market for hydrocarbons and is exposed to risk arising from variations in the demand for and price of the hydrocarbons. Oil and gas prices historically have fluctuated widely and are affected by numerous factors over which the Group does not have any control, including world production levels, international economic trends, currency exchange fluctuations, inflation, speculative activity, consumption patterns and global or regional political events.

Non-operator risk

On non-operated interests, the Group, in most instances, will depend on operators to initiate and supervise the drilling and operation of such wells. As such the Group cannot always accurately predict the timing of the cash flows associated with the drilling of these wells. If the Group is unable or unwilling to comply with its payment obligations, it would seek to negotiate a farm-out with some sort of back-in upon payout or sell down a portion of its leasehold interests and participate with a smaller interest. This could reduce the Group's future revenues and earnings.

Oil and gas exploration and production risks

The Group is primarily a non-operator working interest owner and is reliant on the operator for managing all aspects of its exploration and production activities in its non-operated interests. There are significant risks and hazards inherent in the exploration and production of oil and gas, including environmental hazards, industrial incidents, labour disputes, fire, drought, flooding and other acts of God. The occurrence of any of these hazards can delay or interrupt production and increase production costs. There is no guarantee that oil and/or gas will be discovered in any of the Group's existing or future licences/permitted acreage or that commercial quantities of oil and/or gas can be recovered.

The Group currently holds less than a 100 per cent working interest in the majority of its completed wells and in wells which are being drilled. It is also likely to hold less than 100 per cent in wells which may be drilled in the future. The Group could be held liable for the joint activity obligations of the other working interest owners, such as non-payment of costs and liabilities arising from the actions of those other working interest owners. In the event that other working interest owners do not pay their share of such costs, the Group would be likely to have to pay those costs but would pick up an additional proportionate interest in the well.

Environmental risk

The Group's operations are subject to environmental regulation in all the jurisdictions in which it operates. The Group is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would adversely affect the Group's operations. There can be no assurance that such new environmental legislation once implemented will not oblige the Group to incur significant expenses and undertake significant investments.

Risks and Uncertainties (continued)

Licences and title

The leases in which the Group has or is seeking to have an interest will be subject to termination after the primary term of such leases unless there is current production of oil and/or gas in commercial quantities. If a lease is not extended after the primary term, the Group may lose the opportunity to develop and discover any hydrocarbon resources on that lease area. In taking an assignment of an oil and/or gas lease, the Group would, in accordance with industry practice, rely on the warranty provisions.

This report was approved by the board on 13 May 2014 and signed on its behalf:

Gavin Burnell
Director

REPORT OF THE DIRECTORS

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2013.

General Information

Certain information required by the Companies Act 2006 relating to the information to be provided in the Directors' Report is now set out in the Group Strategic Report and includes: Principal activity, Strategic approach, Financial review and Principal risks and uncertainties.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Under that law the Directors have elected to prepare the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRS's as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements, and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the Financial Statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Company is compliant with AIM Rule 26 regarding the Company's website.

Political and Charitable Contributions

During the period the Company did not make any payments for charitable or political purposes.

Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. Further details on their assumptions and their conclusion thereon are included in the statement on going concern included in Note 2.3 to the Financial Statements.

Directors and Directors' interests

The Directors who held office during the year to the date of approval of these Financial Statements, together with their beneficial interests in the ordinary shares of the Company, are shown below.

	31 December 2013		*1 January 2013*	
	Ordinary Shares	*Options and warrants*	*Ordinary Shares*	*Options and warrants*
Gavin J Burnell(1)	15,635,797	14,610,598	14,185,797	11,220,768
Dr John M Cubitt	619,908	6,094,915	619,908	4,400,000
Steven Otis Snead(2)	201,715,998	24,417,161	199,915,998	14,110,000
Rita Fern Whittington	11,720,294	16,905,661	11,635,294	10,126,000
Ronald Sanford Harwood(3)	32,112,426	3,354,915	29,732,426	1,660,000

(1) Figures at 1 January 2013 and 31 December 2013 included 830,000 ordinary shares owned by Elizabeth Burnell, the wife of Gavin J Burnell.

(2) Includes 93,209,040 ordinary shares owned by the Snead Family LLC, 50,000,000 held by Snead Family 2012 LLC and 11,400,000 ordinary shares owned by R. Sterling Snead.

(3) Ronald Sanford Harwood's shares are held by the Ronald S. Harwood Trust.

Dr John Malcolm Cubitt, Non-Executive Chairman

Dr John Cubitt has more than 30 years' commercial experience in the oil exploration and production industry, following a period in academic research and graduate/post-graduate education in the UK and USA. He is a registered Chartered Geologist (CGeol) and has a BSc and PhD in geology. His experience has included asset evaluation and project management, as well as board-level strategic and operational direction. Until December 2011 he was Managing Director of Woburn Energy Plc (formerly Black Rock Oil and Gas Plc), an AIM-listed oil and gas exploration company whose primary asset at that time was in Colombia. He is also a director of Triox Limited, a shell company listed on the TSXV, and Bridgecreek Resources Ltd, a private US oil and gas E&P company.

Steven Otis Snead, Chief Executive Officer

Mr Snead is a Certified Professional Landman with 34 years' experience in the oil and gas industry. In 1980 he founded Energy Land Services Inc., an oil and gas service company that was contracted by small and medium-sized oil companies to perform title research, determine owners of mineral interests in a prospective drilling area, and then purchase leases from those mineral owners or negotiate agreements with other exploration companies. Energy Land Services also obtained permits or regulatory agency approvals, and secured necessary title curative to ensure clear title to ownership of wells. Energy Land Services, which employed up to 32 landmen and support staff, was sold to its employees in 1989, and still operates today.

In 1984, he founded (and still owns and operates) Enerlex Inc. ("Enerlex") for the purpose of purchasing and managing royalty interests. In 1987, he acquired Magnolia Petroleum Limited, an exploration and production company which at that time had over 30 operated wells in Oklahoma. By 1999, when the properties were profitably sold, Magnolia Petroleum Limited had acquired, drilled and managed working interests (operated and non-operated) in over 200 wells. The company was then liquidated solvently, but Mr Snead retained the rights to the name "Magnolia Petroleum".

In 1988 he co-founded International Searchers Inc. ("ISI"), a research company that located and recovered unpaid royalties or uncollected assets. ISI recovered significant royalties and assets for its clients and had a research process that allowed it to identify royalty owners in wells throughout the United States. In 2000, Enerlex acquired ISI's research process and its proprietary database of 2.25 million names and addresses of royalty owners which is used by Enerlex to identify royalty interests available for acquisition.

Directors and Directors' interests (continued)

Rita Fern Whittington, Chief Operations Officer

Mrs Whittington is a petroleum landman with more than 30 years' experience in acquisition, operations and management of oil and gas properties.

She began her career in 1977 working for an Oklahoma based oil exploration company where she became a prospect manager. In 1985, she joined Kaiser-Francis Oil Company in Oklahoma as a land supervisor. Between 1987 and 1989, she acted as a title analyst for Terra Resources Inc. specialising in Gulf Coast, Texas and Louisiana properties. In 1989, she joined Enerlex Inc. as vice president where she spent nine years negotiating and purchasing thousands of mineral acres. From 1998 to 2001, she was land administrator for Brighton Energy LLC, focusing on building the company's portfolio through acquisitions and disposals. In 2001, she joined Primary Natural Resources, Inc as a primary member of the asset management team, developing and expanding the company until it sold its assets in 2003. It commenced business again in 2004 and sold its assets in 2008.

Gavin John Burnell, Non-Executive Director

Mr Burnell has specialised in advising smaller capitalised companies for the last twelve years. He joined Ruegg & Co in 2001 where he became an equity partner, and which was later purchased by Astaire Group plc. He is a Director of Corporate Finance at Northland Capital Partners Limited which specialises in assisting companies in AIM flotations and fundraisings. He is a non-executive Director of a number of companies in various sectors including Globo plc, Hot Rocks Investments plc, Elephant Oil Limited and Goldcrest Resources plc.

Ronald Sanford Harwood, Non-Executive Director

Mr Harwood graduated in 1957 from Wharton School of Finance and Commerce, University of Pennsylvania, with a Bachelor of Science degree in Economics. During the course of his extensive business career, he has had active involvement in originating and developing projects in a wide range of sectors, mainly in oil and gas exploration and production (since 1981) but also in financial and business development services, telecommunications, computer software, power generation and specialty chemicals.

Mr Harwood has had active involvement in originating and developing projects in oil and gas exploration and production since 1981. He founded Bellwood Petroleum Corporation in 1985, Bellwood Petroleum LLC in 2007 and Colony Petroleum, LLC in 1990. Colony, an oil and gas investment fund, secured US and international investors to participate in oil and gas exploration and production ventures originated and operated by American and Canadian independent oil and gas companies.

Directors' Remuneration

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all Directors and Senior Executives. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and senior executive team.

Directors' Remuneration (continued)

The following remuneration table comprises Directors' fees and benefits in kind that were payable to Directors who held office during the year ended 31 December 2013:

	Basic Salary/ Fees for the year ended 31 December 2013 US$	*Pension contributions for the year ended 31 December 2013 US$*	*Benefits in Kind for the year ended 31 December 2013 US$*	*Total for the year ended 31 December 2013 US$*	*Total for the year ended 31 December 2012 US$*
Gavin J Burnell	24,759	–	–	24,759	62,538
Dr John M Cubitt	24,759	–	–	24,759	14,995
Steven Otis Snead	23,724	–	–	23,724	16,900
Rita Fern Whittington	199,224	7,020	19,032	225,276	220,159
Ronald Sanford Harwood	23,724	–	–	23,724	16,900

Substantial Interests

As of 1 May 2014, the following interests of three per cent or more of the issued ordinary share capital had been notified to the Company:

	%	*Number of ordinary shares*
Steven Otis Snead	22.15	201,715,998
Hargreaves Lansdown (Nominees) Limited	17.92	163,200,995
TD Direct Investing Nominees (Europe) Limited	8.79	80,091,269
HSDL Nominees Limited	7.99	72,786,803
HSBC Client Holdings Nominee (UK) Limited	6.35	57,806,156
Barclayshare Nominees Limited	5.29	48,152,635
Ronald Sanford Harwood	3.53	32,112,426
Share Nominees Ltd	3.25	29,615,123

Supplier Payment Policy

Whilst there is no formal code or standard, it is Company policy to settle terms of payment with creditors when agreeing the terms of each transaction and to abide by the creditors' terms of payment.

At 31 December 2013 the number of creditor days in respect of trade creditors was 54 (2012: 20).

Directors' and Officers' Indemnity Insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and Officers. These were made during the previous period and remain in force at the date of this report.

Events After the Reporting Period

The events after the reporting period are set out in Note 24 to the Financial Statements.

Provision of information to auditor

So far as each of the Directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

The auditor, PKF Littlejohn LLP (formerly named Littlejohn LLP) will be proposed for reappointment in accordance with section 485 of the Companies Act 2006. PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

Annual General Meeting – Explanation of Business

The 2013 annual general meeting will be held at 10.00am on 10 June 2014 at 18452 E 111th, Broken Arrow, Oklahoma, OK74011, USA. The notice of meeting is set out on pages 53 to 55 of this document and a form of proxy is enclosed.

Details of the business to be considered at the meeting are given below.

Resolution 1 is to receive the annual report and financial statements. Resolutions 2, 3 and 4 concern John Cubitt, Steven Snead and Gavin Burnell who retire by rotation and offer themselves for re-election as directors. Resolution 5 is to reappoint PKF Littlejohn LLP as auditors and to authorise the directors to set their fees.

Authority of directors to allot shares (Resolutions 6 and 7)

Under UK law, directors are not permitted to allot new shares (or to grant rights over shares) unless they are authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 6 gives the directors the necessary authority to allot up to a maximum of 450,000,000 relevant securities. This represents approximately 50% of the current issued ordinary share capital.

Resolution 7 empowers the directors to allot such securities for cash otherwise than on a pro-rata basis to existing shareholders, up to a maximum of 450,000,000 ordinary shares of 0.1p each, equivalent to approximately 50% of the current issued ordinary share capital. These authorities will continue in force until the AGM to be held in 2015 or 30 June 2015, whichever is the earlier.

Authority for the Company to purchase its own shares (Resolution 8)

Resolution 8 authorises the Company, until next year's AGM or 30 June 2015 (whichever is earlier) to purchase in the market up to a maximum of 137,000,000 ordinary shares (equivalent to approximately 15% of the current issued share capital of the Company). The Companies Act 2006 allows the Company to hold any repurchased shares in treasury, instead of cancelling them immediately. If the Company buys back its own shares and holds them in treasury it may then deal with some or all of them in several ways. It may sell them for cash; transfer them under the provisions of an employee share scheme; cancel them; or continue to hold them in treasury. Holding shares in treasury in this way would allow the Company to reissue them quickly and cost effectively, giving increased flexibility to the management of its capital base. Dividends are not paid on shares held in treasury, nor do they carry voting rights while they remain there. The directors intend to decide at the time of any share buyback, whether to cancel the shares immediately or to hold them in treasury, depending on the interests of the Company and its shareholders as a whole, at the time. The Company does not currently hold any shares in treasury.

The proposal should not be taken as an indication that the Company will purchase shares at any particular price or indeed at all, and the directors will only consider making purchases if they believe that such purchases would result in an increase in earnings per share and are in the best interests of shareholders.

It is intended to renew each of the above authorities at each annual general meeting.

This report was approved by the board on 13 May 2014 and signed on its behalf:

Gavin Burnell
Director

CORPORATE GOVERNANCE REPORT

The Board of Directors

As at 31 December 2013, the Board of Directors comprised five members: two Executive Directors and three Non-Executive Directors including the Chairman, Dr John Cubitt. The Executive Directors have a wealth of experience in the oil and gas industry. Similarly the Non-Executive Directors together have extensive mineral, oil and gas exploration experience and financial experience.

Board meetings

The Board ordinarily meets on a monthly basis and as and when further required, providing effective leadership and overall management of the Group's affairs by reference to those matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors, in a timely manner, prior to the Board meetings.

	Number held and entitled to attend	*Number attended*
Dr John Cubitt	16	14
Gavin Burnell	16	16
Ronald Harwood	16	16
Steven Snead	16	14
Rita Whittington	16	16

Corporate governance practices

The Board recognises the importance of sound corporate governance commensurate with the size of the Group and the interests of Shareholders. As the Group grows, the Directors will develop policies and procedures which reflect the requirements of the UK Corporate Governance Code, as published by the Financial Reporting Council so far as is practicable, taking into account the size and nature of the Company.

Remuneration and audit committees

The remuneration committee comprise of Ronald Harwood (Chairman), John Cubitt and Gavin Burnell, and is responsible for reviewing the performance of the Executive Directors and for setting the framework and broad policy for the scale and structure of their remuneration taking into account all factors which it shall deem necessary. The remuneration committee also determines the allocation of share options and is responsible for setting up any performance criteria in relation to the exercise of options granted under any share options schemes adopted by the Group.

The audit committee comprise John Cubitt (Chairman), Gavin Burnell and Ronald Harwood, and has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Group is properly measured and reported on and for reviewing reports from the Group and Company's auditor relating to the Group's accounting and internal controls.

Internal controls

The Board recognises the importance of both financial and non-financial controls and has reviewed the Group's control environment and any related shortfalls during the year. Since the Group was established, the Directors are satisfied that, given the current size and activities of the Group, adequate internal controls have been implemented. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of the current activity and proposed future developments of the Group, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Relations with Shareholders

The Board is committed to providing effective communication with the shareholders of the Company. Significant developments are disseminated through stock exchange announcements and regular updates on the Company website. The Board views the Annual General Meeting as a forum for communication between the Group and its shareholders and encourages their participation in its agenda.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the members of Magnolia Petroleum Plc

We have audited the Group and Parent Financial Statements of Magnolia Petroleum plc for the year ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Cash Flow, the Consolidated and Parent Company Statements of Changes in Equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mark Ling (Senior statutory auditor)
For and on behalf of
PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

13 May 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	*Year ended 31 December 2013* $	*Year ended 31 December 2012 (restated)* $
Continuing Operations			
Revenue		2,443,244	709,395
Operating expenses		(640,823)	(200,255)
Depreciation	11	(605,686)	(219,183)
Gross Profit		1,196,735	289,957
Impairment of property, plant and equipment	11	–	(9,333)
Impairment of mineral leases	12	(67,070)	(218,525)
Profit on disposal of mineral leases		244,373	–
Differences due to foreign exchange		(417,520)	(263,774)
Administrative expenses	6	(1,218,019)	(871,934)
Operating Loss		(261,501)	(1,073,609)
Finance income		283	–
Finance costs		(20,599)	(1,569)
Loss before Tax		(281,817)	(1,075,178)
Taxation	9	–	–
Loss for the year attributable to the owners of the parent		(281,817)	(1,075,178)
Other Comprehensive Income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		468,089	173,924
Other Comprehensive Income for the Year, Net of Tax		468,089	173,924
Total Comprehensive Income for the Year attributable to the owners of the parent		186,272	(901,254)
Earnings per share for loss attributable to the owners of the parent during the year			
Basic and diluted (cents per share)	10	(0.03)	(0.16)

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company Statement of Comprehensive Income.

The loss for the Parent Company for the year was $482,319 (2012: $334,035).

The Notes on pages 28 to 52 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	*As at 31 December 2013 $*	*As at 31 December 2012 $*
Non–Current Assets			
Property, plant and equipment	11	8,352,385	3,437,869
Intangible assets	12	6,400,258	6,200,828
Total Non-Current Assets		14,752,643	9,638,697
Current Assets			
Trade and other receivables	14	1,268,823	208,936
Cash and cash equivalents	15	128,002	2,293,151
Total Current Assets		1,369,825	2,502,087
TOTAL ASSETS		16,149,468	12,140,784
EQUITY AND LIABILITIES			
Equity attributable to Owners of Parent			
Share capital	16	1,481,396	1,390,244
Share premium	16	13,954,026	11,888,717
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		209,042	66,603
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		515,389	47,300
Retained losses		(1,859,713)	(1,577,896)
Total Equity		14,025,418	11,540,246
Non-Current Liabilities			
Borrowings	17	900,000	–
Total Non-Current Liabilities		900,000	–
Current Liabilities			
Trade and other payables	18	1,224,050	600,538
Total Current Liabilities		1,224,050	600,538
TOTAL EQUITY AND LIABILITIES		16,149,468	12,140,784

These Financial Statements were approved by the Board of Directors on 13 May 2014 and were signed on its behalf by:

Gavin Burnell
Director

Dr John Cubitt
Chairman

The Notes on pages 28 to 52 form part of these Financial Statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	As at 31 December 2013 $	As at 31 December 2012 $
Non–Current Assets			
Investments in subsidiaries	13	3,874,935	3,782,525
Total Non–Current Assets		3,874,935	3,782,525
Current Assets			
Trade and other receivables	14	13,028,566	10,809,790
Cash and cash equivalents	15	154,365	103,919
Total Current Assets		13,128,931	10,913,709
TOTAL ASSETS		17,057,866	14,696,234
EQUITY AND LIABILITIES			
Equity attributable to Shareholders			
Share capital	16	1,481,396	1,390,244
Share premium	16	13,954,026	11,888,717
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		209,042	66,603
Translation reserve		450,027	(101,368)
Retained losses		(1,051,206)	(568,887)
Total Equity		17,019,235	14,651,259
Current Liabilities			
Trade and other payables	18	38,631	44,975
Total Current Liabilities		38,631	44,975
TOTAL EQUITY AND LIABILITIES		17,057,866	14,696,234

These Financial Statements were approved by the Board of Directors on 13 May 2014 and were signed on its behalf by:

Gavin Burnell
Director

Dr John Cubitt
Chairman

The Notes on pages 28 to 52 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to the owners of the parent							
Group ($)	*Share capital*	*Share Premium*	*Merger reserve*	*Share option and warrants reserve*	*Reverse acquisition reserve*	*Translation reserve*	*Retained losses*	*Total equity*
Balance at 1 January 2012	926,128	2,218,877	1,975,950	66,603	(2,250,672)	(126,624)	(502,718)	2,307,544
Loss for the year	–	–	–	–	–	–	(1,075,178)	(1,075,178)
Other Comprehensive Income								
Currency translation differences	–	–	–	–	–	173,924	–	173,924
Total Comprehensive Income for the Year	–	–	–	–	–	173,924	(1,075,178)	(901,254)
Proceeds from share issues	464,116	10,664,377	–	–	–	–	–	11,128,493
Share issue costs	–	(994,537)	–	–	–	–	–	(994,537)
Transactions with owners, recognised directly in equity	464,116	9,669,840	–	–	–	–	–	10,133,956
Balance at 31 December 2012	1,390,244	11,888,717	1,975,950	66,603	(2,250,672)	47,300	(1,577,896)	11,540,246
Balance at 1 January 2013	1,390,244	11,888,717	1,975,950	66,603	(2,250,672)	47,300	(1,577,896)	11,540,246
Loss for the year	–	–	–	–	–	–	(281,817)	(281,817)
Other Comprehensive Income								
Currency translation differences	–	–	–	–	–	468,089	–	468,089
Total Comprehensive Income for the Year	–	–	–	–	–	468,089	(281,817)	186,272
Proceeds from share issue	91,152	2,187,648	–	–	–	–	–	2,278,800
Share issue costs	–	(122,339)	–	–	–	–	–	(122,339)
Issue of share options and warrants	–	–	–	142,439	–	–	–	142,439

The Notes on pages 28 to 52 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

	Attributable to the owners of the parent							
Group ($)	*Share capital*	*Share Premium*	*Merger reserve*	*Share option and warrants reserve*	*Reverse acquisition reserve*	*Translation reserve*	*Retained losses*	*Total equity*
Transaction with owners, recognised directly in equity	91,152	2,065,309	–	142,439	–	–	–	2,298,900
Balance at 31 December 2013	1,481,396	13,954,026	1,975,950	209,042	(2,250,672)	515,389	(1,859,713)	14,025,418

The Notes on pages 28 to 52 form part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to the owners of the parent						
Company ($)	*Share capital*	*Share Premium*	*Merger reserve*	*Share option and warrants reserve*	*Translation reserve*	*Retained earnings*	*Total equity*
Balance at 1 January 2012	926,128	2,218,877	1,975,950	66,603	(425,334)	(234,852)	4,527,372
Loss for the year	–	–	–	–	–	(334,035)	(334,035)
Other Comprehensive Income							
Currency translation differences	–	–	–	–	323,966	–	323,966
Total Comprehensive Income for the Year	–	–	–	–	323,966	(334,035)	(10,069)
Proceeds from share issue	464,116	10,664,377	–	–	–	–	11,128,493
Share issue costs	–	(994,537)	–	–	–	–	(994,537)
Total contributions by and distributions to owners of the parent, recognised directly in equity	464,116	9,669,840	–	–	–	–	10,133,956
Balance at 31 December 2012	1,390,244	11,888,717	1,975,950	66,603	(101,368)	(568,887)	14,651,259
Balance at 1 January 2013	1,390,244	11,888,717	1,975,950	66,603	(101,368)	(568,887)	14,651,259
Loss for the year	–	–	–	–	–	(482,319)	(482,319)
Other Comprehensive Income							
Currency translation differences	–	–	–	–	551,395	–	551,395
Total Comprehensive Income for the Year	–	–	–	–	551,395	(482,319)	69,076
Transactions with Owners							
Proceeds from share issue	91,152	2,187,648	–	–	–	–	2,278,800
Share issue costs	–	(122,339)	–	–	–	–	(122,339)
Issue of share options and warrants	–	–	–	142,439	–	–	142,439

The Notes on pages 28 to 52 form part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

	Attributable to the owners of the parent						
Company ($)	*Share capital*	*Share Premium*	*Merger reserve*	*Share option and warrants reserve*	*Translation reserve*	*Retained earnings*	*Total equity*
Total contributions by and distributions to owners of the parent, recognised directly in equity	91,152	2,065,309	–	142,439	–	–	2,298,900
Balance at 31 December 2013	1,481,396	13,954,026	1,975,950	209,042	450,027	(1,051,206)	17,019,235

The Notes on pages 28 to 52 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Note	*Year ended 31 December 2013 $*	*Year ended 31 December 2012 $*
Cash Flows from Operating Activities			
Loss before tax		(281,817)	(1,075,178)
Impairment of mineral leases	11,12	67,070	227,858
Depreciation	11	610,134	222,033
Foreign exchange		456,897	158,351
Issue of share options and warrants		142,439	–
Finance income		(283)	–
Finance costs		20,559	1,569
		1,014,999	(465,367)
Changes to working capital			
Increase in trade and other receivables		(1,059,430)	(136,925)
Increase/(decrease) in trade and other payables		101,267	(19,388)
Cash generated from/(used in) operations		56,836	(621,680)
Interest paid		(20,559)	(1,569)
Net Cash generated from/(used in) Operating Activities		36,277	(623,249)
Cash Flows from Investing Activities			
Purchases of intangible assets		(1,605,763)	(5,691,408)
Purchases of property, plant and equipment		(4,165,785)	(2,407,158)
Disposal of intangible assets		405,100	–
Disposal of property, plant and equipment		105,578	–
Interest received		283	–
Net Cash used in Investing Activities		(5,260,587)	(8,098,566)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares	16	2,278,800	11,128,493
Issue costs	16	(122,339)	(994,537)
Proceeds from borrowings	17	900,000	–
Net Cash generated from Financing Activities		3,056,461	10,133,956
Net (Decrease)/Increase in Cash and Cash Equivalents		(2,167,849)	1,412,141
Movement in Cash and Cash Equivalents			
Cash and cash equivalents at the beginning of the year	15	2,293,151	874,037
Exchange gain on cash and cash equivalents		2,700	6,973
Net (decrease)/increase in cash and cash equivalents		(2,167,849)	1,412,141
Cash and Cash Equivalents at the End of the Year	15	128,002	2,293,151

The Notes on pages 28 to 52 form part of these Financial Statements.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Note	*Year ended 31 December 2013 $*	*Year ended 31 December 2012 $*
Cash Flows from Operating Activities			
Loss before tax		(482,319)	(334,035)
Foreign exchange		456,898	158,191
Issue of share options and warrants		142,439	–
		117,018	(175,844)
Changes to working capital			
(Increase)/Decrease in trade and other receivables		(4,046)	36,659
Decrease in trade and other payables		(7,413)	(304,824)
Net Cash generated from/(used in) Operating Activities		105,559	(444,009)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares	16	2,278,800	11,128,493
Issue costs	16	(122,339)	(994,537)
Increase in funding subsidiary undertaking		(2,214,274)	(9,786,789)
Net Cash from Financing Activities		(57,813)	347,167
Net Increase/(Decrease) in Cash and Cash Equivalents		47,746	(96,842)
Movement in Cash and Cash Equivalents			
Cash and cash equivalents at the beginning of the year	15	103,919	193,788
Exchange gain on cash and cash equivalents		2,700	6,973
Net increase/(decrease) in cash and cash equivalents		47,746	(96,842)
Cash and Cash Equivalents at the End of the Year	15	154,365	103,919

The Notes on pages 28 to 52 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. General information

The Consolidated Financial Statements of Magnolia Petroleum plc ("the Company") consists of the following companies; Magnolia Petroleum plc and Magnolia Petroleum Inc. (together "the Group").

The Company is a public limited company which is listed on the AIM market of the London Stock Exchange and incorporated and domiciled in England and Wales. Its registered office address is Suite 321, 19-21 Crawford Street, London, W1H 1PJ.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation of Financial Statements

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) to companies reporting under IFRS, and IFRIC interpretations and the parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Financial Statements have been prepared under the historical cost convention.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements, are disclosed in Note 4.

The 2013 Financial Statements have been restated to better reflect the operations of the Group. The change has resulted in depreciation on Producing Properties being removed from operating expenses within cost of sales and depreciation on drilling costs and equipment being removed from administrative expenses. These depreciation charges have been aggregated into a new line on the Income Statement within cost of sales.

2.2 Basis of consolidation

The consolidated Financial Statements consolidate the Financial Statements of Magnolia Petroleum plc and the audited Financial Statements of its subsidiary undertaking made up to 31 December 2013.

Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Company acquired Magnolia Petroleum Inc. on 23 October 2009 through a share exchange. As the shareholders of Magnolia Petroleum Inc. have control of the legal parent, Magnolia Petroleum plc, the transaction was accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations". The following accounting treatment has been applied in respect of the reverse acquisition:

- the assets and liabilities of the legal subsidiary Magnolia Petroleum Inc. are recognised and measured in the Consolidated Financial Statements at their pre-combination carrying amounts, without restatement to fair value; and
- the equity structure appearing in the Consolidated Financial Statements reflects the equity structure of the legal parent, Magnolia Petroleum plc, including the equity instruments issued to effect the business combination.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

The cost of acquisition was measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus certain costs directly attributable to the acquisition.

In accounting for the acquisition of Magnolia Petroleum Inc., the Company has taken advantage of Section 612 of the Companies Act 2006 and accounted for the transaction using merger relief.

Investments in subsidiaries are accounted for at cost less impairment. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All inter-company transactions and balances between Group entities are eliminated on consolidation.

2.3 Going concern

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Chief Executive Officer's Statement. In addition, notes 3 and 19 to the Financial Statements disclose the Group's and Company's objectives, policies and processes for managing financial risks and capital.

The Company raised $2.28 million before expenses via a placing during the year. In addition, the Group secured a three year $5 million revolving credit facility during the year, with a current borrowing base limit of $2,100,000. All loan covenants were met during the year and subsequent to the year end. The Group's cash flow forecasts and projections prepared up to 31 December 2016 show that the Group has sufficient funds and facilities to fund its ongoing operating costs. The Directors have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis of accounting in preparing the Financial Statements.

2.4 Changes in accounting policy and disclosure

a) New and amended standards adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for the annual period beginning after 1 January 2013 and have been applied in preparing these financial statements.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income became effective during the period. Items in the consolidated statement of comprehensive income that may be reclassified to profit or loss in subsequently periods are now presented separately from items that will not be reclassified to profit or loss in subsequent periods.

IFRS 13, "Fair value measurement" became effective during the period. The standard requires specific disclosures on fair values, some of which replace existing disclosure requirements in IFRS 7, "Financial instruments: Disclosures". The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate to their book values due to the short maturity periods of these financial instruments.

b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2013, but not currently relevant to the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company or Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.4 Changes in accounting policy and disclosure (continued)

b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2013, but not currently relevant to the Group (continued)

IAS 19, 'Employee benefits' eliminate the option to defer the recognition of gains and losses, known as the "corridor method"; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

IFRS 7, 'Financial Instruments: Disclosures' was amended for asset and liability offsetting. This amendment requires disclosure of information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

Amendment to IFRS 1, 'First-time Adoption of International Financial Reporting Standards' on government loans, addresses how first-time adopters would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first time adopters granted to existing preparers of IFRS Financial Statements when the requirement was incorporated into IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' in 2008.

IFRIC 20, 'Stripping Costs in the Production Phase of a Surface Mine', clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

'Annual Improvements 2009 – 2011 Cycle' sets out amendments to various IFRSs as follows:

- An amendment to IFRS 1, 'First-time Adoption' clarifies whether an entity may apply IFRS 1:
  - o if the entity meets the criteria for applying IFRS 1 and has applied IFRS 1 in a previous reporting period; or
  - o if the entity meets the criteria for applying IFRS 1 and has applied IFRSs in a previous reporting period when IFRS 1 did not exist.
- The amendment to IFRS 1 also addresses the transitional provisions for borrowing costs relating to qualifying assets for which the commencement date for capitalization was before the date of transition to IFRSs.
- An amendment to IAS 1, 'Presentation of Financial Statements' clarifies the requirements for providing comparative information when an entity provides Financial Statements beyond the minimum comparative information requirements.
- An amendment to IAS 16, 'Property, Plant and Equipment' addresses a perceived inconsistency in the classification requirements for servicing equipment.
- An amendment to IAS 32, 'Financial Instruments: Presentation' addresses perceived inconsistencies between IAS 12, 'Income Taxes' and IAS 32 with regard to recognizing the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.
- An amendment to IAS 34, 'Interim Financial Reporting' clarifies the requirements on segment information for total assets and liabilities for each reportable segment.

c) New and amended standards and interpretations issued but not yet effective for the financial year beginning 1 January 2013 and not early adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Company and Group intend to adopt these standards, if applicable, when they become effective.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.4 Changes in accounting policy and disclosure (continued)

c) New and amended standards and interpretations issued but not yet effective for the financial year beginning 1 January 2013 and not early adopted (continued)

IAS 27, 'Separate Financial Statements', replaces the current version of IAS 27, 'Consolidated and Separate Financial Statements' as a result of the issue of IFRS 10. The revised standard includes the requirements relating to separate financial statements. The revised standard becomes effective for annual periods beginning on or after 1 January 2014.

IAS 28, 'Investments in Associates and Joint Ventures', replaces the current version of IAS 28,'Investments in Associates', as a result of the issue of IFRS 11. The revised standard includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 1. The Group is yet to assess full impact of the revised standard and intends to adopt IAS 28 (revised) no later than the accounting period beginning on or after 1 January 2014.

Amendment to IAS 19, 'Defined Benefit Plans: Employee Contributions', provides guidance added to IAS 19 Employee Benefits on accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The Directors do not believe that this will have an impact on the Group however will be adopted no later than accounting period beginning on or after 1 January 2014, subject to endorsement by the EU.

Amendment to IAS 32, 'Offsetting Financial Assets and Financial Liabilities', add application guidance to address inconsistencies identified in applying some of the criteria when offsetting financial assets and financial liabilities. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group is yet to assess the full impact of the amendment to IAS 32 and intends to adopt the amended standard no later than the accounting period beginning on or after 1 January 2014.

Amendment to IAS 36, 'Recoverable Amount Disclosures for Non-Financial Assets', to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The Group is yet to assess full impact of the revised standard and intends to adopt the amendment to IAS 36 no later than the accounting period beginning on or after 1 January 2014.

Amendment to IAS 39, 'Novation of Derivatives and Continuation of Hedge Accounting', make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. The Group is yet to assess full impact and intends to adopt the amendment to IAS 39 no later than the accounting period beginning on or after 1 January 2014.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics for the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2014, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.4 Changes in accounting policy and disclosure (continued)

c) New and amended standards and interpretations issued but not yet effective for the financial year beginning 1 January 2013 and not early adopted (continued)

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.

IFRS 11, 'Joint Arrangements' provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement; joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2014.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in entities, including joint arrangements, associates, special purpose vehicles and other off Statement of Financial Position vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" clarify the IASB's intention when first issuing the transition guidance in IFRS 10, provide similar relief in IFRS 11 and IFRS 12 from the presentation or adjustment of comparative information for periods prior to the immediately preceding period, and provide additional transition relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied. The Group plans to adopt these amendments no later than the annual period beginning on or after 1 January 2014.

Amendments to IFRS 10, 'Consolidated Financial Statements', IFRS 12, 'Disclosure of Interests in Other Entities' and IAS 27, 'Separate Financial Statements', provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement. The Group is yet to assess the full impact of these amendments and intends to adopt the amended standards no later than the accounting period beginning on or after 1 January 2014.

IFRIC 21, 'Levies', provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time;
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The Group is yet to assess the full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2014, subject to endorsement by the EU.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.4 Changes in accounting policy and disclosure (continued)

c) New and amended standards and interpretations issued but not yet effective for the financial year beginning 1 January 2013 and not early adopted (continued)

"Annual Improvements 2010 – 2012 Cycle" sets out amendments to various IFRSs and provides a vehicle for making non-urgent but necessary amendments to IFRSs:

- IFRS 2 "Share-based Payment": amendment to the definition of a vesting condition.
- IFRS 3 "Business Combinations": amendments to the accounting for contingent consideration in a business combination.
- IFRS 8 "Operating Segments": aments to the aggregation of operating segments and the reconciliation of the total of the reportable segments' assets to the entity's assets.
- IFRS 13 "Fair Value Measurement": amendments to short-term receivables and payables.
- IAS 16 "Property, Plant and Equipment": amendments to the revaluation method in relation to the proportionate restatement of accumulated depreciation.
- IAS 24 "Related Party Disclosures": amendments regarding key management personnel.
- IAS 38 "Intangible Assets": amendments to the revaluation method in relation to the proportionate restatement of accumulated depreciation.

The Group intends to adopt the amended standards no later than the annual period beginning on or after 1 July 2014, subject to EU endorsement.

Annual Improvements 2011 – 2013 Cycle" sets out amendments to various IFRSs and provides a vehicle for making non-urgent but necessary amendments to IFRSs:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards": amendment to the meaning of 'effective IFRSs'.
- IFRS 3 "Business Combinations": amendments to the scope exceptions for joint ventures.
- IFRS 13 "Fair Value Measurement": amendments to the scope of paragraph 52 (portfolio exception).
- IAS 40 "Investment Property": amendments clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

The Group intends to adopt the amended standards no later than the annual period beginning on or after 1 July 2014, subject to EU endorsement.

2.5 Revenue recognition

Revenue represents the amounts receivable from operators for the Group's share of oil and / or gas revenues less any royalties payable to the lessor or assignor of the mineral rights. Revenue is recognised in the period to which the declarations from the operators relate.

2.6 Foreign Currency Translation

a) Functional and presentation currency

Items included in the Financial Statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the UK parent entity is sterling and the functional currency of the subsidiary is US Dollars. The Financial Statements are presented in US Dollars, rounded to the nearest Dollar, which is the Group's functional and Company's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.6 Foreign Currency Translation (continued)

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where such items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of monetary items receivable from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

2.7 Intangible assets

a) Goodwill

Under the reverse acquisition, goodwill represents the excess of the cost of the combination over the acquirer's interest in the net fair values of the legal parent. The fair value of the equity instruments of the legal subsidiary issued to effect the combination was not available and therefore the fair value of all the issued equity instruments of the legal parent prior to the business combination was used as the basis for determining the cost of the combination.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any impairment. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately and is not subsequently reversed.

b) Drilling costs and mineral leases

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the statement of comprehensive income.

Expenditure incurred on the acquisition of a licence interest is initially capitalised within intangible assets on a licence by licence basis. Costs are held, unamortised, within exploration costs until such time as the exploration phase of the licence area is complete or commercial reserves have been discovered. The cost of the licence is subsequently transferred into "Producing Properties" within property, plant and equipment and depreciated over its estimated useful economic life.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)

b) Drilling costs and mineral leases (continued)

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets as exploration costs. Exploration costs are initially capitalised on a well by well basis until the success or otherwise has been established. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercially viable. All such costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop or otherwise extract value from the discovery. Where this is no longer the case, the costs are immediately expensed to the statement of comprehensive income.

Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Property, plant and equipment

Following evaluation of successful exploration wells, if commercial reserves are established and the technical feasibility of extraction demonstrated, and once a project is sanctioned for commercial development, then the related capitalised exploration costs are transferred into a single field cost centre within 'producing properties' within property, plant and equipment after testing for impairment. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

The net book values of 'producing properties' are depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within 'drilling costs and equipment' on a well by well basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the part replaced are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement.

All property, plant and equipment other than oil and gas assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

Depreciation is charged so as to allocate the cost of assets, over their estimated useful lives, on a straight line basis as follows:

Drilling Costs and Equipment – 10 years
Motor vehicles and office equipment – 4 years

Oil and gas producing properties held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year-end.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the production life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The cost of the relevant property, plant and equipment asset is increased with an amount equivalent to the provision and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated non-current asset.

2.9 Financial assets

Classification

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. At initial recognition, the Group classifies its financial assets as loans and receivables which comprise 'trade and other receivables' and 'cash and cash equivalents'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Recognition and measurement

Loans and receivables are initially recognised at the amount expected to be received, less where material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method less a provision for impairment.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Derecognition also takes place for certain assets when the Group writes-off balances pertaining to the assets deemed to be uncollectible.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

Impairment of financial assets

At each Statement of Financial Position date, the Group assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Group considers the evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the Income Statement.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks.

2.12 Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.14 Borrowing costs

Borrowing costs are recognised in the Income Statement in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.15 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

2.16 Share based payment

The Group operates equity-settled, share-based compensation plans under which the entity receives services from employees and suppliers as consideration for equity instruments (options and warrants) of the Company. The fair value of the services received in exchange for the grant of options and warrants is recognised as an expense and as a component of equity, if material. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options and warrants granted using the Black-Scholes pricing model.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

2.17 Taxation

The tax expense or credit comprises current and deferred tax. It is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.18 Leasing

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. Summary of significant accounting policies (continued)

2.19 Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions.

2.20 Pension Obligations

The Group makes contributions to defined contribution pension plans. The Group has no legal or constructive obligations to pay further contributions if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The contributions are recognised as employee benefit expense when they are paid.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and interest rate risk), credit risk and liquidity risk.

Market risk

The Group operates in an international market for hydrocarbons and is exposed to risk arising from variations in the demand for and price of the hydrocarbons. Oil and gas prices historically have fluctuated widely and are affected by numerous factors over which the Group has no control, including world production levels, international economic trends, exchange rate fluctuations, speculative activity and global or regional political events.

a) Foreign exchange risk

The majority of the Group's sales and purchase transactions are denominated in US dollars. The Company's expenditure is predominantly denominated in sterling. The currencies are stable and any exchange risk is managed by maintaining bank accounts denominated in those currencies.

b) Cash flow and interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash held at variable rates. During 2013, the Group's borrowings at variable rates were denominated in US dollars.

At 31 December 2013, if variable interest rates on borrowings are 10 basis points higher/lower with all other variables held constant, the annual interest expense will be $39,150 higher / $37,350 lower.

Credit risk

Credit risk represents the risk of loss the Group would incur if operators and counterparties fail to fulfil their credit obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Where the Group is not an operator of wells, the Group's trade receivables and accrued income result from contractual amounts due from third party operators. The risk is concentrated between a relatively small group of operators given the small number of parties involved in oil and gas exploration and production activities. The Group seeks to mitigate this risk where possible by assessing the credit quality of the operators and by establishing ongoing and long term relationships.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

3. Financial risk management (continued)

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group, and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 17) at all times, so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal Statement of Financial Position ratio targets, and, if applicable, external regulatory or legal requirements (for example, currency restrictions).

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings, based on the remaining period at the Statement of Financial Position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	*Less than 1 Year*	*Between 1 and 2 Years*	*Between 2 and 5 Years*	*Over 5 Years*
At 31 December 2013				
Borrowings	–	–	900,000	–
Trade and other payables	1,185,547	–	–	–
At 31 December 2012				
Borrowings	–	–	–	–
Trade and other payables	555,563	–	–	–

4. Critical accounting estimates and judgements

Use of estimates and judgements

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

Recoverability of mineral leases

Mineral leases and drilling costs on non producing properties have a carrying value at 31 December 2013 of $6,018,525 (2012: $5,828,199). Management tests annually whether non-producing mineral leases have future economic value in accordance with the accounting policy stated in Note 2.7. This assessment takes into consideration the likely commerciality of the asset, the future revenues and costs pertaining and the discount rates to be applied for the purposes of deriving a recoverable value. In the event that a lease does not represent an economic drilling target and results indicate that there is no additional upside, the mineral lease and drilling costs will be impaired. The Directors have reviewed the estimated value of the licences and have concluded that no additional impairment charge is necessary above that recognised in the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

4. Critical accounting estimates and judgements (continued)

Decommissioning

Where the Group has decommissioning obligations in respect of its assets, the full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs.

Estimated impairment of goodwill

Goodwill has a carrying value at 31 December 2013 of $381,733 (2012: $372,629). The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. Management have concluded that there is no impairment charge necessary to the carrying value of goodwill.

Estimated useful lives of property, plant and equipment

Useful lives are based on industry standards and historical experience which are subjected to yearly evaluation. For producing properties, the Group's considerations include the lease period of the agreement. Management review property, plant and equipment at each Statement of Financial Position date to determine whether there are any indications of impairment. If any such indication exists, an estimate of the recoverable amount is performed, and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. The Directors have reviewed the estimated value of each property and do not consider any further impairment to be necessary.

Share based payments

The Group has made awards of options and warrants over its unissued capital. The valuation of these options and warrants involves making a number of estimates relating to price volatility, future dividend yields, expected life and forfeiture rates (see Note 16).

5. Segmental information

The Group operates in two geographical areas, the United Kingdom and the United States of America. Activities in the UK are mainly administrative in nature whilst the activities in the USA relate to exploration and production from oil and gas wells. The reports reviewed by the Board of Directors that are used to make strategic decisions are based on these geographical segments.

	Year ended 31 December 2013			
	USA	*UK*	*Intra-segment balances*	*Total*
	$	*$*	*$*	*$*
Revenue from external customers	2,443,244	–	–	2,443,244
Gross profit	1,196,735	–	–	1,196,735
Operating profit/(loss)	220,818	(482,319)	–	(261,501)
Impairment – property, plant and equipment	–	–	–	–
Impairment – expired leases	67,070	–	–	67,070
Depreciation	610,134	–	–	610,134
Capital expenditure	6,292,723	–	–	6,292,723
Total assets	15,590,776	17,057,866	(16,880,907)	15,767,735
Total liabilities	15,091,394	38,631	(13,005,975)	2,124,050

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

5. Segmental information (continued)

	Year ended 31 December 2012 (restated)			
	USA	*UK*	*Intra-segment balances*	*Total*
	$	*$*	*$*	*$*
Revenue from external customers	709,375	–	–	709,395
Gross profit	289,957	–	–	289,957
Operating loss	(739,574)	(334,035)	–	(1,073,609)
Impairment – property, plant and equipment	9,333	–	–	9,333
Impairment – expired leases	218,525	–	–	218,525
Depreciation	222,033	–	–	222,033
Capital expenditure	8,098,566	–	–	8,098,566
Total assets	11,646,146	14,696,234	(14,574,225)	11,768,155
Total liabilities	11,347,265	44,975	(10,791,700)	600,538

A reconciliation of the operating loss to loss before taxation is provided as follows:

	Year ended 31 December 2013	*Year ended 31 December 2012*
	$	*$*
Operating loss for reportable segments	(261,501)	(1,073,609)
Finance income	283	–
Finance costs	(20,599)	(1,569)
Loss before tax	(281,817)	(1,075,178)

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the Financial Statements. These assets are allocated based on the operations of the segment and physical location of the asset. Goodwill recognised by the Group is managed centrally and is not considered to be a segmental asset.

Reportable segments' assets are reconciled to total assets as follows:

	Year ended 31 December 2013	*Year ended 31 December 2012*
	$	*$*
Segmental assets for reportable segments	15,767,735	11,768,155
Unallocated: goodwill	381,733	372,629
Total assets per Statement of Financial Position	16,149,468	12,140,784

Information about major customers/operating partners

In the year ended 31 December 2013 revenues of $642,670 and $615,696 are derived from two operators. These revenues were all generated in the USA.

In the year ended 31 December 2012 revenues of $148,869, $107,570, $185,724 and $84,637 are derived from four operators. These revenues were all generated in the USA.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

6. Expenses by nature

Group

	2013 $	*2012 (restated)* $
Directors' fees	322,422	331,492
Consulting fees	295,171	292,418
Legal, professional and compliance costs	118,225	127,431
Depreciation	4,448	2,850
Issue of share options and warrants	142,439	–
Other costs	335,314	117,743
Total administrative expenses	1,218,019	871,934

7. Auditor remuneration

Services provided by the group's auditor and its associates

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor:

	2013 $	*2012* $
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated Financial Statements	23,000	16,000
Fees payable to the Company's auditor for other services:		
– in relation to tax compliance and audit related assurance services	1,500	9,225

8. Staff costs

The Group and Company incurred the following staff costs (including Directors):

	Group		*Company*	
	2013 $	*2012* $	*2013* $	*2012* $
Wages & salaries	450,918	340,399	153,895	77,533
Social security costs	30,566	22,319	17,120	10,142
Pension costs	7,020	7,020	–	–
Other benefits	31,821	28,496	–	–
	520,325	398,234	171,015	87,675

Directors' Emoluments

The Directors' emoluments in respect of qualifying services were:

	Group		*Company*	
	2013 $	*2012* $	*2013* $	*2012* $
Directors' salary and fees	296,190	303,732	49,518	77,533
Pension costs	7,020	7,020	–	–
Other benefits	19,032	20,740	–	–
	322,242	331,492	49,518	77,533

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

8. Staff costs (continued)

Directors' Emoluments (continued)

	2013	*2012*
	$	*$*
J M Cubitt	24,759	14,995
S O Snead	23,724	16,900
R S Harwood	23,724	16,900
G J Burnell	24,759	62,538
R F Whittington	225,276	220,159
Total	322,242	331,492

The average monthly number of staff, including the Directors, during the financial year was as follows:

	Group	
	2013	*2012*
	No.	*No.*
Administrative and managerial	7	6

9. Taxation

Tax charge for the period

The tax charge for the period is $Nil (2012: $Nil).

Factors affecting the tax charge for the period

The tax charge for each period is explained below:

	2013	*2012*
	$	*$*
Loss for the period before taxation	(281,817)	(1,075,178)
Loss for the period before tax multiplied by the standard rate of UK corporation tax of 23.25% (2012: 24.5%)	(65,522)	(263,419)
Expenses not deductible for tax purposes	34,085	–
Tax losses carried forward – UK	78,054	81,839
Tax losses carried forward – US	–	181,580
Utilisation of previously unrecognised tax losses – US	(46,617)	–
	–	–

The Group has UK tax losses of approximately $691,000 (2012: losses of approximately $574,000) and US tax losses of approximately $3,454,000 (2012: losses of approximately $3,654,000) available to carry forward against future taxable profits. A potential deferred tax asset of approximately $145,000 (2012: $132,000) on the UK losses and $1,174,000 (2012: $1,242,360) on the US losses has not been recognised because of uncertainty over the timing of future taxable profits against which the losses may be offset.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

10. Earnings per share

The calculation of the basic loss per share of 0.03 cents per share (31 December 2012 loss per share: 0.16 cents) is calculated by dividing the loss attributable to ordinary shareholders of $281,817 (31 December 2012 loss: $1,075,178) by the weighted average number of ordinary shares of 888,152,303 (31 December 2012: 691,240,908) in issue during the period.

In accordance with IAS 33, there is no difference between the basic and diluted loss per share as the effect on the exercise of options and warrants would be to decrease the earnings per share.

Details of share options and warrants that could potentially dilute earnings per share in future periods are set out in Note 16.

11. Property, plant and equipment

Group

	Producing properties (Mineral Leases) $	*Drilling costs and equipment* $	*Motor vehicles and office equipment* $	*Total* $
Cost				
At 1 January 2012	457,648	612,199	–	1,069,847
Additions	405,015	1,968,889	15,254	2,407,158
Transferred from intangible assets	35,104	364,998	–	400,102
Impairment	(14,000)	–	–	(14,000)
At 31 December 2012	883,767	2,964,086	15,254	3,863,107
Additions	147,049	4,535,200	3,805	4,686,054
Disposals	(7,781)	(97,797)	–	(105,578)
Transferred from intangible assets	232,708	711,466	–	944,174
At 31 December 2013	1,255,743	8,112,955	19,059	9,387,757
Accumulated Depreciation and Impairment				
At 1 January 2012	97,958	109,914	–	207,872
Charge for the period	39,917	179,266	2,850	222,033
Impairment	(4,667)	–	–	(4,667)
At 31 December 2012	133,208	289,180	2,850	425,238
Charge for the period	57,633	548,053	4,448	610,134
At 31 December 2013	190,841	837,233	7,298	1,035,372
Net Book Amount				
At 31 December 2012	750,559	2,674,906	12,404	3,437,869
At 31 December 2013	1,064,902	7,275,722	11,761	8,352,385

Transfers from intangible assets represent licence areas where production has commenced together with drilling costs associated with these licences.

Producing properties and drilling costs depreciation expense of $605,686 (2012: $219,183) has been charged in cost of sales.

Motor vehicles and office equipment depreciation expense of $4,448 (2012: $2,850) has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

12. Intangible assets

	Goodwill	*Drilling costs*	*Mineral leases*	*Total*
	$	*$*	*$*	*$*
Cost				
At 1 January 2012	356,216	364,998	390,420	1,111,634
Additions	–	710,727	4,980,681	5,691,408
Transferred to property, plant and equipment	–	(364,998)	(35,104)	(400,102)
Exchange movements	16,413	–	–	16,413
Impairment	–	–	(218,525)	(218,525)
At 31 December 2012	372,629	710,727	5,117,472	6,200,828
Additions	–	4,733	1,601,937	1,606,670
Transferred to property, plant and equipment	–	(711,465)	(232,709)	(944,174)
Disposals	–	–	(405,100)	(405,100)
Exchange movements	9,104	–	–	9,104
Impairment	–	–	(67,070)	(67,070)
As at 31 December 2013	381,733	3,995	6,014,530	6,400,258
Amortisation				
At 1 January 2012, 31 December 2012 and 31 December 2013	–	–	–	–
Net Book Amount				
At 31 December 2012	372,629	710,727	5,117,472	6,200,828
At 31 December 2013	381,733	3,995	6,014,530	6,400,258

Impairment review

Drilling costs and mineral leases represent acquired intangible assets with an indefinite useful life and are tested annually for impairment. As disclosed within Accounting Policies, expenditure incurred on the acquisition of mineral leases is capitalised within intangible assets until such time as the exploration phase is complete or commercial reserves have been discovered. Exploration expenditure including drilling costs are capitalised on a well by well basis if the results indicate the existence of a commercially viable level of reserves.

The Directors have undertaken a review to assess whether circumstances exist which could indicate the existence of impairment as follows:

- The Group no longer has title to the mineral lease.
- A decision has been taken by the Board to discontinue exploration due to the absence of a commercial level of reserves.
- Sufficient data exists to indicate that the costs incurred will not be fully recovered from future development and participation.
- The lease has expired.

Following their assessment the Directors recognised an impairment charge to the cost of mineral leases of $67,070 (2012 – $218,525) in respect of expired mineral leases.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

12. Intangible assets (continued)

Impairment review (continued)

The Directors believe that no impairment is necessary on the carrying value of goodwill. Goodwill arose on the reverse acquisition of Magnolia Petroleum Plc. The goodwill represents the value of the parent company being an AIM listed entity to Magnolia Petroleum Inc.

13. Investments

Investments in subsidiaries

Company

	2013	*2012*
	$	*$*
Shares in group undertakings		
At 1 January	3,782,525	3,615,907
Exchange movements	92,410	166,618
At 31 December	3,874,935	3,782,525

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

Principal subsidiaries

Name	*Country of incorporation and residence*	*Nature of business*	*Registered capital*	*Proportion of equity shares held by Company*
Magnolia Petroleum Inc.	United States of America	Oil and gas exploration	Ordinary shares US$1	100%

This subsidiary undertaking is included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the Parent Company does not differ from the proportion of ordinary shares held.

14. Trade and other receivables

	Group		*Company*	
	2013	*2012*	*2013*	*2012*
	$	*$*	*$*	*$*
Trade receivables	382,859	85,715	–	–
Other receivables	123,014	68,145	9,183	4,538
Amounts due from Group undertakings	–	–	13,005,976	10,791,701
Prepayments	489,543	55,076	13,407	13,551
Accrued income	273,407	–	–	–
	1,268,823	208,936	13,028,566	10,809,790

Trade receivables comprise customer receivables in credit. The Group retains all risks associated with these receivables until fully recovered.

The fair value of all receivables is the same as their carrying values stated above.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

14. Trade and other receivables (continued)

As at 31 December 2013, trade receivables of $382,859 (2012: $85,715) were fully performing.

Group

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2013	*2012*
	$	*$*
UK Pounds	22,593	18,089
US Dollar	1,246,230	190,847
	1,268,823	208,936

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Company

The carrying amounts of the Company's trade and other receivables are denominated in UK pound sterling.

15. Cash and cash equivalents

	Group		*Company*	
	2013	*2012*	*2013*	*2012*
	$	*$*	*$*	*$*
Cash at bank	128,002	2,293,151	154,365	103,919
Cash and cash equivalents	128,002	2,293,151	154,365	103,919

At 31 December 2013, the Group held cash of $154,365 in a bank with a Fitch credit rating of A (Stable) and $(26,363) in a bank where no Fitch credit rating is available.

At 31 December 2012, the Group held cash of $103,919 in a bank with a Fitch credit rating of A (Stable) and $2,189,232 in a bank where no Fitch credit rating is available.

16. Share capital and premium

Group		*Ordinary shares*		*Share Premium*		
	Number of shares	*Nominal value*	*Nominal value*	*Nominal value*	*Nominal value*	*Total*
		£	*$*	*£*	*$*	*$*
At 1 January 2012	559,220,261	559,220	926,128	1,292,073	2,218,877	3,145,005
Placing shares	275,907,136	275,907	439,464	6,469,986	10,340,474	10,779,938
Exercise of warrants	15,545,454	15,546	24,652	201,954	323,903	348,555
Issue costs	–	–	–	(620,023)	(994,537)	(994,537)
At 31 December 2012	850,672,851	850,673	1,390,244	7,343,990	11,888,717	13,278,961
Placing shares	60,000,000	60,000	91,152	1,440,000	2,187,648	2,278,800
Issue costs	–	–	–	(80,528)	(122,339)	(122,339)
At 31 December 2013	910,672,851	910,673	1,481,396	8,703,462	13,954,026	15,435,422

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

16. Share capital and premium (continued)

On 17 May 2013, the Group raised approximately $2.28 million (£1.50 million) before expenses via a placing of 60,000,000 new ordinary shares at a price of 2.5p per share.

Of the 60,000,000 shares issued during the year, 60,000,000 held voting rights.

Issue costs of $122,339 (£80,528) have been netted off against share premium in the year.

Under reverse acquisition accounting, the equity structure appearing in the consolidated Financial Statements reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.

Share options and warrants

Share options and warrants outstanding and exercisable at the end of the year have the following expiry dates and exercise prices:

		No. Options/warrants	
Expiry date	*Exercise price in pence per share*	*2013*	*2012*
25 November 2018	1.30	52,820,768	52,820,768
24 January 2017	2.85	1,754,386	–
28 January 2020	2.925	20,338,982	–
		74,914,136	52,820,768

The options and warrants are exercisable starting immediately from the date of grant other than those expiring on 24 January 2017, which were exercisable from 24 January 2014. The Company and Group have no legal or constructive obligation to settle or repurchase the warrants or options in cash.

The fair value of the share options was determined using the Black Scholes valuation model. The parameters used are detailed below:

Options granted on:	*24 January 2013*	*28 January 2013*
Option life	4 years	7 years
Weighted average exercise price	2.85 pence	2.925 pence
Options granted	1,754,386	20,338,982
Risk free rate	0.8180%	1.6076%
Expected volatility	11.19%	11.19%
Expected dividend yield	0%	0%
Marketability discount	20%	20%
Total fair value of options granted ($)	6,912	135,527

The expected volatility is based on historical volatility for the 3 months prior to the date of granting. The risk free rate of return is based on zero yield government bonds for a term consistent with the option life.

See Note 6 for the total expense recognised in the Income Statement for share options granted to Directors and employees.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

16. Share capital and premium (continued)

Share options and warrants (continued)

A reconciliation of options granted and lapsed during the year ended 31 December 2013 is shown below.

	Year ended 31 December 2013		*Year ended 31 December 2012*	
	No. of options and warrants	*Weighted average exercise price (in pence)*	*No. of options and warrants*	*Weighted average exercise price (in pence)*
Outstanding at beginning of year	52,820,768	1.3	62,366,222	1.19
Granted during the year	22,093,368	2.92	12,000,000	2.75
Exercised during year	–	–	(15,545,454)	1.40
Cancelled in the year	–	–	(6,000,000)	2.75
Outstanding at end of year	74,914,136	1.78	52,820,768	1.3
Exercisable at end of year	73,159,750	1.75	52,820,768	1.3

The warrants and options outstanding at 31 December 2013 had a weighted average remaining contractual life of 5.2 years (2012: 5.87 years).

On 20 January 2012, 4,545,455 share warrants over ordinary shares of 0.1p each were exercised for a total consideration of $38,930 (£25,000).

On 27 January 2012, 4,999,999 share warrants over ordinary shares of 0.1p each were exercised for a total consideration of $43,414 (£27,500).

On 12 July 2012, 12,000,000 share warrants over ordinary shares of 0.01p each were granted with an exercise price of 2.75p each. Subsequently, on 27 December 2012, 6,000,000 of these share warrants were exercised for a total consideration of $266,211 (£165,000). The remaining 6,000,000 warrants were cancelled as part of a cashless exchange provision.

17. Borrowings

	Group		*Company*	
	2013 $	*2012 $*	*2013 $*	*2012 $*
Non-current				
Bank borrowings	900,000	–	–	–
	900,000	–	–	–

During the year Magnolia Petroleum Inc. secured a three year $5 million revolving credit facility. Interest is charged on credit drawn down at Wall Street Journal Prime (currently 3.25%) +1.00%. Under the terms of the credit facility, an initial borrowing base of $1.6 million was agreed. This was subsequently increased to $2.1 million on 14 March 2014 and will continue to be reassessed on a six monthly basis and adjusted in line with the level of the Group's proven developed producing reserves. The credit facility is secured against certain producing leases owned by the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

17. Borrowings (continued)

The Group has the following undrawn borrowing facilities:

	Group		Company	
	2013	*2012*	*2013*	*2012*
	$	*$*	*$*	*$*
Expiring beyond one year	700,000	–	–	–
	700,000	–	–	–

18. Trade and other payables

	Group		Company	
	2013	*2012*	*2013*	*2012*
	$	*$*	*$*	*$*
Current				
Trade and other payables	1,185,547	555,563	–	–
Accrued expenses	38,503	44,975	38,631	44,975
	1,224,050	600,538	38,631	44,975

19. Treasury policy

The Company and Group operate informal treasury policies which include ongoing assessments of interest rate management and borrowing policy. The Board approves all decisions on treasury policy.

The Group has financed its activities by the raising of funds through the placing of shares and through bank borrowings set out in Note 18 above. There are no material differences between the book value and fair value of the financial assets.

20. Capital management policies

The Group and Company's capital management objectives are:

- to ensure the Group's and Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders.

In order to maintain or adjust the capital structure, the group may issue new shares or sell assets to reduce debts.

During the year the Group changed its policy from the prior year by securing a three year $5 million revolving variable rate credit facility (see Note 17) and therefore increasing its gearing. The Group will continue to monitor its capital within an acceptable level of gearing.

21. Capital commitments

The Group and Company set the amount of capital in proportion to its overall financing structure and manage their capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Group has capital commitments for drilling and equipment costs contracted but not provided for of approximately $125,035 (2012: $691,275) at the Statement of Financial Position date.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

22. Related party transactions

Transactions with Group undertakings

During the year ended 31 December 2013 the Company charged management fees of $118,899 (2012: $68,960) to Magnolia Petroleum Inc, the Company's wholly owned subsidiary for the provision of administrative and management services. $118,899 (2012: $68,690) in relation to these fees was outstanding at the balance sheet date and is included within Trade and other receivables. As at 31 December 2013, the amount due to the Company from Magnolia Petroleum Inc was $13,005,975 (2012: $10,791,701).

All Group transactions were eliminated on consolidation.

Transactions with Enerlex Inc

Steven Snead and his wife have a 100% interest in the issued share capital of Enerlex Inc. ("Enerlex"). A rental agreement between Enerlex and Magnolia Petroleum Inc was signed on 15 November 2011 whereby Enerlex agreed to provide Magnolia Petroleum Inc on a month to month basis with office premises and services for $2,500 per month. A charge of $30,000 (2012: $30,000) was recognised during the year under this agreement.

At 31 December 2013 accrued interest of $nil (2012: $26,143) was due to Enerlex in relation to a loan granted to the Company which was paid in full during the year.

Enerlex gave an undertaking to Magnolia Petroleum Inc dated 15 November 2011 whereby Enerlex undertakes that if any of the leases granted to Magnolia Petroleum Inc on any of the mineral interests in the Woodford/Hunton play in Oklahoma expires at the end of the primary period because of non-drilling, Enerlex will at Magnolia Petroleum Inc's request grant a further three year lease on the same terms as the expired lease.

During 2012 a motor vehicle was purchased from Enerlex for a cost of $15,000 and loan of $35,000 was repaid to Enerlex.

23. Ultimate Controlling party

As at the Statement of Financial Position date, the Directors do not consider there is an ultimate controlling party.

24. Events after the reporting period

On 14 February 2014 the Group mutually agreed with Darwin Strategic to bring forward the expiration of the equity finance facility put in place in 2012 to 14 February 2014.

On 14 March 2014 as a result of the trading performance during the year to 31 December 2013, the borrowing base limit of the Group's credit facility was increased from $1.6m to $2.1 million.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Magnolia Petroleum plc ("the Company") will be held at 10.00am on 10 June 2014 at 18452 E 111th, Broken Arrow, Oklahoma, OK74011, USA to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 6 will be proposed as ordinary resolutions and resolutions 7 and 8 as special resolutions:

1. To receive the directors' report and audited financial statements of the Company for the year ended 31 December 2013.

2. To re-elect John Cubitt as a director of the Company.

3. To re-elect Steven Snead as a director of the Company.

4. To re-elect Gavin Burnell as a director of the Company.

5. To re-appoint PKF Littlejohn LLP as auditors of the Company and to authorise the directors to set their fees.

6. THAT, in substitution for any existing authority the directors be and they are hereby generally and unconditionally authorised under section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") within the meaning of that section on and subject to such terms as the directors may determine up to an aggregate nominal amount of £450,000 such authority unless previously renewed, revoked or varied to expire at the end of next year's AGM on 30 June 2015 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities under such an offer or agreement as if the authority conferred hereby had not expired.

7. THAT, subject to the passing of Resolution 6 above, the directors be and are hereby empowered under section 570 of the Companies Act 2006 ("the Act") to allot equity securities (within the meaning of section 560 of the Act) for cash under the general authority already given as if sub-section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with an offer of such securities to holders of ordinary shares where the equity securities for which ordinary shares are respectively entitled to subscribe are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange; and

   (b) the allotment (otherwise than under sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £450,000;

   and so that such power (unless previously revoked or varied) shall expire at the end of next year's annual general meeting, (or if earlier at the close of business on 30 June 2015) provided that the directors may, before the power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after such power expires.

8. THAT, the Company be generally and unconditionally authorised to make market purchases (as defined in the Companies Act 2006) of ordinary shares of 0.1p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the directors may from time to time determine, provided that:

   (a) the maximum number of ordinary shares authorised to be purchased shall be 137,000,000;

   (b) the minimum price which may be paid for an ordinary share is 0.1p;

NOTICE OF ANNUAL GENERAL MEETING (continued)

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share (as derived from the Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority conferred by this resolution shall expire at the end of next year's annual general meeting (or if earlier at the close of business on 30 June 2015) unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

By Order of the Board

S Salter
Secretary

Registered Office:

Suite 321
19-21 Crawford Street
London W1H 1PJ
United Kingdom

Dated ....14 May 2014

Notes:

1. Right to attend, speak and vote

If you want to attend, speak and vote at the AGM you must be on the Company's register of members at 6pm on 6 June 2014. This will allow us to confirm how many votes you have on a poll. Changes to the entries in the register of members after that time, or, if the AGM is adjourned, 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.

2. Appointment of proxies

If you are a member of the Company you may appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the meeting. You may only appoint a proxy using the procedures set out in these notes and in the notes on the proxy form, which you should have received with this notice of meeting.

A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes on the form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

You may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares which you hold. If you wish to appoint more than one proxy you may photocopy the proxy form or alternatively you may contact the Company's registrars, Neville Registrars Limited on 0121 585 1131.

3. Appointment of proxy using hard copy proxy form

The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you do not indicate on the proxy form how your proxy should vote, they will vote or abstain from voting at their discretion. They will also vote (or abstain from voting) at they think fit in relation to any other matter which is put before the meeting.

To appoint a proxy using the proxy form, the form must be completed and signed and received by Neville Registrars Limited no later than 48 hours before the meeting. Any proxy forms (including any amended proxy appointments) received after the deadline will be disregarded.

The completed form may be returned by sending or delivering it to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, B63 3DA

If the shareholder is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer or attorney. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

4. Appointment of proxy by joint members

In the case of joint holders, where more than one joint holder purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

NOTICE OF ANNUAL GENERAL MEETING (continued)

5. Changing your instructions

To change your proxy instructions simply submit a new proxy appointment using the methods set out above. The amended instructions must be received by the registrars by the same cut-off time noted above. Where you have appointed a proxy using a hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact Neville Registrars Limited on 0121 585 1131. If you submit more than one valid proxy form, the one received last before the latest time for the receipt of proxies will take precedence.

6. Termination of proxy appointments

In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, B63 3DA. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, your revocation notice must be received by Neville Registrars Limited no later than 48 hours before the meeting. If your revocation is received after the deadline, your proxy appointment will remain valid. However, the appointment of a proxy does not prevent you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

7. Communications with the Company

Except as provided above, members who have general queries about the meeting should telephone Neville Registrars on 0121 585 1131 (no other methods of communication will be accepted). You may not use any electronic address provided either in this notice of general meeting; or any related documents (including the Chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.

8. Issued shares and total voting rights

As at 5.00 p.m. on the day immediately prior to the date of posting of this notice of AGM, the Company's issued share capital comprised 910,672,851 ordinary shares of 0.1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company at that time was 910,672,851.

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