MAGNOLIA PETROLEUM PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2014

Directors	Gavin John Burnell (Non-Executive Chairman) Steven Otis Snead (Chief Executive Officer) Rita Fern Whittington (Chief Operations Officer) 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
Brokers	Sanlam Securities UK Limited 10 King William Street London EC4N 7TW Cornhill Capital Limited 18 St Swithins Lane London EC4N 8AD
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

From the outset, our strategy has been to generate value for our shareholders by acquiring US onshore leases in historic low cost hydrocarbon formations and prove up the reserves through drilling. With this in mind, I am pleased to report the year under review saw excellent progress made with all our key performance indicators showing strong growth. The number of wells in which Magnolia has an interest is up 25% on the year; our proven oil reserves have jumped 37% to 985 Mbbls; while proven gas reserves have increased 39% to 2,905 MMcf of gas. Thanks to 48 new wells coming on stream over the course of the year, the upward trajectory of our production has also been maintained. Daily production stood at 150 boepd as at 1 April 2014, 257 boepd as at 1 July and 281 boepd by the end of the year. The higher production has translated into another strong financial performance with revenues up 58% to US$3,851,905 and adjusted EBITDA of US$2,596,658 (defined as EBITDA, plus impairment of mineral leases and less differences on foreign exchange), a 212% increase on the previous year. Total income for the year, including gains on disposal of mineral leases and consultancy fees, increased to US$5,187,129 compared to US$2,687,617 in 2013.

Aside from another record performance for Magnolia, 2014 was notable for the sharp reverse in the oil price which abruptly put an end to an extended period of subdued oil price volatility. The numbers speak for themselves. In January 2014, a barrel of West Texas Intermediate exchanged hands for US$90. A year later, the price had fallen to US$54 with the majority of the decline experienced in the last few months of 2014. Such a swift and sharp fall has inevitably led to operators realigning their budgets to the lower oil price environment, resulting in both capex and new drilling activity being reduced. As we drill alongside established operators, it is therefore not surprising that we have seen a reduction in new well proposals, particularly for the more expensive horizontal wells targeting unconventional formations such as the Bakken and Three Forks Sanish in North Dakota, which have higher costs and require higher oil prices to breakeven.

While Magnolia's overall drilling activity is expected to be lower during the current year this does not mean 2015 will see an end to our unbroken sequence of consecutive years of reserves growth. Thanks to the quality and diversity of Magnolia's portfolio of leases, there is considerable scope to significantly prove up reserves this year, even in the current low oil price environment. This is largely due to our focus on acquiring leases in Oklahoma where the presence of multiple payzones is proven, each with their own breakeven oil price. These include the deeper formations such as the Woodford and Mississippi Lime and the shallower Redfork Sand and the Lower Skinner Sands. When oil prices are high we can look to drill the deeper more costly formations such as the Woodford, and when oil prices are low we can switch our focus to the shallower reservoirs, such as the conventional Lower Skinner Sands, which remain profitable at current oil prices.

We are doing precisely this. On those leases where Magnolia is the operator and has 50% plus interests, we have identified a number of potentially high impact low cost drilling locations and we intend to drill two of these, the Roger Swartz #2 and the Shimanek #2. Both will be vertical, at an estimated cost of US$575,000 per well, are considerably cheaper than horizontal wells. Following the farm-out of a 6% working interest to an industry partner, Magnolia retains a 94% working interest and a 76.375% net revenue interest in each well. Thanks to these substantial interests, the two wells have the potential to materially add to Magnolia's production and reserves. The Roger Swartz #1 vertical well, which we successfully drilled in 2013 and contributed recoverable reserves of up to 56,500 boe, provides a readymade example of how these low cost wells can significantly add to proven reserves. We are currently advancing plans to drill these two wells.

While drilling activity among US onshore operators is lower, we are still receiving proposals to drill new wells on our leases. So far in 2015 we have elected to participate in the drilling of nine wells in Oklahoma within formations such as the Woodford and Mississippi. Needless to say we are only electing to participate in those wells where the economics remain attractive at current oil prices. It is worth noting that with drilling activity lower, rig availability is on the rise. This in turn reduces drilling costs, which helps soften the impact of lower oil prices and clearly has positive implications for payback. We are looking to take advantage of this for our own operated wells.

Financial Review

During the year, net production generated revenues of US$3,851,905, a 58% increase on last year's US$2,443,244. Adjusted EBITDA (defined above) totalled US$2,596,658 (2013: US$833,223). In addition, during the year under review the Company received US$1,002,091 for providing consulting services to an international company acquiring an oil and gas project in Oklahoma. A further US$329,850 was generated as a result of the sale of 24 smaller interests in non-core wells. All funds generated during the year were reinvested into drilling new wells. The profit for the year was US$1,693,012 (2013: loss of US$281,817).

Tangible assets as at end December 2014 stood at US$11,294,373, a 35% increase over the year (2013: US$8,352,385) while intangible assets (new leases and wells that are drilling but not yet completed) were US$6,481,872 from US$6,400,258 in 2013. 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.

In addition the Company secured a two year US$6m revolving credit facility. An initial borrowing base of US$4,596,944 was agreed which has subsequently been decreased due to the recent downturn of the oil price since the year end to US$3,284,210. This still gives us sufficient funds to acquire leases and participate in the drilling of new wells.

Outlook

Like all oil and gas companies around the world we would prefer to see higher prices for our end product. Like all markets, forecasting the future direction of prices is a thankless task, particularly over the short term. What is more certain is that where there has been a rapid turnaround in sentiment as we have seen in global oil markets, there is no shortage of opportunities for companies with strong balance sheets to capitalise on. Magnolia with its low corporate overheads, growing revenues and strong asset backing which our proven reserves provide, is one such company. We have already been taking advantage of the current market dynamics to acquire highly prospective acreage at attractive rates and we continue to evaluate a number of other potential acquisitions that match our criteria. While maintaining strict control over costs and overheads, we view the fall in oil prices more as an opportunity rather than a threat; one in which we can look to accelerate our stated strategy to build Magnolia into a significant oil and gas company focused on proven US onshore formations.

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

Steven Snead
Chief Executive Officer
28 May 2015

The Bakken / Three Forks Sanish Formations, North Dakota

In 2014, a total of four 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 37. Of the wells reported during the year, two are producing from the Bakken, a reservoir which is estimated to hold 3.65 billion barrels of undiscovered, technically recoverable oil (2013 US Geological Survey). Initial production rates for these two wells were:

- Skunk Creek 4-8-17-13H (0.684%): 1,343 boepd
- Skunk Creek 4-8-17-14H (0.684%): 1,283 boepd

Initial production rates for the two wells which commenced production from the Three Forks Sanish ("TFS") 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:

- Skunk Creek 4-8-17-14H3 (0.684%): 1,349 boepd
- Skunk Creek 4-8-17-13H3 (0.684%): 1,248 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. In their latest report dated 1 January 2015, Moyes & Co. ('Moyes') estimate Magnolia's Bakken 1P reserves at 68,000 barrels of oil and condensate, and 31 MMcf of natural gas to which Moyes has assigned a value of US$1.63 million. Meanwhile, Magnolia's 1P reserves in the Three Forks Sanish formation are estimated at 20,000 barrels of oil and condensate and 10 MMcf of natural gas to which Moyes has assigned a value of US$0.526 million.

Mississippi Lime Formation, Oklahoma

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. Initial production rates for 18 producing wells targeting the Mississippi Lime were reported during 2014:

- Big Beef 11-1H (0.15%): 852 boepd
- Cummings 31-28-12 1H (3.34%): 525 boepd
- Oakley Cash 3-27-17 1H (0.65%): 237 boepd
- Coffman 26-27-11 1H (1.2%): 566 boepd
- Cummings 31-28-12 2H (3.34%): 333 boepd
- Rothermel 23-19N-3W 4MH (4.14%): 339 boepd
- Rothermel 23-19N-3W 2MH (4.14%): 159 boepd
- Lemmons 23-19N-3W 6MH (4.14%): 328 boepd
- Lemmons 23-19N-3W 5MH (4.14%): 344 boepd
- Ila 17-27-12 1H (0.28%): 484 boepd
- Ila 17-27-12 2H (0.28%): 451 boepd
- Sandra Noble 36-29-18 1H (0.07%): 210 boepd
- Drake 4-17N-4E 3MH (0.03%): 326 boepd
- Buddha 27-16 1H-22 (0.7%): 316 boepd
- Casteel 25_24-21N-3W 1WHX (0.4%): 22 boepd
- Oltmanns 1-14H (0.2%): 436 boepd
- Voise 1-24WH (6.4%): 143 boepd
- Bohlman 1H-34X (0.3%): 579 boepd

Mississippi Lime Formation, Oklahoma (continued)

Magnolia holds leases covering approximately 5,500 net mineral acres in the Mississippi Lime. The acreage includes leases with working interests of up to 100%. In the latest Reserves Report dated 1 January 2015, Moyes estimated the Company's Mississippi Lime 1P reserves at 583,000 barrels of oil and condensate and 1,612MMcf with a value of US$18.323 million.

Woodford Formation, Oklahoma

The Woodford lies below and is the source rock to the Mississippi Lime formation in Oklahoma. As a result much of Magnolia's leases in Oklahoma are prospective for both the Woodford and the Mississippi Lime. In 2014, Magnolia reported initial production rates for the following 21 wells:

- Parmley 3-21N-1E WH (12.187%): 445 boepd
- Robert Jo 1-8H (0.3%): 815.83 boepd
- Voise 13-21N-1E 1WH (0.3%): 119 boepd
- Nelson 1-22 15XH (0.04%): 327 boepd
- Condit 2-5-32XH (0.03%): 641 boepd
- Bolay 30-21N-1E (0.07%): 542 boepd
- Briar 1H-35X (0.065%): 1,651 boepd
- Briar 2H-35X (0.065%): 642 boepd
- Briar 3H-35X (0.065%): 1,844 boepd
- Briar 4H-35X (0.065%): 920 boepd
- Partagas 1-1H (3.085%): 192 boepd
- Rothermel 23-19N-3W 3WH (4.14%): 530 boepd
- Clara Pearl 36_25-21N-3W 1WHX (0.3%): 21.83 boepd
- Forrest 2-8H (0.4%): 1,542 boepd
- Pfeiffer 1-11HW (0.2%): 147 boepd
- Bud 18-21N-2E (0.4%): 215.83 boepd
- Marion 1-23HW (4.14%): 641 boepd
- Juanita 27-21N-2W 1H (0.08%): 111 boepd
- Running Gun 28-21-2W 1WH (0.2%): 195.16 boepd
- Eason 23/26-1WHX (0.01%): 27 boepd
- Cedar Grove 21-1WH (0.8%): 135 boepd

In the updated Reserves Report dated 1 January 2015, Moyes estimated the Company's Woodford 1P reserves at 79,000 barrels of oil and condensate and 1,094 MMcf natural gas with a value of US$3.19 million. As the Woodford is at an earlier stage of development compared to the Mississippi Lime, the Reserves Report does not fully reflect the potential of the formation. This is expected to change as more wells are drilled to the Woodford.

Like the Bakken, the Woodford formation in Oklahoma is an established reservoir that has been reopened following the introduction of horizontal drilling and stimulation technology.

Hunton and Other Formations in Oklahoma

During the year, five wells in which Magnolia has an interest commenced production from the Hunton and other formations in Oklahoma, the details of which are as follows:

- Robert Jo 1-8H (0.3%): 815 boepd (Springer)
- Lamdin (0.6%): 138 boepd (Cleveland)
- Theilen (.0013%): 88 boepd (Cleveland)
- Yani (3.75%): 275 mcf/d (Hunton)
- Calypso 0.7%): 23.63 boepd (Hunton)

Summary

During the year, initial production rates were reported for 48 new wells in proven US onshore formations in which Magnolia has an interest. Since the year end a further fifteen wells have come on stream, bringing the total number of producing wells within our portfolio to 192. In line with our strategy, revenues generated from production are reinvested into new drilling activity, as we look to prove up the reserves on our leases and generate value for our shareholders. I look forward to providing further updates on our progress over the course of the year.

Rita Whittington
Chief Operations Officer
28 May 2015

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 2014.

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 Mississippi Formation in Oklahoma and the Woodford/Hunton oil and gas formations in Oklahoma, United States.

The review of business and future developments are included in the Chief Executive Officer's and Chief Operation Officer's Statements.

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 2014 was two Executive Directors and three Non-Executive Directors; however, John Cubitt, Non-Executive Director resigned effective 21 January 2015. 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

A Financial Review is included within the Chief Executive Officer's Statement on pages 3 and 4.

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:

	2014	**2013**
Revenue	$3,851,905	$2,443,244
Gross profit margin (excluding depreciation)	71.34%	73.77%

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 28 May 2015 and signed on its behalf:

Gavin Burnell
Director

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2014.

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.

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 2014		1 January 2014	
	Ordinary Shares	Options and warrants	Ordinary Shares	Options and warrants
Gavin J Burnell (1)	15,635,797	14,610,598	15,635,797	14,610,598
Dr John M Cubitt(4)	619,908	6,094,915	619,908	6,094,915
Steven Otis Snead (2)	201,715,998	24,417,161	201,715,998	24,417,161
Rita Fern Whittington	11,720,294	16,905,661	11,720,294	16,905,661
Ronald Sanford Harwood (3)	32,112,426	3,354,915	32,112,426	3,354,915

(1) Figures at 1 January 2014 and 31 December 2014 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.

(4) Dr John M Cubitt resigned with effect 21 January 2015.

Gavin John Burnell, Non-Executive Chairman

Mr Burnell has thirteen years' experience of advising smaller capitalised companies. He joined Ruegg & Co in 2001 where he became an equity partner, moving to Astaire Group plc in 2009 which later became Northland Capital Partners. He joined Sanlam Securities UK as Director of Corporate Finance in February 2015. He is a founder and / or non-executive Director of a number of companies in various sectors including Globo plc (AIM:GBO), Prospex Oil & Gas plc (AIM:PXOG), Elephant Oil Limited, Goldcrest Resources plc (ISDX:GCRP) and Hot Rocks Investments plc (ISDX:GCRP).

Steven Otis Snead, Chief Executive Officer

Mr Snead is a Certified Professional Landman with more than 30 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.

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.

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 2014:

	Salary/ Fees for the year ended 31 December 2014 US$	Pension contributions for the year ended 31 December 2014 US$	Benefits in Kind for the year ended 31 December 2014 US$	Total for the year ended 31 December 2014 US$	Total for the year ended 31 December 2013 US$
Gavin J Burnell	28,807	-	-	28,807	24,759
Dr John M Cubitt	28,807	-	-	28,807	24,759
Steven Otis Snead	87,629	-	-	87,629	23,724
Rita Fern Whittington	267,629	7,200	28,908	303,737	225,276
Ronald Sanford Harwood	87,629	-	-	87,629	23,724

Substantial interests

As of 5 May 2015, the following interests of three per cent or more of the issued ordinary share capital had been notified to the Company:

	Percentage of ordinary shares
Steven Otis Snead	22.26
Hargreaves Lansdown (Nominees) Limited	9.37
HSDL Nominees Limited	7.44
TD Direct Investing Nominees (Europe) Limited	6.81
Barclayshare Nominees Limited	5.96
HSBC Client Holdings Nominee (UK) Limited	3.67
Share Nominees Ltd	3.49
Ronald Sanford Harwood	3.64

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 27 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 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 2014 annual general meeting will be held at 10.00am on 25 June 2015 at 18452 E 111th, Broken Arrow, Oklahoma, OK74011, USA. The notice of meeting is set out on pages 51 to 53 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, and 3 concern Steven Snead and Gavin Burnell who retire by rotation and offer themselves for re-election as directors. Resolution 4 is to reappoint PKF Littlejohn LLP as auditor and to authorise the Directors to set their fees.

Annual General Meeting – Explanation of Business (continued)

Authority of Directors to Allot Shares (Resolutions 5 and 6)

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 6 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 2016 or 30 June 2016, whichever is the earlier.

Authority for the Company to Purchase its Own Shares (Resolution 7)

Resolution 7 authorises the Company, until next year's AGM or 30 June 2016 (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 28 May 2015 and signed on its behalf:

Gavin Burnell
Director

The Board of Directors

As at 31 December 2014, the Board of Directors comprised five members: two Executive Directors and three Non-Executive Directors including the Chairman, Dr John Cubitt, (resigned 21 January 2015). Gavin Burnell has been appointed to the role of Non-Executive Chairman. 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	15	13
Gavin Burnell	15	13
Ronald Harwood	15	15
Steven Snead	15	14
Rita Whittington	15	15

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 comprises Ronald Harwood (Chairman) 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 comprises Gavin Burnell (Chairman) 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 to the members of Magnolia Petroleum Plc

We have audited the Financial Statements of Magnolia Petroleum plc for the year ended 31 December 2014 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 Group and Parent 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 2014 and of the Group's profit 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.

David Thompson (Senior statutory auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

28 May 2015

	Note	Year ended 31 December 2014 $	Year ended 31 December 2013 $
Continuing Operations			
Revenue		3,851,905	2,443,244
Operating expenses	6	(1,104,064)	(640,823)
Depreciation	13	(1,298,759)	(605,686)
Gross Profit		1,449,082	1,196,735
Impairment of mineral leases	14	(229,385)	(67,070)
Profit on disposal of mineral leases		329,850	244,373
Differences due to foreign exchange		756,644	(417,520)
Administrative expenses	6	(1,491,444)	(1,218,019)
Other income	9	1,005,374	-
Operating Profit/(Loss)		1,820,121	(261,501)
Finance income	11	187	283
Finance costs	11	(127,296)	(20,599)
Profit/(Loss) before Tax		1,693,012	(281,817)
Taxation	10	-	-
Profit/(Loss) for the year attributable to owners of the parent		1,693,012	(281,817)
Other Comprehensive Income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		(780,861)	468,089
Other Comprehensive Income for the Year, Net of Tax		(780,861)	468,089
Total Comprehensive Income for the Year attributable to the owners of the parent		912,151	186,272
Earnings per share attributable to the owners of the parent during the year			
Basic and diluted (cents per share)	12	0.19	(0.03)

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 $315,229 (2013: $482,319).

The Notes on pages 27 to 50 form part of these Financial Statements.

	Note	As at 31 December 2014 $	As at 31 December 2013 $
ASSETS			
Non–Current Assets			
Property, plant and equipment	13	11,294,373	8,352,385
Intangible assets	14	6,481,872	6,400,258
Total Non-Current Assets		17,776,245	14,752,643
Current Assets			
Trade and other receivables	16	997,666	1,268,823
Cash and cash equivalents	17	433,748	128,002
Total Current Assets		1,431,414	1,369,825
TOTAL ASSETS		19,207,659	16,149,468
EQUITY AND LIABILITIES			
Equity attributable to Owners of Parent			
Share capital	18	1,481,396	1,481,396
Share premium	18	13,954,026	13,954,026
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		209,042	209,042
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		(265,472)	515,389
Retained losses		(166,701)	(1,859,713)
Total Equity		14,937,569	14,025,418
Non-Current Liabilities			
Borrowings	19	2,736,274	900,000
Total Non-Current Liabilities		2,736,274	900,000
Current Liabilities			
Trade and other payables	20	1,533,816	1,224,050
Total Current Liabilities		1,533,816	1,224,050
TOTAL EQUITY AND LIABILITIES		19,207,659	16,149,468

These Financial Statements were approved by the Board of Directors on 28 May 2015 and were signed on its behalf by:

Gavin Burnell
Director

The Notes on pages 27 to 50 form part of these Financial Statements.

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Note	As at 31 December 2014 $	As at 31 December 2013 $
ASSETS			
Non–Current Assets			
Investments in subsidiaries	15	3,646,431	3,874,935
Total Non–Current Assets		3,646,431	3,874,935
Current Assets			
Trade and other receivables	16	12,098,782	13,028,566
Cash and cash equivalents	17	3,661	154,365
Total Current Assets		12,102,443	13,128,931
TOTAL ASSETS		15,748,874	17,057,866
EQUITY AND LIABILITIES			
Equity attributable to Shareholders			
Share capital	18	1,481,396	1,481,396
Share premium	18	13,954,026	13,954,026
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		209,042	209,042
Translation reserve		(536,827)	450,027
Retained losses		(1,366,435)	(1,051,206)
Total Equity		15,717,152	17,019,235
Current Liabilities			
Trade and other payables	20	31,722	38,631
Total Current Liabilities		31,722	38,631
TOTAL EQUITY AND LIABILITIES		15,748,874	17,057,866

These Financial Statements were approved by the Board of Directors on 28 May 2015 and were signed on its behalf by:

Gavin Burnell
Director

The Notes on pages 27 to 50 form part of these Financial Statements.

	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 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
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**
Balance at 1 January 2014	**1,481,396**	**13,954,026**	**1,975,950**	**209,042**	**(2,250,672)**	**515,389**	**(1,859,713)**	**14,025,418**
Profit for the year	-	-	-	-	-	-	1,693,012	1,693,012
Other Comprehensive Income								
Currency translation differences	-	-	-	-	-	(780,861)	-	(780,861)
Total Comprehensive Income for the Year	**-**	**-**	**-**	**-**	**-**	**(780,861)**	**1,693,012**	**912,151**
Transaction with owners, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2014	**1,481,396**	**13,954,026**	**1,975,950**	**209,042**	**(2,250,672)**	**(265,472)**	**(166,701)**	**14,937,569**

The Notes on pages 27 to 50 form part of these Financial Statements.

	Attributable to the shareholders						
Company ($)	**Share capital**	**Share premium**	**Merger reserve**	**Share Option and warrants reserve**	**Translation reserve**	**Retained losses**	**Total equity**
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**
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
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**
Balance at 1 January 2014	**1,481,396**	**13,954,026**	**1,975,950**	**209,042**	**450,027**	**(1,051,206)**	**17,019,235**
Loss for the year	-	-	-	-	-	(315,229)	(315,229)
Other Comprehensive Income							
Currency translation differences	-	-	-	-	(986,854)	-	(986,854)
Total Comprehensive Income for the Year	**-**	**-**	**-**	**-**	**(986,854)**	**(315,229)**	**(1,302,083)**
Total contributions by and distributions to owners of the parent, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2014	**1,481,396**	**13,954,026**	**1,975,950**	**209,042**	**(536,827)**	**(1,366,435)**	**15,717,152**

The Notes on pages 27 to 50 form part of these Financial Statements.

	Note	Year ended 31 December 2014 $	Year ended 31 December 2013 $
Cash Flows from Operating Activities			
Profit/(Loss) before tax		1,693,012	(281,817)
Impairment of mineral leases	13,14	249,232	67,070
Depreciation	13	1,303,796	610,134
Profit on disposal		(329,850)	-
Foreign exchange		(757,326)	456,897
Issue of share options and warrants		-	142,439
Finance income		(187)	(283)
Finance costs		127,296	20,559
		2,285,973	1,014,999
Changes to working capital			
Decrease/(increase) in trade and other receivables		271,157	(1,059,430)
Increase in trade and other payables		309,765	101,267
Cash generated from operations		2,866,895	56,836
Interest paid		(91,022)	(20,559)
Net Cash generated from Operating Activities		2,775,873	36,277
Cash Flows from Investing Activities			
Purchases of intangible assets		(342,195)	(1,605,763)
Purchases of property, plant and equipment		(4,376,595)	(4,165,785)
Disposal proceeds of intangible assets		-	405,100
Disposal proceeds of property, plant and equipment		449,500	105,578
Interest received		187	283
Net Cash used in Investing Activities		(4,269,103)	(5,260,587)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares	18	-	2,278,800
Issue costs	18	-	(122,339)
Proceeds from borrowings	19	1,800,000	900,000
Net Cash generated from Financing Activities		1,800,000	3,056,461
Net Increase/(decrease) in Cash and Cash Equivalents		306,770	(2,167,849)
Movement in Cash and Cash Equivalents			
Cash and cash equivalents at the beginning of the year	17	128,002	2,293,151
Exchange (loss)/gain on cash and cash equivalents		(1,024)	2,700
Net Increase/(decrease) in cash and cash equivalents		306,770	(2,167,849)
Cash and Cash Equivalents at the End of the Year	17	433,748	128,002

The Notes on pages 27 to 50 form part of these Financial Statements.

	Note	Year ended 31 December 2014 $	Year ended 31 December 2013 $
Cash Flows from Operating Activities			
Loss before tax		(315,229)	(482,319)
Foreign exchange		(682)	456,898
Issue of share options and warrants		-	142,439
		(315,911)	117,018
Changes to working capital			
Decrease/(increase) in trade and other receivables		37	(4,046)
Decrease in trade and other payables		(6,909)	(7,413)
Net Cash (used in)/generated from Operating Activities		(322,783)	105,559
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares	18	-	2,278,800
Issue costs	18	-	(122,339)
Decrease/(increase) in funding subsidiary undertaking		173,103	(2,214,274)
Net Cash generated from/(used in) Financing Activities		173,103	(57,813)
Net (Decrease)/Increase in Cash and Cash Equivalents		(149,680)	47,746
Movement in Cash and Cash Equivalents			
Cash and cash equivalents at the beginning of the year	17	154,365	103,919
Exchange (loss)/gain on cash and cash equivalents		(1,024)	2,700
Net (decrease)/increase in cash and cash equivalents		(149,680)	47,746
Cash and Cash Equivalents at the End of the Year	17	3,661	154,365

The Notes on pages 27 to 50 form part of these Financial Statements.

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 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 of Magnolia Petroleum plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations and those 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.

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 2014.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated 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. had 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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 23 to the Financial Statements disclose the Group's and Company's objectives, policies and processes for managing financial risks and capital.

The Group secured a two year $6 million revolving credit facility during the year, with a current borrowing base limit of $3,284,210. The loan maturity date is 7 September 2016. With the exception of the Current Ratio covenant, which has been temporarily waived by the provider of the revolving credit facility, all covenants were satisfied. Funding future growth will however be via the Group's own generated cash-flow, wherever possible. The Group's cash flow forecasts and projections prepared up to 30 June 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 2014 and have been applied in preparing these financial statements. The new standards and amendments do not have a material impact on the Group and Company.

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.

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.

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.

All other new standards and amendments to standards and interpretations effective for annual periods beginning after 1 January 2014 are not currently relevant to the Group or Company and therefore not applied in preparing these financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Changes in accounting policy and disclosure (continued)

b) *New and amended standards and interpretations issued but not yet effective for the financial year beginning 1 January 2014 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 listed below. The Group and Company intends to adopt these standards, if applicable, when they become effective. Unless stated below, there are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Standard		Effective Date
IAS 1 (Amendments)	Presentation of Financial Statements: Disclosure Initiative	*1 January 2016
IAS 16 (Amendments)	Clarification of Acceptable Methods of Depreciation	*1 January 2016
IAS 16 (Amendments)	Property, plant and equipment: Bearer Plants	*1 January 2016
IAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 (Amendments)	Separate Financial Statements	*1 January 2016
IAS 28 (Amendments)	Investments in Associates and Joint Ventures	*1 January 2016
IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception	*1 January 2016
IAS 38 (Amendments)	Clarification of Acceptable Methods of Amortisation	*1 January 2016
IAS 41 (Amendments)	Agriculture: Bearer Plants	*1 January 2016
IFRS 9	Financial Instruments	*1 January 2018
IFRS 10 (Amendments)	Consolidated Financial Statements	*1 January 2016
IFRS 10 (Amendments)	Investment Entities: Applying the Consolidation Exception	*1 January 2016
IFRS 11 (Amendments)	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	*1 January 2016
IFRS 12 (Amendments)	Investment Entities: Applying the Consolidation Exception	*1 January 2016
IFRS 14	Regulatory Deferral Accounts	*1 January 2016
IFRS 15	Revenue from Contracts with Customers	*1 January 2017
Annual Improvements	2010 – 2012 Cycle	1 July 2014
Annual Improvements	2011 – 2013 Cycle	1 July 2014
Annual Improvements	2012 – 2014 Cycle	*1 July 2016

**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. Other income is recognised in the accounting period in which the services are rendered, in accordance with the terms of the underlying contractual agreements.

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign Currency Translation (continued)

(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 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 Statement of Comprehensive Income.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 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.

2.8 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 mineral leases 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.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2.8 **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 drilling costs. Drilling 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. Drilling costs are subsequently transferred into 'Drilling costs and equipment' within property, plant and equipment and depreciated over their estimated useful economic life. 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 not ready for use 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.

2.9 **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.

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Exceptional items

Exceptional items are disclosed separately in the Financial Statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

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 2014, the Group's borrowings at variable rates were denominated in US dollars.

At 31 December 2014, if variable interest rates on borrowings are 10 basis points higher/lower with all other variables held constant, the annual interest expense will be $112,187 higher / $106,715 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.

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 19) 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).

3 FINANCIAL RISK MANAGEMENT (continued)

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 **At 31 December 2014**	**Less than 1 Year**	**Between 1 and 2 Years**	**Between 2 and 5 Years**	**Between Over 5 Years**
Borrowings	-	2,700,000	-	-
Trade and other payables	1,502,216	-	-	-
At 31 December 2013				
Borrowings	-	-	900,000	-
Trade and other payables	1,185,547	-	-	-

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 2014 of $6,122,650 (2013: $6,018,525). Management tests annually whether non-producing mineral leases have future economic value in accordance with the accounting policy stated in Note 2.8. 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.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimated impairment of goodwill

Goodwill has a carrying value at 31 December 2014 of $359,222 (2013: $381,733). The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8. 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, estimated levels of proven and probable reserves and the estimated future cost of developing and extracting those reserves. 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.

5 SEGMENTAL INFORMATION

The Executive Directors are the Group's chief operating decision-makers.

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 2014			
	USA $	UK $	Intra-segment balances $	Total $
Revenue from external customers	3,851,905	-	-	3,851,905
Gross profit	1,449,082	-	-	1,449,082
Operating profit/(loss)	2,259,130	(439,009)	-	1,820,121
Impairment – property, plant and equipment	19,847	-	-	19,847
Impairment - expired leases	229,385	-	-	229,385
Depreciation	1,303,796	-	-	1,303,796
Capital expenditure	4,718,790	-	-	4,718,790
Total assets	18,462,997	15,748,874	(15,363,438)	18,848,437
Total liabilities	16,314,595	31,722	(12,076,227)	4,270,090

5 SEGMENTAL INFORMATION (continued)

	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

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

	Year ended 31 December 2014	**Year ended 31 December 2013**
	$	**$**
Operating profit/(loss) for reportable segments	1,820,121	(261,501)
Finance income	187	283
Finance costs	(127,296)	(20,599)
Profit/(Loss) before tax	1,693,012	(281,817)

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 2014	**Year ended 31 December 2013**
	$	**$**
Segmental assets for reportable segments	18,848,437	15,767,735
Unallocated: goodwill	359,222	381,733
Total assets per Statement of Financial Position	19,207,659	16,149,468

5 SEGMENTAL INFORMATION (continued)

Information about major customers/operating partners

In the year ended 31 December 2014 revenues of $834,903 and $663,105 are derived from two operators. These revenues were all generated in the USA.

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.

6 EXPENSES BY NATURE

Group	2014 $	2013 $
Operator costs	885,233	520,038
Production taxes	218,837	120,785
Total operating expenses	1,104,070	640,823
Directors' remuneration and fees	528,378	322,422
Consulting fees	127,234	295,171
Legal, professional and compliance costs	254,338	118,225
Depreciation	5,037	4,448
Issue of share options and warrants	-	142,439
Office staff costs	234,147	180,349
Other costs	342,310	154,965
Total administrative expenses	1,491,444	1,218,019

7 AUDITOR REMUNERATION

Services provided by the Company's auditor and its associates

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

Fees payable to the Company's auditor for the audit of the Parent Company and consolidated Financial Statements	18,000	23,000
Fees payable to the Company's auditor for other services:		
- in relation to tax compliance	1,425	1,500
- in relation to other audit related assurance services	2,500	-

8 STAFF COSTS

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

	Group 2014 $	Group 2013 $
Wages and salaries	715,128	450,918
Social security costs	29,876	30,566
Pension costs	7,200	7,020
Other benefits	50,315	31,821
	802,519	520,325

Directors' Emoluments
The Directors' emoluments in respect of qualifying services were:

	Group 2014 $	Group 2013 $
Directors' salary and fees	500,501	296,190
Pension costs	7,200	7,020
Other benefits	28,908	19,032
	536,609	322,242
J M Cubitt	28,807	24,759
S O Snead	87,629	23,724
R S Harwood	87,629	23,724
G J Burnell	28,807	24,759
R F Whittington	303,737	225,276
Total	536,609	322,242

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

	Group 2014 No.	Group 2013 No.
Administrative and managerial	7	7

9 OTHER INCOME

	Group 2014 $	Group 2013 $
Consultancy and success fee	1,005,374	-

During the year the Company provided consultancy services to a third party amounting to $1,002,091 in connection with the evaluation and completion of an acquisition for oil and gas properties.

10 TAXATION

Tax charge for the period

The tax charge for the period is $Nil (2013: $Nil).

Factors affecting the tax charge for the period

The tax charge for each period is explained below:

	2014 $	2013 $
Profit/(Loss) for the period before taxation	1,693,012	(281,817)
Profit/(Loss) for the period before tax multiplied by the weighted average tax rate of 37% (2013: 28%)	634,690	(79,384)
Expenses not deductible for tax purposes	-	41,296
Tax losses for which no deferred tax asset recognised - UK	118,175	94,566
Tax losses for which no deferred tax asset recognised - US	837,678	1,243,647
Revenue deduction for capitalised costs - US	(1,590,543)	(1,300,125)
Tax charge/(credit)	-	-

The Group has UK tax losses of approximately $1,205,000 (2013: $691,000) and US tax losses of approximately $10,304,000 (2013: losses of approximately $8,069,000) available to carry forward against future taxable profits. A potential deferred tax asset of approximately $241,000 (2013: $145,000) on the UK losses and $4,121,000 (2013: $3,228,000) 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.

11 FINANCE INCOME AND FINANCE COSTS

	2014 $	2013 $
Finance income		
Interest income on short-term bank deposits	187	283
Finance costs		
Interest expense and fees – bank borrowings	(127,296)	(20,599)

12 EARNINGS PER SHARE

The calculation of the basic profit per share of 0.19 cents per share (2013 loss per share: 0.03 cents) is calculated by dividing the profit attributable to ordinary shareholders of $1,693,012 (2013 loss: $281,817) by the weighted average number of ordinary shares of 910,672,851 (2013: 888,152,303) in issue during the period.

In accordance with IAS 33, there is no difference between the basic and diluted earnings per share.

Details of share options and warrants that could potentially dilute earnings per share in future periods are set out in Note 18. None of the share options and warrants were dilutive as at 31 December 2014.

13 PROPERTY, PLANT AND EQUIPMENT

Group

Cost	Producing properties (Mineral Leases) $	Drilling costs and equipment $	Motor vehicles and office equipment $	Total $
At 1 January 2013	883,767	2,964,086	15,254	3,863,107
Additions	147,049	4,535,200	3,805	4,686,054
Transferred from intangible assets	232,708	711,466	-	944,174
Disposals	(7,781)	(97,797)	-	(105,578)
At 31 December 2013	1,255,743	8,112,955	19,059	9,387,757
Additions	131,258	4,242,725	2,612	4,376,595
Impairment	-	(19,847)	-	(19,847)
Transferred from intangible assets	1,206	4,724	-	5,930
Disposals	(43,452)	(108,650)	-	(152,102)
At 31 December 2014	1,344,755	12,231,907	21,671	13,598,333
Accumulated Depreciation and Impairment				
At 1 January 2013	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
Charge for the period	273,071	1,025,688	5,037	1,303,796
Disposals	(13,711)	(21,497)	-	(35,208)
At 31 December 2014	450,201	1,841,424	12,335	2,303,960
Net Book Amount				
At 31 December 2013	1,064,902	7,275,722	11,761	8,352,385
At 31 December 2014	894,554	10,390,483	9,336	11,294,373

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 $1,298,759 (2013: $605,686) has been charged in cost of sales.

Motor vehicles and office equipment depreciation expense of $5,037 (2013: $4,448) has been charged in administrative expenses.

14 INTANGIBLE ASSETS

Group

Cost	Goodwill $	Drilling costs $	Mineral leases $	Total $
At 1 January 2013	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)
At 31 December 2013	381,733	3,995	6,014,530	6,400,258
Additions	-	50,766	291,429	342,195
Transferred to property, plant and equipment	-	(4,724)	(1,206)	(5,930)
Disposals	-	-	(2,755)	(2,755)
Exchange movements	(22,511)	-	-	(22,511)
Impairment	-	-	(229,385)	(229,385)
As at 31 December 2014	359,222	50,037	6,072,613	6,481,872
Amortisation				
At 1 January 2013, 31 December 2013 and 31 December 2014	-	-	-	-
Net Book Amount				
At 31 December 2013	381,733	3,995	6,014,530	6,400,258
At 31 December 2014	359,222	50,037	6,072,613	6,481,872

Impairment review

Drilling costs and mineral leases represent acquired intangible assets not brought into use 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 $229,385 (2013 - $67,070) in respect of expired mineral leases.

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.

15 INVESTMENTS

Investments in subsidiaries

	2014 $	2013 $
Company		
Shares in group undertakings		
At 1 January	3,874,935	3,782,525
Exchange movements	(228,504)	92,410
At 31 December	3,646,431	3,874,935

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.

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 $	2013 $	2014 $	2013 $
Trade receivables	311,105	382,859	-	-
Other receivables	26,000	123,014	7,846	9,183
Amounts due from group undertakings	-	-	12,076,229	13,005,976
Prepayments	410,374	489,543	14,707	13,407
Accrued income	250,187	273,407	-	-
	997,666	1,268,823	12,098,782	13,028,566

Trade receivables comprise customer receivables in credit. Trade receivables are neither past due nor impaired and relate to existing customers with no defaults in the past. 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.

16 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2014, trade receivables of $311,105 (2013: $382,859) were fully performing.

Group

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

	2014 $	2013 $
UK Pounds	22,553	22,593
US Dollar	975,113	1,246,230
	997,666	1,268,823

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.

17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2014 $	2013 $	2014 $	2013 $
Cash at bank	433,748	128,002	3,661	154,365
Cash and cash equivalents	433,748	128,002	3,661	154,365

At 31 December 2014, the Group held cash of $3,661 in a bank with a Fitch credit rating of A (Stable) and $430,087 in a bank where no Fitch credit rating is available.

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

18 SHARE CAPITAL AND PREMIUM

		Ordinary shares		Share premium		
Group	**Number of shares**	**Nominal value £**	**Nominal value $**	**Nominal value £**	**Nominal value $**	**Total $**
At 1 January 2013	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
At 31 December 2014	910,672,851	910,673	1,481,396	8,703,462	13,954,026	15,435,422

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**	**2014**	**2013**
25 November 2018	1.30	52,820,768	52,820,768
24 January 2017	2.85	1,754,386	1,754,386
28 January 2020	2.925	20,338,982	20,338,982
		74,914,136	74,914,136

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.

18 SHARE CAPITAL AND PREMIUM (continued)

Share options and warrants (continued)

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.

A reconciliation of options granted and lapsed during the year ended 31 December 2014 is shown below.

	Year ended 31 December 2014		**Year ended 31 December 2013**	
	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	74,914,136	1.78	52,820,768	1.3
Granted during the year	-	-	22,093,368	2.92
Outstanding at end of year	74,914,136	1.78	74,914,136	1.78
Exercisable at end of year	74,914,136	1.78	73,159,750	1.75

The warrants and options outstanding at 31 December 2014 had a weighted average remaining contractual life of 4.2 years (2013: 5.2 years).

No options or warrants were exercised or cancelled during the year.

19 BORROWINGS

	Group		Company	
	2014	2013	2014	2013
Non-current	$	$	$	$
Bank borrowings (including arrangement fee)	2,736,274	900,000	-	-

During the year Magnolia Petroleum Inc. secured a two year $6 million revolving credit facility, which replaced the previous three year $5 million revolving credit facility. Interest is charged on credit drawn down at Wall Street Journal Prime (currently 3.25%) +0.75%. Under the terms of the credit facility, an initial borrowing base of $4,596,944 was agreed. This was subsequently decreased to $3,284,210 on 2 April 2015 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 the producing leases and operating equipment owned by the Group, together with sales contracts and farm-out agreements.

The fair value of borrowings equals their carrying amount. All borrowings are denominated in US dollars.

The Group has the following undrawn borrowing facilities:

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
Expiring beyond one year	1,896,944	700,000	-	-

20 TRADE AND OTHER PAYABLES

	Group		Company	
Current	2014	2013	2014	2013
	$	$	$	$
Trade and other payables	1,502,216	1,185,547	122	-
Accrued expenses	31,600	38,503	31,600	38,631
	1,533,816	1,224,050	31,722	38,631

21 FINANCIAL INSTRUMENTS BY CATEGORY

	Group		Company	
	2014	2013	2014	2013
	$	$	$	$
Assets as per Statement of Financial Position				
Loans and receivables:				
Trade and other receivables (excluding prepayments)	587,292	779,280	12,084,075	13,015,159
Cash and cash equivalents	433,748	128,002	3,661	154,365
	1,021,040	907,282	12,087,736	13,169,524
Liabilities per Statement of Financial Position				
Financial liabilities at amortised cost:				
Borrowings	2,736,274	900,000	-	-
Trade and other payables (excluding non-financial liabilities)	1,533,816	1,224,050	31,722	38,631
	4,270,090	2,124,050	31,722	38,631

22 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 raising funds through the placing of shares and through bank borrowings set out in Note 19 above. There are no material differences between the book value and fair value of the financial assets.

23 CAPITAL MANAGEMENT POLICIES

The Group and Company's capital management objectives are:

- to ensure compliance with borrowing covenants;
- 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 borrowing facilities from the prior year by securing a two year $6 million revolving variable rate credit facility (see Note 19) and therefore increasing its gearing. The Group will continue to monitor its capital within an acceptable level of gearing and in accordance with financial and non-financial loan covenants.

24 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 $Nil (2013: $125,035) at the Statement of Financial Position date.

25 RELATED PARTY TRANSACTIONS

Transactions with Group undertakings

During the year ended 31 December 2014 the Company charged management fees of $123,780 (2013: $118,899) to Magnolia Petroleum Inc, the Company's wholly owned subsidiary for the provision of administrative and management services. $123,780 (2013: $118,899) in relation to these fees was outstanding at the balance sheet date and is included within Trade and other receivables. As at 31 December 2014, the amount due to the Company from Magnolia Petroleum Inc was $12,076,229 (2013: $13,005,975).

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"). The rental agreement between Enerlex and Magnolia Petroleum Inc was revised on 30 September 2014 whereby Enerlex agreed to provide Magnolia Petroleum Inc on a month to month basis with office premises and services for $3,500 per month. A charge of $33,000 (2013: $30,000) was recognised during the year under the former and revised agreement.

Enerlex gave an undertaking to Magnolia Petroleum Inc dated 15 November 2011 whereby Enerlex undertakes that if any of the mineral 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.

26 ULTIMATE CONTROLLING PARTY

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

27 EVENTS AFTER THE REPORTING PERIOD

On 2 April 2015, as a result of the volatile oil price movements during the year to 31 December 2014, the borrowing base limit of the Group's credit facility was decreased from $4,596,944 to $3,284,210.