

**MAGNOLIA PETROLEUM PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2015**

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<b>Directors</b>	Thomas Wagenhofer (Non-Executive Chairman) Steven Otis Snead (Chief Executive Officer) Rita Fern Whittington (Chief Operations Officer) Ronald Sanford Harwood (Non-Executive Director) Leonard Earl Wallace (Non-Executive Director)
<b>Secretary</b>	Stanley Anthony Salter
<b>Registered Office</b>	Suite 321 19-21 Crawford Street London W1H 1PJ
<b>Nominated Advisor</b>	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX
<b>Broker</b>	Cornhill Capital Limited 18 St Swithin's Lane London EC4N 8AD
<b>Legal Advisor</b>	Pray Walker, P.C. 100 W.5 <sup>th</sup> Street Suite 900 Tulsa OK 74103, USA
<b>Independent Auditor</b>	PKF Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD
<b>Registrars</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
<b>Registered Number</b>	05566066

Magnolia Petroleum is an oil and gas production and exploration company focused on acquiring and developing leases in proven US onshore formations, such as the Bakken in North Dakota and the Mississippi Lime and Woodford in Oklahoma.

The year under review has seen the unbroken sequence of double digit year on year percentage growth in our producing well count maintained, an achievement which is all the more impressive when set against the backdrop of sharply lower oil prices. With West Texas Intermediate ("WTI") averaging US\$48.66 per barrel over the course of the year, the extended period of WTI trading in a tight range around the US\$95 per barrel level has been brought to an abrupt end. Like all US onshore operators, such a sharp retrenchment in such a short space of time has necessitated a realignment of Magnolia's operations to the lower oil price environment, and I am pleased to report this is what we have done.

Significant reductions in the Group's capital expenditure, operating costs and reserve based debt facility have all been achieved over the last 12 months. Restricting our participation in drilling only those wells which offer attractive returns at US\$30-US\$40 oil prices or lower has cut our capital investment requirements for the year; a comprehensive review of corporate overheads including salaries and directors' fees has resulted in full year operating costs being reduced by 31% compared to the previous year; while a part repayment of our credit facility will see financing costs sharply reduced going forward. Magnolia was always a low cost, cash flow generative business, and thanks to the action we have taken, it is even more so today.

The focus on outgoings however has not stopped us from continuing the roll-out of our strategy to drill new wells in proven US onshore formations alongside established operators. As at 31 December 2015 our producing well count stood at 213 compared to 176 as at 1 January 2015, a 21% year on year increase. Bearing in mind our focus has been on participating in those new wells which make commercial sense at prevailing oil and gas prices, this strong performance serves to highlight the low break-even costs associated with our US onshore acreage.

Once a well has been drilled and commences production it is by no means forgotten. Instead we actively manage our portfolio of interests, constantly monitoring each individual well's performance and importantly its commerciality. With this in mind, post year end we announced in our Q1 2016 update the divestment of 46 uneconomic wells with little or no value to free up our internal accounting resources. The carrying value of these wells have been impaired through profit and loss down to their net realisable value as at 31 December 2015. We have since divested a further 21 wells, bringing our total producing well count to 146. These 146 wells continue to generate meaningful production for us. As at 31 March 2016, 242 boepd were recovered net to Magnolia, which compares to 309 boepd on 1 August 2015 and 281 boepd as at 1 January 2015. The reduction in production largely reflects natural decline rates and also lower drilling activity across the sector over the period in response to volatile global oil and gas markets.

Even at lower oil prices, our net production generated revenues of US\$1,991,021 for the year ended 31 December 2015. As expected our revenues were lower than last year. However the 31% reduction in corporate overheads and operating costs over the last 12 months allows a higher proportion of our cash flows to drop to the bottom line and become available for reinvestment into further drilling. Not only does this bode well for Magnolia's progress in the current market environment, but also for future profitability, particularly when global supply and demand for oil and gas returns to equilibrium.

From the outset, management has viewed the current downturn in oil and gas markets as cyclical in nature rather than structural: one that has been caused by excess supply coinciding with a slowdown in demand growth, particularly in previously buoyant areas of the world. As with all cycles, supply and demand will rebalance and while this will take time, we are already seeing signs of this happening: in April 2016 the number of active rigs in the US stood at a multi-year low of 420, a fraction of the 2,000 or so which were regularly reported in recent years. In the US, the rebalancing process is clearly underway. Combined with hundreds of millions of dollars' worth of new projects across the world being put on the backburner, the point of equilibrium could be closer than most interested observers currently anticipate.

In the meantime, the current downturn has levelled the playing field, at least in the US onshore sector. Technological advances along with the cutting edge drilling/completing techniques which have transformed the US energy sector are here to stay and continue to be improved on. What has changed is that operators of all sizes are retrenching fast with leases being relinquished or allowed to expire. As a result, acreage which is located in highly productive areas where we have been looking to increase our exposure to, or gain a foothold in, is becoming available. This is where management's nearly four decades of experience and expertise in leasing US onshore acreage comes into its own. We are therefore highly confident that we can take advantage of today's market conditions to effectively high grade Magnolia's portfolio of US onshore leases.

### **Financial Review**

During the 12 months to 31 December 2015, net production generated revenues of US\$1,991,021, compared to US\$3,851,905 the previous year. The sharp fall in the price of oil, which has effectively halved over the last twelve months, is responsible for the drop in revenues, both directly by lowering sales prices achieved and indirectly through operators shutting in wells to curtail production. In view of this, the Group has quickly taken steps to reduce overheads to help accommodate the revenue decline.

Property, plant and equipment (comprising producing properties) as at end December 2015 stood at US\$7,294,470, (2014: US\$11,294,373) while intangible assets (comprising new leases and wells that are drilling but not yet completed) stood at US\$1,830,773 (2014: US\$6,481,872). Non-cash impairments totalling US\$8,511,709 million have been provided for in the results for the year ended 31 December 2015.

This includes write-downs associated with the cost of mineral leases which have expired; and a markdown in the value of the Group's interest in producing properties that Moyes has identified as non-economic at today's low oil prices. Management expects the value of its interests in producing wells to be written back, either in part or in full, as and when the oil price recovers.

In addition, an impairment of US\$225,230 for the Magnolia operated Shimanek #2 vertical well ('Shimanek') in Oklahoma has been taken in the full year results. Shimanek encountered hydrocarbons in the targeted conventional zones, including the Lower Skinner, Redfork Sand and Mississippi Lime/Chat, in line with the pre-drill geological model. However, high salt water saturation levels and the high costs associated with the disposal of the salt water, led to the decision to plug rather than complete the well and to cap the total cost of operations.

Direct operating expenses during the year totalled US\$2,784,769 (2014: US\$2,784,759). US\$1,547,313 (2014: US\$1,298,759) of this total is a non-cash item covering depreciation costs. A further US\$990,854 (2014: US\$794,903) was due to lease operating expenses, while production tax and marketing fees came in at US\$246,602 (2014: US\$309,161).

During the year, US\$1.5 million (£1 million) was raised via a placing to fund new drilling operated by a number of leading operators including Chesapeake Energy, Continental Resources and BP America. As a result, 142,857,143 new ordinary shares in the Company were issued.

In June 2015, we appointed Mr. Thomas Wagenhofer to the Board as a Non-Executive Director. Mr. Wagenhofer, who is a highly respected petroleum engineer and oil and gas investment specialist with over 20 years' experience in the global E&P sector, has elected to receive the majority of his annual fee in new ordinary shares of the Company. Accordingly a further 3,285,713 new ordinary shares were issued to Mr. Wagenhofer upon taking a position on the Board and a further 857,142 shares were issued in January 2016 in settlement of his director's fees.

Post period end, we further bolstered the Board with the appointment of Mr. Leonard Wallace, a highly experienced oil and gas engineer, as a Non-Executive Director of the Company. Mr. Wallace is an experienced management professional specialising in drilling engineering, well construction and rig operation with 50 years' experience within the oil and gas exploration and production industry.

**Outlook**

Magnolia's senior management has been actively involved in the US onshore oil and gas sector for four decades. During this time we have collectively experienced six cyclical downturns of varying degrees of severity. Downturns are followed by upswings and we intend to be at the forefront of the next one. With this in mind over the last twelve months we have taken steps to ensure we can do just that: we have significantly cut costs and reduced debt; high graded our portfolio of interests in producing wells and leases which are economic at current oil prices; and we have bolstered our Board so that it has a complementary skillset covering all aspects of the oil and gas sector. While volatile oil markets have pushed out timelines for all companies, our objective and ambition remain the same: to build a leading US onshore focused oil and gas group. I look forward to providing further updates on our progress.

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

Steven Snead  
Chief Executive Officer

24 June 2016

**The Bakken / Three Forks Sanish Formations, North Dakota**

During the twelve months to 31 December 2015, a total of four wells targeting the Bakken and Three Forks Sanish ('TFS') formations in North Dakota commenced production, bringing the total number of producing wells in these formations in which Magnolia has an interest to 41. Of the wells reported during the period, 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). Gross initial production rates for these two wells were:

Skunk Creek 1-8-17-15H3 (0.684%):	4,298 boepd
Skunk Creek 1-8-17-16H (0.684%):	4,305 boepd

Gross initial production rates for the two wells which commenced production from the TFS, 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 1-8-17-15H3 (0.684%):	3,612 boepd
Skunk Creek 1-8-17-16H3 (0.684%):	3,399 boepd

*Boepd: Barrels of oil equivalent per day*

*Bopd: Barrels of oil per day*

As at 1 January 2016, Moyes & Co. ('Moyes') estimated Magnolia's Bakken Proven Developed Reserves ('PDP') at 49,000 barrels of oil and condensate and 24MMcf of natural gas to which Moyes assigned a value of US\$0.829 million. Meanwhile, Magnolia's PDP ("proved") reserves in the TFS formation were estimated at 15,000 barrels of oil and condensate and 9MMcf of natural gas which Moyes has assigned a value of US\$0.267 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. Gross initial production rates for eight producing wells targeting the Mississippi Lime were reported during the twelve month period ending 31 December 2015:

Alison 16-1H (0.155%):	653 boepd
Blackjack 1-21H (0.4%):	67 boepd
Cerlbert 1-30MH (0.63%):	288 boepd
Bates (0.25%):	205 boepd
Jacob 16-1H (0.155%):	552 boepd
Nighswonger Farms 2 (2.42%):	205 boepd
Nighswonger Farms 3 (2.42%):	53 boepd
Louis 2815 1-17H (0.21%):	390 boepd

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 a Reserves Report dated 1 January 2016, Moyes estimated the Group's Mississippi Lime PDP reserves at 61,000 barrels of oil and condensate and 139MMcf of natural gas with a value of US\$1.414 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. During 2015, Magnolia reported gross initial production rates for the following eight wells:

Lois 1-6H (0.87%):	2,122 mcf/d
Buckner 1 (1.79%):	1,041 boepd
Buckner 2 (1.79%):	747 boepd
Lois 1-6H (0.87%):	674 boepd
McLain 1 (1%):	826 boepd
McLain 2 (1%):	321 boepd
Clara 1-13/24H (0.3%):	2,268 mcf/d
Reginal 1-25/24H (0.5%):	2,415 mcf/d

In the updated Reserves Report dated 1 January 2016, Moyes estimated the Group's Woodford PDP reserves at 8,000 barrels of oil and condensate and 125MMcf of natural gas with a value of US\$0.299 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.

**Other Formations in Oklahoma**

During the period, four wells in which Magnolia has an interest commenced production from other formations in Oklahoma, the details of which are as follows:

Fern 30-1H (0.09%):	28 boepd (Oswego)
Celesta 1-5-32 XH (0.02%):	1,076 boepd (Springer)
Loretta 130 vertical (13.198%):	23 boepd (various formations, Oklahoma)
Yani (3.8%) Hunton	58 boepd (Hunton)

In the updated Reserves Report dated 1 January 2016, Moyes estimated the Group's PDP reserves in other formations in Oklahoma at 6,000 barrels of oil and condensate and 20MMcf of natural gas with a value of US\$0.93 million.

**Summary**

During the year under review, the Group elected to participate in 38 new wells in proven US onshore formations in which Magnolia has an interest. The decision to participate in the drilling of these wells was only taken after they demonstrated attractive economics when modelled at oil prices at or below current levels. This in turn highlights the quality and low break-even cost of Magnolia's existing acreage. Management is actively taking advantage of the prevailing oil price environment to further high grade Magnolia's portfolio of producing wells and leases. Combined with a comprehensive review of corporate overheads and operating costs, the Group is well placed to emerge from the current downturn with an excellent revenue generative and reserves backed platform which we will use to take the business forward.

Rita Whittington  
Chief Operations Officer

24 June 2016

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 2015.

### 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 2015 was two Executive Directors and three Non-Executive Directors; however, Gavin Burnell, Non-Executive Chairman resigned effective 12 January 2016 at which point Thomas Wagenhofer was appointed. Leonard Wallace, Non-Executive Director was appointed to the Board effective 15 May 2016. 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 to 6.

### 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:

	<b>2015</b>	<b>2014</b>
Revenue	\$1,991,021	\$3,851,905
Gross profit margin (excluding depreciation)	37.85%	71.34%

Participation 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 pay-out 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 24 June 2016 and signed on its behalf:

**Thomas Wagenhofer**  
Director

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2015.

### 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 2015		1 January 2015 (or later date of appointment)	
	Ordinary Shares	Options and warrants	Ordinary Shares	Options and warrants
Gavin J Burnell <sup>(1)</sup>	16,135,797	14,610,598	15,635,797	14,610,598
Thomas Wagenhofer <sup>(2)</sup>	3,285,713	-	-	-
Steven Otis Snead <sup>(3)</sup>	202,726,748	24,417,161	201,715,998	24,417,161
Rita Fern Whittington	12,225,669	16,905,661	11,720,294	16,905,661
Ronald Sanford Harwood <sup>(4)</sup>	33,123,175	3,354,915	32,112,426	3,354,915
Dr John M Cubitt <sup>(5)</sup>	n/a	n/a	619,908	6,094,915

- (1) Figures at 1 January 2015 and 31 December 2015 included 830,000 ordinary shares owned by Elizabeth Burnell, the wife of Gavin J Burnell. Gavin Burnell resigned with effect 12 January 2016.
- (2) Thomas Wagenhofer – appointed 29 June 2015.
- (3) 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.
- (4) Ronald Sanford Harwood's shares are held by the Ronald S. Harwood Trust.
- (5) Dr John M Cubitt resigned with effect 21 January 2015.

### Thomas Wagenhofer, Non-Executive Chairman

Mr. Wagenhofer is a petroleum engineer with more than 20 years' experience in the global E&P sector. Past positions include Senior Managing Director of Metals and Energy Capital at Macquarie Bank Limited, Vice President of Ryder Scott Company and Research Engineer at Atlantic Richfield Company. Currently, Mr. Wagenhofer is founder and technical lead for Giant Capital and Gate Energy.

### 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".

**Directors and Directors' interests (continued)**

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.

**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 2015:

	Salary/ Fees for the year ended 31 December 2015 US\$	Pension contributions for the year ended 31 December 2015 US\$	Benefits in Kind for the year ended 31 December 2015 US\$	Total for the year ended 31 December 2015 US\$	Total for the year ended 31 December 2014 US\$
Thomas Wagenhofer (appointed 29 Jun 2015)	10,695	-	-	10,695	-
Steven Otis Snead	33,732	-	-	33,732	87,629
Gavin J Burnell (resigned 12 Jan 2016)	31,471	-	-	31,471	28,807
Dr John M Cubitt (resigned 21 Jan 2015)	8,553	-	-	8,553	28,807
Rita Fern Whittington	208,044	7,200	30,194	245,438	303,737
Ronald Sanford Harwood	33,732	-	-	33,732	87,629

### 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.

### Dividends

The Directors do not recommend the payment of a dividend (2014: £Nil).

### 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.

### 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.

### Independent 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 2015 annual general meeting will be held at 10.00am on 22 July 2016 at 18452 E 111th, Broken Arrow, Oklahoma, OK74011, USA. The notice of meeting is set out on pages 53 to 56 of this document and a form of proxy is enclosed.

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

Resolution 1 is to receive the Annual Report and Financial Statements.

Resolutions 2, 3, 4 and 5 concern Ronald Harwood, Rita Whittington, Thomas Wagenhofer and Leonard Wallace who retire by rotation and offer themselves for re-election as directors.

Resolution 6 is to reappoint PKF Littlejohn LLP as auditor and to authorise the Directors to set their fees.

***Authority of Directors to Allot Shares (Resolutions 7 and 8)***

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 7 gives the directors the necessary authority to allot up to a maximum of 640,000,000 relevant securities. This represents approximately 50% of the current issued ordinary share capital.

Resolution 8 empowers the directors to allot such securities for cash otherwise than on a pro-rata basis to existing shareholders, up to a maximum of 640,000,000 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 2017 or 30 June 2017, whichever is the earlier.

***Authority for the Company to Purchase its Own Shares (Resolution 9)***

Resolution 9 authorises the Company, until next year's AGM or 30 June 2017 (whichever is earlier) to purchase in the market up to a maximum of 190,000,000 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 24 June 2016 and signed on its behalf:

**Thomas Wagenhofer**  
Director

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. 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.

## The Board of Directors

As at 31 December 2015, the Board of Directors comprised five members: two Executive Directors and three Non-Executive Directors including the Chairman Thomas Wagenhofer, who was appointed to the Board on 29 June 2015, as Non-Executive Chairman. In addition, Leonard Wallace has been appointed to the Board, effective 16 May 2016. 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.

	<b>Number held and entitled to attend</b>	<b>Number attended</b>
Thomas Wagenhofer	7	7
Gavin Burnell	13	13
Ronald Harwood	13	13
Steven Snead	13	13
Rita Whittington	13	13

## 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 Thomas Wagenhofer, 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 Thomas Wagenhofer (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 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements 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's 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 2015 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter – going concern**

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.3 to the Financial Statements concerning the Group and Company's ability to continue as a going concern. The Group incurred a net loss of \$9,793,276 during the year ended 31 December 2015 and, at that date, the Group had net current liabilities of \$53,964. These conditions, along with the other matters explained in note 2.3 to the Financial Statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group and Company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

**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 matters where the Companies Act 2006 requires us 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

24 June 2016

	Note	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Continuing Operations</b>			
Revenue		1,991,021	3,851,905
Operating expenses	6	(1,237,456)	(1,104,064)
Depreciation	13	(1,547,313)	(1,298,759)
		<hr/>	<hr/>
<b>Gross (Loss)/Profit</b>		(793,748)	1,449,082
Impairment of property, plant and equipment	13	(3,538,523)	-
Impairment of intangible assets	14	(4,973,181)	(229,385)
Profit on disposal of mineral leases		-	329,850
Differences due to foreign exchange		678,001	756,644
Administrative expenses	6	(1,045,884)	(1,491,444)
Other income	9	-	1,005,374
		<hr/>	<hr/>
<b>Operating (Loss)/Profit</b>		(9,673,335)	1,820,121
Finance income	11	139	187
Finance costs	11	(120,080)	(127,296)
		<hr/>	<hr/>
<b>(Loss)/Profit before Tax</b>		(9,793,276)	1,693,012
Income tax	10	-	-
		<hr/>	<hr/>
<b>(Loss)/Profit for the year attributable to owners of the parent</b>		(9,793,276)	1,693,012
		<hr/>	<hr/>
<b>Other Comprehensive Income:</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Currency translation differences		(697,415)	(780,861)
		<hr/>	<hr/>
<b>Other Comprehensive Income for the Year, Net of Tax</b>		(697,415)	(780,861)
		<hr/>	<hr/>
<b>Total Comprehensive Income for the Year attributable to the owners of the parent</b>		(10,490,691)	912,151
		<hr/>	<hr/>
<b>Earnings per share attributable to the owners of the parent during the year</b>			
Basic and diluted (cents per share)	12	(0.98)	0.19
		<hr/>	<hr/>

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 \$203,635 (2014: \$315,229).

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

	Note	As at 31 December 2015	As at 31 December 2014
		\$	\$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	13	7,294,470	11,294,373
Intangible assets	14	1,830,773	6,481,872
<b>Total Non-Current Assets</b>		<u>9,125,243</u>	<u>17,776,245</u>
<b>Current Assets</b>			
Trade and other receivables	16	441,764	997,666
Cash and cash equivalents	17	645,759	433,748
<b>Total Current Assets</b>		<u>1,087,523</u>	<u>1,431,414</u>
<b>TOTAL ASSETS</b>		<u><u>10,212,766</u></u>	<u><u>19,207,659</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to Owners of Parent</b>			
Share capital	18	1,704,820	1,481,396
Share premium	18	15,200,219	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		(962,887)	(265,472)
Retained losses		(9,959,977)	(166,701)
<b>Total Equity</b>		<u>5,916,495</u>	<u>14,937,569</u>
<b>Non-Current Liabilities</b>			
Borrowings	19	3,154,784	2,736,274
<b>Total Non-Current Liabilities</b>		<u>3,154,784</u>	<u>2,736,274</u>
<b>Current Liabilities</b>			
Trade and other payables	20	1,141,487	1,533,816
<b>Total Current Liabilities</b>		<u>1,141,487</u>	<u>1,533,816</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>10,212,766</u></u>	<u><u>19,207,659</u></u>

These Financial Statements were approved by the Board of Directors on 24 June 2016 and were signed on its behalf by:

**Thomas Wagenhofer**  
Director

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

	Note	As at 31 December 2015 \$	As at 31 December 2014 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investments in subsidiaries	15	3,453,879	3,646,431
		_____	_____
<b>Total Non-Current Assets</b>		3,453,879	3,646,431
		_____	_____
<b>Current Assets</b>			
Trade and other receivables	16	12,663,513	12,098,782
Cash and cash equivalents	17	44,210	3,661
		_____	_____
<b>Total Current Assets</b>		12,707,723	12,102,443
		_____	_____
<b>TOTAL ASSETS</b>		16,161,602	15,748,874
		=====	=====
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to Shareholders</b>			
Share capital	18	1,704,820	1,481,396
Share premium	18	15,200,219	13,954,026
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		209,042	209,042
Translation reserve		(1,407,825)	(536,827)
Retained losses		(1,570,070)	(1,366,435)
		_____	_____
<b>Total Equity</b>		16,112,136	15,717,152
		_____	_____
<b>Current Liabilities</b>			
Trade and other payables	20	49,466	31,722
		_____	_____
<b>Total Current Liabilities</b>		49,466	31,722
		_____	_____
<b>TOTAL EQUITY AND LIABILITIES</b>		16,161,602	15,748,874
		=====	=====

These Financial Statements were approved by the Board of Directors on 24 June 2016 and were signed on its behalf by:

**Thomas Wagenhofer**  
Director

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

Group (\$)	Attributable to the owners of the parent							
	Share capital	Share Premium	Merger reserve	Share option and warrants reserve	Reverse acquisition reserve	Translation reserve	Retained losses	Total equity
<b>Balance at 1 January 2014</b>	<b>1,481,396</b>	<b>13,954,026</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(2,250,672)</b>	<b>515,389</b>	<b>(1,859,713)</b>	<b>14,025,418</b>
Profit for the year	-	-	-	-	-	-	1,693,012	1,693,012
<b>Other Comprehensive Income</b>								
Currency translation differences	-	-	-	-	-	(780,861)	-	(780,861)
<b>Total Comprehensive Income for the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(780,861)</b>	<b>1,693,012</b>	<b>912,151</b>
<b>Transaction with owners, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 December 2014</b>	<b>1,481,396</b>	<b>13,954,026</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(2,250,672)</b>	<b>(265,472)</b>	<b>(166,701)</b>	<b>14,937,569</b>
<b>Balance at 1 January 2015</b>	<b>1,481,396</b>	<b>13,954,026</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(2,250,672)</b>	<b>(265,472)</b>	<b>(166,701)</b>	<b>14,937,569</b>
Loss for the year	-	-	-	-	-	-	(9,793,276)	(9,793,276)
<b>Other Comprehensive Income</b>								
Currency translation differences	-	-	-	-	-	(697,415)	-	(697,415)
<b>Total Comprehensive Income for the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(697,415)</b>	<b>(9,793,276)</b>	<b>(10,490,691)</b>
Share issue	223,424	1,340,543	-	-	-	-	-	1,563,967
Share issue costs	-	(94,350)	-	-	-	-	-	(94,350)
<b>Transaction with owners, recognised directly in equity</b>	<b>223,424</b>	<b>1,246,193</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,469,617</b>
<b>Balance at 31 December 2015</b>	<b>1,704,820</b>	<b>15,200,219</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(2,250,672)</b>	<b>(962,887)</b>	<b>(9,959,977)</b>	<b>5,916,495</b>

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

Company (\$)	Attributable to the shareholders						Total equity
	Share capital	Share premium	Merger reserve	Share Option and warrants reserve	Translation reserve	Retained losses	
<b>Balance at 1 January 2014</b>	<b>1,481,396</b>	<b>13,954,026</b>	<b>1,975,950</b>	<b>209,042</b>	<b>450,027</b>	<b>(1,051,206)</b>	<b>17,019,235</b>
Loss for the year	-	-	-	-	-	(315,229)	(315,229)
<b>Other Comprehensive Income</b>							
Currency translation differences	-	-	-	-	(986,854)	-	(986,854)
<b>Total Comprehensive Income for the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(986,854)</b>	<b>(315,229)</b>	<b>(1,302,083)</b>
<b>Total contributions by and distributions to owners of the parent, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 December 2014</b>	<b>1,481,396</b>	<b>13,954,026</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(536,827)</b>	<b>(1,366,435)</b>	<b>15,717,152</b>
<b>Balance at 1 January 2015</b>	<b>1,481,396</b>	<b>13,954,026</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(536,827)</b>	<b>(1,366,435)</b>	<b>15,717,152</b>
Loss for the year	-	-	-	-	-	(203,635)	(203,635)
<b>Other Comprehensive Income</b>							
Currency translation differences	-	-	-	-	(870,998)	-	(870,998)
<b>Total Comprehensive Income for the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(870,998)</b>	<b>(203,635)</b>	<b>(1,074,633)</b>
Share issue	223,424	1,340,543	-	-	-	-	1,563,967
Share issue costs	-	(94,350)	-	-	-	-	(94,350)
<b>Total contributions by and distributions to owners of the parent, recognised directly in equity</b>	<b>223,424</b>	<b>1,246,193</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,469,617</b>
<b>Balance at 31 December 2015</b>	<b>1,704,820</b>	<b>15,200,219</b>	<b>1,975,950</b>	<b>209,042</b>	<b>(1,407,825)</b>	<b>(1,570,070)</b>	<b>16,112,136</b>

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

	Note	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Cash Flows from Operating Activities</b>			
(Loss)/Profit before tax		(9,793,276)	1,693,012
Impairment of property, plant and equipment	13	3,538,523	19,847
Impairment of intangible assets	14	4,973,181	229,385
Depreciation	13	1,553,240	1,303,796
Profit on disposal		-	(329,850)
Foreign exchange		(676,825)	(757,326)
Finance income		(139)	(187)
Finance costs		120,080	127,296
		<hr/>	<hr/>
		(285,216)	2,285,973
<b>Changes to working capital</b>			
Decrease in trade and other receivables		555,902	271,157
(Decrease)/Increase in trade and other payables		(392,329)	309,765
		<hr/>	<hr/>
<b>Cash (used in)/generated from operations</b>		(121,643)	2,866,895
Interest paid		(120,080)	(91,022)
		<hr/>	<hr/>
<b>Net Cash (used in)/generated from Operating Activities</b>		(241,723)	2,775,873
		<hr/>	<hr/>
<b>Cash Flows from Investing Activities</b>			
Purchases of intangible assets		(376,062)	(342,195)
Purchases of property, plant and equipment		(1,056,849)	(4,376,595)
Disposal proceeds of property, plant and equipment		-	449,500
Interest received		139	187
		<hr/>	<hr/>
<b>Net Cash used in Investing Activities</b>		(1,432,772)	(4,269,103)
		<hr/>	<hr/>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of ordinary shares	18	1,563,967	-
Issue costs	18	(94,350)	-
Proceeds from borrowings	19	418,510	1,800,000
		<hr/>	<hr/>
<b>Net Cash generated from Financing Activities</b>		1,888,127	1,800,000
		<hr/>	<hr/>
<b>Net Increase in Cash and Cash Equivalents</b>		213,632	306,770
		<hr/>	<hr/>
<b>Movement in Cash and Cash Equivalents</b>			
Cash and cash equivalents at the beginning of the year	17	433,748	128,002
Exchange loss on cash and cash equivalents		(1,621)	(1,024)
Net Increase in cash and cash equivalents		213,632	306,770
		<hr/>	<hr/>
<b>Cash and Cash Equivalents at the End of the Year</b>	17	645,759	433,748
		<hr/>	<hr/>

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

	Note	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Cash Flows from Operating Activities</b>			
Loss before tax		(203,635)	(315,229)
Foreign exchange		2,139	(682)
		<hr/>	<hr/>
		(201,496)	(315,911)
<b>Changes to working capital</b>			
Decrease in trade and other receivables		13,425	37
Increase/(decrease) in trade and other payables		17,745	(6,909)
		<hr/>	<hr/>
		(170,326)	(322,783)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of ordinary shares	18	1,563,967	-
Issue costs	18	(94,350)	-
(Increase)/decrease in funding subsidiary undertaking		(1,257,121)	173,103
		<hr/>	<hr/>
		212,496	173,103
<b>Net Cash generated from Financing Activities</b>			
		<hr/>	<hr/>
		42,170	(149,680)
<b>Net increase/(decrease) in Cash and Cash Equivalents</b>			
		<hr/>	<hr/>
<b>Movement in Cash and Cash Equivalents</b>			
Cash and cash equivalents at the beginning of the year	17	3,661	154,365
Exchange loss on cash and cash equivalents		(1,621)	(1,024)
Net increase/(decrease) in cash and cash equivalents		42,170	(149,680)
		<hr/>	<hr/>
		44,210	3,661
<b>Cash and Cash Equivalents at the End of the Year</b>			
		<hr/>	<hr/>

The Notes on pages 28 to 52 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 market of the London Stock Exchange and incorporated and domiciled in England and Wales. Its registered office address is Suite 321, 19-21 Crawford Street, London, W1H 1PJ.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation of Financial Statements

The consolidated Financial Statements of Magnolia Petroleum plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations (IFRS IC) as adopted by the European Union and 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 2015.

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.

At the year end the Group was in discussion with Bank SNB, the lenders of the Group's \$6 million revolving credit facility, with regards to agreeing certain waivers of, and amendments to, the Group's facility due to non-compliance at that date of financial and other covenants. Discussions also included an extension to the facility's maturity date that was originally due to end on 7 September 2016. At 31 December 2015 the Group's borrowings under the facility amounted to \$3,154,784 and Bank SNB agreed to the following:

- Waiver of certain financial covenants from 1 July 2015 onwards and until further notice. The consent letter allowing the Group to be in breach of certain financial covenants was formally signed and executed 13 April 2016;
- Subject to receipt of an updated reserves report on the Group's reserves, in order to recalculate the borrowing base element, to extend the maturity date for the borrowing base element from 7 September 2016 to 7 March 2017.

On 20 April 2016, as a result of the lower oil prices during the year to 31 December 2015 and receipt of the Group's updated reserves report, the borrowing base limit under the Group's revolving credit facility was formally reduced from \$3,284,210 to \$1,604,565.

On 1 June 2016, the Group and Bank SNB, effective 31 December 2015, signed and executed an agreement to extend the maturity date for the borrowing base element from 7 September 2016 to 7 March 2017. A \$400,000 principal payment reduction in 2016 leaves a current principal balance of \$2,754,784 of which \$1,150,219 will be repaid in equal monthly instalments over a 5 year period. The borrowing base limit liability of \$1,604,565 is due for repayment in full on 7 March 2017, however the Directors are confident that this will be further deferred based upon the value of its proven development producing properties. The decision to extend is however at Bank SNB's discretion.

With the exception of the Current Ratio covenant, which has been waived until further notice by Bank SNB, 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 2017 show that the Group has sufficient funds and facilities to fund its ongoing operating costs and the scheduled principal repayments plus interest of the borrowings in excess of the borrowing base of £1,150,219. Additional funds will be required if Bank SNB require repayment of the borrowing base liability on 7 March 2017. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4 Changes in accounting policy and disclosure****a) *New and amended standards adopted by the Group***

There were no IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning 1 January 2015 that had a material impact on the Group or Company.

**b) *New and amended standards and interpretations issued but not yet effective or endorsed and not early adopted***

The standards and interpretations that are relevant to the Group and Company, 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 Group and Company.

<b>Standard</b>		<b>Effective Date</b>
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 38 (Amendments)	Clarification of Acceptable Methods of Amortisation	1 January 2016
IFRS 9	Financial Instruments	*1 January 2018
IFRS 11 (Amendments)	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 15	Revenue from Contracts with Customers	*1 January 2018
IFRS 16	Leases	*1 January 2019
Annual Improvements	2010 – 2012 Cycle	1 February 2015
Annual Improvements	2012 – 2014 Cycle	1 January 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 each of 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 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 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 Statement of Comprehensive Income 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. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.9 Financial assets (continued)**

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.

**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 amortised 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.15 Share capital**

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

**2.16 Share based payment**

The Group operates equity-settled, share-based compensation plans under which the entity receives services from employees and suppliers as consideration for equity instruments (options and warrants) of the Company. The fair value of the services received in exchange for the grant of options and warrants is recognised as an expense and as a component of equity, if material. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options and warrants granted using the Black-Scholes pricing model. When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

**2.17 Taxation**

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

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

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

**2.18 Leasing**

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Segment Information

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

### 2.20 Pension Obligations

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

### 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) Currency 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 2015, the Group's borrowings at variable rates were denominated in US dollars.

At 31 December 2015, if variable interest rates on borrowings are 10 basis points higher/lower with all other variables held constant, the annual interest expense will be \$145,120 higher / \$138,810 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.

**3 FINANCIAL RISK MANAGEMENT (continued)**

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 seeking to maintain 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).

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. The amounts disclosed in the table are the contractual undiscounted cash flows.

<b>Group At 31 December 2015</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>
Borrowings	-	3,154,784
Trade and other payables	1,902,137	-
<b>At 31 December 2014</b>		
Borrowings	-	2,700,000
Trade and other payables	1,502,216	-

**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.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)*****Estimated impairment of producing properties and capitalised drilling costs & equipment***

At 31 December 2015, mineral leases and capitalised drilling costs & equipment on producing properties have a total carrying value of \$7,288,003 (2014: \$11,285,037) (Note 13). Management tests annually whether the assets have future economic value in accordance with the accounting policies. These assets are also subject to an annual impairment review by an independent consultant.

The recoverable amount of each property has been determined based on a value in use calculation which requires the use of certain estimates and assumptions such as long term commodity prices (i.e. oil and gas prices), discount rates, operating costs, future capital requirements and mineral resource estimates. These estimates and assumptions are subject to risk and uncertainty and therefore a possibility that changes in circumstances will impact the recoverable amount.

In assessing the carrying amounts of its producing properties and related drilling and equipment costs, the Directors have used an updated reserves report ("The Report") and have concluded that an impairment charge of \$3,538,523 should be recognised to write down the value of the assets. The Report has identified certain wells to be non-economic, based on the current and projected oil and gas prices.

***Recoverability of non-producing mineral leases and capitalised drilling costs & equipment***

Mineral leases and drilling costs on non-producing properties have a carrying value at 31 December 2015 of \$1,490,520 (2014: \$6,122,650). 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 an impairment charge of \$4,973,181 should be recognised.

***Decommissioning***

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

***Estimated impairment of goodwill***

Goodwill has a carrying value at 31 December 2015 of \$340,253 (2014: \$359,222). 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 2015			Total \$
	USA \$	UK \$	Intra-segment balances \$	
Revenue from external customers	1,991,021	-	-	1,991,021
Gross loss	(793,748)	-	-	(793,748)
Operating loss	(9,469,700)	(203,635)	-	(9,673,335)
Impairment – property, plant and equipment	3,538,523	-	-	3,538,523
Impairment – intangible assets	4,973,181	-	-	4,973,181
Depreciation	1,553,240	-	-	1,553,240
Capital expenditure	1,432,911	-	-	1,432,911
Total assets	9,819,175	16,161,602	(16,108,264)	9,872,513
Total liabilities	16,901,190	49,466	(12,654,385)	4,296,271

	Year ended 31 December 2014			Total \$
	USA \$	UK \$	Intra-segment balances \$	
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 – intangible assets	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)	18,848,433
Total liabilities	16,314,595	31,722	(12,076,227)	4,270,090

**5 SEGMENTAL INFORMATION (continued)**

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

	<b>Year ended 31 December 2015 \$</b>	<b>Year ended 31 December 2014 \$</b>
Operating (loss)/profit for reportable segments	(9,673,335)	1,820,121
Finance income	139	187
Finance costs	(120,080)	(127,296)
	<hr/>	<hr/>
(Loss)/profit before tax	(9,793,276)	1,693,012
	<hr/> <hr/>	<hr/> <hr/>

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:

	<b>Year ended 31 December 2015 \$</b>	<b>Year ended 31 December 2014 \$</b>
Segmental assets for reportable segments	9,872,513	18,848,437
Unallocated: goodwill	340,253	359,222
	<hr/>	<hr/>
Total assets per Statement of Financial Position	10,212,766	19,207,659
	<hr/> <hr/>	<hr/> <hr/>

**Information about major customers/operating partners**

In the year ended 31 December 2015 revenues of \$586,842 and \$401,168 are derived from two operators. These revenues were all generated in the USA.

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.

**6 EXPENSES BY NATURE**

<b>Group</b>	<b>2015</b> <b>\$</b>	<b>2014</b> <b>\$</b>
Operator costs	990,854	885,233
Production taxes	246,602	218,837
	<hr/>	<hr/>
Total operating expenses	1,237,456	1,104,070
	<hr/>	<hr/>
Directors' remuneration and fees	151,914	528,378
Consulting fees	39,130	127,234
Legal, professional and compliance costs	229,724	254,338
Depreciation	5,927	5,037
Office staff costs	267,514	234,147
Other costs	351,675	342,310
	<hr/>	<hr/>
Total administrative expenses	1,045,884	1,491,444
	<hr/>	<hr/>

**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:

	<b>2015</b> <b>\$</b>	<b>2014</b> <b>\$</b>
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated Financial Statements	27,500	27,500
Fees payable to the Company's auditor for other services:		
- in relation to tax compliance	2,177	2,177
- in relation to other audit related assurance services	-	3,819
	<hr/>	<hr/>

**8 STAFF COSTS**

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

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	481,226	715,128
Social security costs	16,957	29,876
Pension costs	7,200	7,200
Other benefits	69,995	50,315
	<hr/>	<hr/>
	575,378	802,519
	<hr/> <hr/>	<hr/> <hr/>

**Directors' Emoluments**

The Directors' emoluments in respect of qualifying services were:

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Directors' salary and fees	326,227	500,501
Pension costs	7,200	7,200
Other benefits	30,194	28,908
	<hr/>	<hr/>
	363,621	536,609
	<hr/> <hr/>	<hr/> <hr/>
T Wagenhofer	10,695	-
J M Cubitt	8,553	28,807
S O Snead	33,732	87,629
R S Harwood	33,732	87,629
G J Burnell	31,471	28,807
R F Whittington	245,438	303,737
	<hr/>	<hr/>
Total	363,621	536,609
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>No.</b>	<b>No.</b>
Administrative and managerial	7	7
	<hr/>	<hr/>

**9 OTHER INCOME**

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Consultancy and success fee	-	1,005,374
	<hr/>	<hr/>

**10 INCOME TAX****Tax charge for the period**

The tax charge for the year is \$Nil (2014: \$Nil).

**Factors affecting the tax charge for the period**

The tax charge for each year is explained below:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
(Loss)/profit for the year before taxation	(9,793,276)	1,693,012
(Loss)/profit for the period before tax multiplied by the weighted average tax rate of 39.59% (2014: 37.49%)	(3,877,092)	634,690
Expenses not deductible for tax purposes – impairment of non-current assets	3,984,640	-
Tax losses for which no deferred tax asset recognised - UK	80,618	118,175
Tax losses for which no deferred tax asset recognised - US	342,819	837,678
Revenue deduction for capitalised costs - US	(1,341,233)	(1,590,543)
	<u>                    </u>	<u>                    </u>
Income tax charge	-	-
	<u>                    </u>	<u>                    </u>

The Group has UK tax losses of approximately \$1,284,000 (2014: \$1,205,000) and US tax losses of approximately \$9,146,000 (2014: losses of approximately \$8,280,000) available to carry forward against future taxable profits. A potential deferred tax asset of approximately \$260,000 (2014: \$241,000) on the UK losses and \$3,659,000 (2014: \$3,312,000) 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**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Interest income	139	187
	<u>          </u>	<u>          </u>
Interest expense and fees – bank borrowings	(120,080)	(127,296)
	<u>                    </u>	<u>                    </u>

**12 EARNINGS PER SHARE**

The calculation of earnings per share of loss of 0.98 cents per share (2014 profit per share: 0.19 cents) is calculated by dividing the loss attributable to ordinary shareholders of \$9,793,276 (2014 profit: \$1,693,012) by the weighted average number of ordinary shares of 995,081,516 (2014: 910,672,851) 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 2015.

## 13 PROPERTY, PLANT AND EQUIPMENT

Group	Producing properties (Mineral Leases) \$	Drilling costs and equipment \$	Motor vehicles and office equipment \$	Total \$
<b>Cost</b>				
At 1 January 2014	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
Additions	3,890	1,049,901	3,058	1,056,849
Transferred from intangible assets	704	34,307	-	35,011
At 31 December 2015	1,349,349	13,316,115	24,729	14,690,193
<b>Accumulated Depreciation and Impairment</b>				
At 1 January 2014	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
Charge for the period	251,645	1,295,668	5,927	1,553,240
Impairment	385,161	3,153,362	-	3,538,523
At 31 December 2015	1,087,007	6,290,454	18,262	7,395,723
<b>Net Book Amount</b>				
At 31 December 2014	894,554	10,390,483	9,336	11,294,373
At 31 December 2015	262,342	7,025,661	6,467	7,294,470

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 \$1,547,313 (2014: \$1,298,759) has been charged in cost of sales.

Motor vehicles and office equipment depreciation expense of \$5,927 (2014: \$5,037) has been charged in administrative expenses.

## 14 INTANGIBLE ASSETS

Group	Goodwill \$	Drilling costs \$	Mineral leases \$	Total \$
<b>Cost</b>				
At 1 January 2014	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)
At 31 December 2014	359,222	50,037	6,072,613	6,481,872
Additions	-	291,332	84,730	376,062
Transferred to property, plant and equipment	-	(34,307)	(704)	(35,011)
Exchange movements	(18,969)	-	-	(18,969)
Impairment	-	(225,230)	(4,747,951)	(4,973,181)
As at 31 December 2015	340,253	81,832	1,408,688	1,830,773
<b>Amortisation</b>				
At 1 January 2014, 31 December 2014 and 31 December 2015	-	-	-	-
<b>Net Book Amount</b>				
<b>At 31 December 2014</b>	359,222	50,037	6,072,613	6,481,872
<b>At 31 December 2015</b>	340,253	81,832	1,408,688	1,830,773

Drilling costs and mineral leases represent acquired intangible assets with an indefinite useful life and are tested annually for impairment. 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.

**Impairment review – Property, plant and equipment and Intangible assets**

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 Group has disposed of the licence in 2016 therefore the asset has been written down to net realisable value.

Following their assessment the Directors recognised an impairment charge totalling US\$8,511,704 for the year ended 31 December 2015 (2014: \$249,232). This is comprised of write-downs associated with the cost of mineral leases which have expired and a markdown in the value of its interests in producing properties identified as non-economic at today's low oil prices. Management expects the value of its interests in producing wells to be written back, either in part or in full, as and when the oil price recovers.

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

	2015 \$	2014 \$
<b>Company</b>		
Shares in group undertakings		
At 1 January	3,646,431	3,874,935
Exchange movements	(192,552)	(228,504)
	<hr/>	<hr/>
At 31 December	3,453,879	3,646,431
	<hr/> <hr/>	<hr/> <hr/>

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	
	2015 \$	2014 \$	2015 \$	2014 \$
Trade receivables	254,461	311,105	-	-
Other receivables	30,394	26,000	-	7,846
Amounts due from group undertakings	-	-	12,654,385	12,076,229
Prepayments	156,908	410,374	9,128	14,707
Accrued income	-	250,187	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	441,763	997,666	12,663,513	12,098,782
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Trade receivables comprise customer receivables. 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.

As at 31 December 2015, trade receivables of \$254,461 (2014: \$311,105) were fully performing.

## 16 TRADE AND OTHER RECEIVABLES (continued)

**Group**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
UK Pounds	9,128	22,553
US Dollar	432,635	975,113
	<u>441,763</u>	<u>997,666</u>

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

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash at bank	645,759	433,748	44,210	3,661
	<u>645,759</u>	<u>433,748</u>	<u>44,210</u>	<u>3,661</u>
Cash and cash equivalents	645,759	433,748	44,210	3,661
	<u>645,759</u>	<u>433,748</u>	<u>44,210</u>	<u>3,661</u>

At 31 December 2015, the Group held cash of \$44,210 (2014: \$3,661) in a bank with a Fitch credit rating of A (Stable) and \$601,549 (2014: \$430,087) in a bank where no Fitch credit rating is available.

## 18 SHARE CAPITAL AND PREMIUM

Group	Number of shares	Ordinary shares		Share premium		Total \$
		Nominal value £	Nominal value \$	Nominal value £	Nominal value \$	
At 1 January 2014	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
Placing shares	146,142,856	146,143	223,424	876,857	1,340,544	1,563,968
Issue costs	-	-	-	(60,000)	(94,350)	(94,350)
At 31 December 2015	1,056,815,707	1,056,816	1,704,820	9,520,319	15,200,220	16,905,040

Each ordinary share has a nominal value of 0.1 pence per share.

**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:

Expiry date	Exercise price in pence per share	No. Options/warrants	
		2015	2014
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)

A reconciliation of options granted and lapsed during the year ended 31 December 2015 is shown below.

	Year ended 31 December 2015		Year ended 31 December 2014	
	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	74,914,136	1.78
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	74,914,136	1.78

The warrants and options outstanding at 31 December 2015 had a weighted average remaining contractual life of 3.2 years (2014: 4.2 years).

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

## 19 BORROWINGS

	Group		Company	
	2015 \$	2014 \$	2015 \$	2014 \$
<b>Non-current</b>				
Bank borrowings (including arrangement fee)	3,154,784	2,736,274	-	-

As at 31 December 2015 the Group had a \$6 million revolving credit facility with, subject to certain conditions being met, a maturity date of 7 March 2017 (originally 7 September 2016). The borrowing base is reassessed on a six monthly basis and adjusted in line with the level of the Group's proven developed producing reserves. Interest is charged on credit drawn down at the Wall Street Journal Prime rate (currently 3.25%) +0.75%. The credit facility is secured against the producing leases and operating equipment owned by the Group, together with sales contracts and farm-out agreements. Note 2.3 provides details of amendments to the terms of the revolving credit facility subsequent to the year end.

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	
	2015 \$	2014 \$	2015 \$	2014 \$
Expiring beyond one year	3,154,784	1,896,944	-	-

## 20 TRADE AND OTHER PAYABLES

Current	Group		Company	
	2015 \$	2014 \$	2015 \$	2014 \$
Trade and other payables	1,092,137	1,502,216	116	122
Accrued expenses	49,350	31,600	49,350	31,600
	<u>1,141,487</u>	<u>1,533,816</u>	<u>49,466</u>	<u>31,722</u>

## 21 FINANCIAL INSTRUMENTS BY CATEGORY

	Group		Company	
	2015 \$	2014 \$	2015 \$	2014 \$
<b>Assets as per Statement of Financial Position</b>				
<b>Loans and receivables:</b>				
Trade and other receivables (excluding prepayments)	284,855	587,292	12,654,385	12,084,075
Cash and cash equivalents	645,759	433,748	44,210	3,661
	<u>930,614</u>	<u>1,021,040</u>	<u>12,698,595</u>	<u>12,087,736</u>
<b>Liabilities per Statement of Financial Position</b>				
<b>Financial liabilities at amortised cost:</b>				
Borrowings	3,154,784	2,736,274	-	-
Trade and other payables (excluding non-financial liabilities)	1,141,487	1,533,816	49,466	31,722
	<u>4,296,271</u>	<u>4,270,090</u>	<u>49,466</u>	<u>31,722</u>

## 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.

The current \$6 million revolving credit facility maturity date (see Note 19) has subsequent to the year end been extended from 7 September 2016 to 7 March 2017. The Group will start making principal reduction payments, along with interest payments 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.

As at 31 December 2015 or 2014 the Group had no capital commitments for drilling and equipment costs contracted but not provided for.

## 25 RELATED PARTY TRANSACTIONS

### Transactions with Group undertakings

During the year ended 31 December 2015 the Company charged management fees of \$43,504 (2014: \$123,780) to Magnolia Petroleum Inc, the Company's wholly owned subsidiary for the provision of administrative and management services. \$43,504 (2014: \$123,780) in relation to these fees was outstanding at the year end date and is included within Trade and other receivables. As at 31 December 2015, the amount due to the Company from Magnolia Petroleum Inc was \$12,654,385 (2014: \$12,076,229).

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 \$42,000 (2014: \$33,000) was recognised during the year under the former and revised agreement. Subsequently, a reduced rate of \$2,500 per month was agreed on effective February 2016 until further notice.

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.

**25 RELATED PARTY TRANSACTIONS (continued)****Transaction with Thomas Wagenhofer**

Thomas Wagenhofer was appointed to the Board as a Non-Executive Director on 29 June 2015. Mr. Wagenhofer has elected to receive the majority of his annual fee in new ordinary shares of the Company. On 30 June 2015, 428,571 and 2,857,142 new ordinary shares of 0.1 pence per share were issued to Mr. Wagenhofer, in settlement of his fees due of £3,000 and his initial joining fee of £20,000, respectively.

**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 12 January 2016 a further 428,571 ordinary shares of 0.1 pence per share were issued to Mr. Wagenhofer, in settlement of his fees due of £3,000.

On 15 February 2016 the Company raised £300,000 (gross) through the issue of 214,285,714 ordinary shares at a price of 0.14 pence per share.

On 13 April 2016 Bank SNB formally signed and executed a waiver and consent letter allowing the Group to be in breach of certain financial covenants from 1 July 2015 onwards and until further written notice is provided by Bank SNB.

On 20 April 2016, as a result of the lower oil prices during the year to 31 December 2015 and receipt of the Group's updated reserves report, the borrowing base limit under the Group's revolving credit facility was decreased from \$3,284,210 to \$1,604,565.

On 22 April 2016 the Company issued 4,500,000 new ordinary shares, at a price of 0.2 pence per share, to the Directors of the Company: Steven Snead; Rita Whittington; and Ronald Harwood, in settlement of their fees for the period from 1 January 2016 to 31 March 2016.

On the same date, the Company also cancelled certain existing share options and granted a further 84,677,737 new share options to staff and Directors. The details relating to Directors are as follows:

	Number of share Options cancelled	Number of share Options granted
Steven Snead	24,417,161	36,417,161
Rita Whittington	16,905,661	28,905,661
Ronald Harwood	3,354,915	13,354,915
	<hr/>	<hr/>
	44,677,737	78,677,737
	<hr/> <hr/>	<hr/> <hr/>

On 1 June 2016, the Group and Bank SNB, effective 31 December 2015, signed and executed an agreement to extend the maturity date for the borrowing base element from 7 September 2016 to 7 March 2017. A \$400,000 principal payment reduction in 2016 leaves a current principal balance of \$2,754,784 of which \$1,150,219 will be repaid in equal instalments over a 5 year period. Interest payments will be made monthly on the balance of \$1,604,565.

## **MAGNOLIA PETROLEUM PLC NOTICE OF ANNUAL GENERAL MEETING**

**Notice is given that the Annual General Meeting of Magnolia Petroleum plc (“the Company”) will be held at 10.00am on 22 July 2016 at 18452 E 111<sup>th</sup>, Broken Arrow, Oklahoma, OK 74011, USA to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 as special resolutions:**

1. To receive the directors’ report and audited financial statements of the Company for the year ended 31 December 2015.
2. To re-elect Ronald Harwood as a director of the Company.
3. To re-elect Rita Whittington as a director of the Company.
4. To re-elect Thomas Wagenhofer as a director of the Company.
5. To re-elect Leonard Wallace as a director of the Company.
6. To re-appoint PKF Littlejohn LLP as auditors of the Company and to authorise the directors to set their fees.
7. THAT, in substitution for any existing authority the directors be and they are hereby generally and unconditionally authorised under section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (“Rights”) within the meaning of that section on and subject to such terms as the directors may determine up to an aggregate nominal amount of £640,000 such authority unless previously renewed, revoked or varied to expire at the end of next year’s AGM on 30 June 2017 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities under such an offer or agreement as if the authority conferred hereby had not expired.
8. THAT, subject to the passing of Resolution 7 above, the directors be and are hereby empowered under section 570 of the Companies Act 2006 (“the Act”) to allot equity securities (within the meaning of section 560 of the Act) for cash under the general authority already given as if sub-section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with an offer of such securities to holders of ordinary shares where the equity securities for which ordinary shares are respectively entitled to subscribe are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange; and
  - (b) the allotment (otherwise than under sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £640,000;

and so that such power (unless previously revoked or varied) shall expire at the end of next year’s annual general meeting, (or if earlier at the close of business on 30 June 2017) provided that the directors may, before the power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after such power expires.

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

- (a) the maximum number of ordinary shares authorised to be purchased shall be 190,000,000;
- (b) the minimum price which may be paid for an ordinary share is 0.1p;
- (c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share (as derived from the Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
- (d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
- (e) the authority conferred by this resolution shall expire at the end of next year's annual general meeting (or if earlier at the close of business on 30 June 2017) unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting; and
- (f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

By Order of the Board  
S Salter  
Secretary

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

Dated 24 June 2016

### **1. Right to attend, speak and vote**

If you want to attend, speak and vote at the AGM you must be on the Company's register of members at 6pm on 20 July 2016. This will allow us to confirm how many votes you have on a poll. Changes to the entries in the register of members after that time, or, if the AGM is adjourned, 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.

### **2. Appointment of proxies**

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

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

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

### **3. Appointment of proxy using hard copy proxy form**

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

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

The completed form may be returned by any of the following methods:

- Sending or delivering it to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, B63 3DA; or
- Scanning it and sending it by email to [info@nevilleregistrars.co.uk](mailto:info@nevilleregistrars.co.uk).

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

### **4. Appointment of proxy by joint members**

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

### **5. Changing your instructions**

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

### **6. Termination of proxy appointments**

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

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

## **7. Communications with the Company**

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

## **8. Issued shares and total voting rights**

As at 5.00 pm on the day immediately prior to the date of posting of this notice of AGM, the Company's issued share capital comprised 1,276,458,563 ordinary shares of 0.1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company at that time was 1,276,458,563.

# FORM OF PROXY MAGNOLIA PETROLEUM PLC

**Form of Proxy for use by members of Magnolia Petroleum plc at the Annual General Meeting (AGM) to be held at 10.00am on 22 July 2016 at 18452 E 111th, Broken Arrow, Oklahoma, OK74011, USA**

I/We being (a) member(s) of the above-named Company, hereby appoint the following person(s):

.....  
or, failing whom, the Chairman of the meeting as my/our proxy to attend, speak and vote on my/our behalf at the AGM of the Company to be held at 10.00am on 22 July 2016 (or at any adjournment of that meeting). I/We direct that my/our proxy will vote (or abstain from voting) on the resolutions set out in the Notice of AGM as indicated below:

**RESOLUTIONS**

**ORDINARY RESOLUTIONS**

	For	Against	Withheld
1. To receive the report and accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Ronald Harwood as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Rita Whittington as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Thomas Wagenhofer as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Leonard Wallace as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint PKF Littlejohn LLP as auditors and to authorise the directors to set their fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SPECIAL RESOLUTIONS**

8. To disapply statutory pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the Company to buy back its ordinary shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note that a "vote withheld" is not a vote in law and will not be counted in the calculation of the votes cast for and against the resolution.

**PLEASE COMPLETE THE DETAILS BELOW IN BLOCK CAPITALS AND SIGN AND DATE WHERE INDICATED**

.....  
Signature of shareholder or common seal/signature of duly authorised officer of corporate shareholder

.....  
Print Name Date

.....  
Print Address Postcode

**Please return this Form of Proxy to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, B63 3DA, UK so as to arrive by 10.00am on 20 July 2016. Your Form of Proxy may be scanned and sent by email to [info@nevilleregistrars.co.uk](mailto:info@nevilleregistrars.co.uk).**

**Notes:**

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
2. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name above. If you sign and return this proxy form with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
5. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. If no voting indication is given, your proxy will vote or abstain from voting at their discretion. Your proxy will vote (or abstain from voting) as they think fit in relation to any other matter which is put before the meeting.
6. To appoint a proxy using this form, the form must be:
  - completed and signed;
  - sent or delivered to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, B63 3DA, UK; and
  - received by Neville Registrars Limited no later than 10.00 am on 20 July 2016.
7. In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
8. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you would like to change the instructions using another hard copy proxy form, please contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, B63 3DA, UK. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence (irrespective of its date or the date of execution).
11. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, B63 3DA, UK. In the case of a member which is a company, the revocation notice must be executed under its common seal

or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, B63 3DA, UK no later than 48 hours prior to the commencement of the AGM or any adjourned meeting or (in the case of a poll taken more than 48 hours after it is demanded) before the time appointed for taking the poll. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid. However, the appointment of a proxy does not preclude you from attending the AGM and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.