

**MAGNOLIA PETROLEUM PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2016**

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<b>Directors</b>	Rita Fern Whittington (Chief Executive Officer) Ronald Sanford Harwood (Non-Executive Interim Chairman) Leonard Earl Wallace (Non-Executive Director)	
<b>Secretary</b>	Stanley Anthony Salter	
<b>Technical Adviser</b>	Lanny Woods	
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Magnolia Petroleum is an oil and gas producer and explorer with a portfolio of interests in over 150 producing wells in proven US onshore formations, including the Bakken in North Dakota and the Woodford and Mississippi Lime in Oklahoma. Magnolia's financial and operational performance during the year under review was therefore always going to reflect a second successive year of falling oil prices. Thanks to the swift action we have taken, however, we have not only minimised the impact of low oil prices on the bottom line but, as demonstrated post year end by the 28 new wells we have announced in the prolific SCOOP and STACK plays in Oklahoma, we are well placed to capitalise on the recovery in sentiment and activity we are seeing.

West Texas Intermediate ("WTI") averaged US\$43.33 per barrel during 2016, more than 11% lower than 2015's average price of US\$48.67 per barrel which in turn was approximately 50% below the US\$95 per barrel level that had prevailed in previous years. Lower oil prices not only reduce the payments we receive for our oil and gas, but also curtail production growth as operators look to shut-in unprofitable wells while at the same time focus new drilling on those areas with low breakeven costs. In terms of our financials and our operations, full year revenues came in at US\$1,273,612 (2015: US\$1,991,021), while reduced drilling activity across the sector led to only 15 new wells in which Magnolia has an interest in commencing production during the year. This compares to the 37 new wells that came on stream during 2015 and 48 new wells in 2014.

Full year numbers are by their nature backward looking. Thanks to the rally in the oil price that was triggered in Q4 2016 by the agreement between members and non-members of OPEC to cut production, and Magnolia's emergence from the extremely sharp downturn as a low cost, asset backed US onshore oil and gas business. Subject to prices, market conditions and sentiment, I remain confident for the future that we can deliver on our objective to replicate the management team's previous successes in generating value for shareholders, by acquiring leases in active and producing US onshore plays and proving up the reserves by participating in drilling new wells.

This platform is one that has, at its core, the active management of all types of risk associated with the oil and gas industry. Broadly speaking exploration risk is managed by focusing on proven formations; execution risk is managed by participating in drilling alongside established operators such as Continental Resources and Chesapeake Energy; individual well risk is managed by building a diversified portfolio of leases and wells and limiting the amount of interest Magnolia holds in any one well; meanwhile oil price risk is managed by focusing on areas that require relatively low oil prices to breakeven and ensuring our cost base, capital commitments and financing costs remain low, manageable and flexible.

Since Magnolia was admitted to trading on AIM in 2011, we have significantly increased the size of our portfolio of producing wells to 150 plus today, which serves to demonstrate the success we have had in managing exploration, execution and individual well risk. While little could be done to stem the decline in revenues, we were able to move quickly to minimise the impact this had on our bottom line. A 33% year on year drop in operating expenses, which built on last year's 31% reduction, a significant repayment of our reserves based lending facility, and prioritising new drilling and leasing activity on plays that are commercial at sub US\$50 oil prices have combined to generate a year on year improvement at the EBITDA level.

Our actions during the year have not all been defensive. Low oil prices also present opportunities, specifically to acquire leases in our core areas of focus, most notably the prolific SCOOP and STACK in Oklahoma. These two highly active plays are well suited to thrive in today's oil price environment: wells are economic at oil prices around US\$40 bbl; record production rates have been reported as the horizontal laterals are extended and the amount of pay in each well has increased; drilling and completion costs have been significantly reduced; and initial decline rates during the first 12-18 months of production are lower than those in other US plays. Over the last two years we have been taking advantage of depressed market conditions to increase our exposure to these two areas. The flurry of new wells that we have announced post period end is testament to the success we have had in this regard.

A number of these new SCOOP and STACK wells commenced production in time for them to have a material impact on the level of our net proven developed reserves. Post period end we announced the results of an updated reserves report which included a 112% increase in total net PDP oil and condensate reserves to 282.686 Mbbbl as at 1 January 2017 (1 July 2016: 133.31 Mbbbl of oil and condensate); a 303% increase in total net PDP gas reserves to 2,343.116 MMCF (1 July 2016: 580.67 MMcf gas); and a 25% increase in the value (NPV<sub>9</sub>) of total net PDP reserves as at April 2017 to US\$4,300,000 (1 July 2016: US\$3,445,180). Our PDP reserves alone provide Magnolia with strong asset backing compared to the Company's current market valuation. Importantly, our PDPs understate the true asset backing behind Magnolia as they do not include proved shut-in, proved undeveloped, probable and possible reserve classes as well as Magnolia's interests in undeveloped acreage.

Since this report was published, we have announced our participation in a series of new SCOOP and STACK wells, several of which are increased density wells being drilled on the same spacing unit as existing producers. In addition, we continue to receive proposals to drill new wells across our acreage. Most notably, post period end Marathon Oil has proposed six new wells on some of Magnolia's most productive leases in North Dakota. With interests of up to 2%, we view these as low risk, high impact opportunities as they are being drilled on the same spacing unit as existing wells which have been prolific producers, returning to date almost 2.5 times their original investment. We are not alone in recognising the value of these leases as third parties have expressed their interest in acquiring all or part of our stake. We are currently evaluating our options for these wells but they serve to highlight the quality of Magnolia's leases in the eyes of the industry.

During the year and post period end, a number of changes have been made to the composition of the Board and management team. In May 2016, we added oil and gas engineering experience to the Board following the appointment of Leonard Wallace as a Non-Executive Director of the Company. Leonard is an experienced management professional specialising in drilling engineering, well construction, production management and rig operation with numerous years experience within the oil and gas exploration and production industry. Post period end, further changes to the Board were made as I took up the position of CEO of the Company, while Derec Norman was appointed as Chief Financial Officer.

In addition, in April 2017 we were pleased to announce the appointment of Lanny Woods as a technical consultant. Lanny has numerous years of experience as an exploration and production geologist, particularly exploring and developing onshore US fields in Oklahoma, Texas and Wyoming. Previously Lanny and I worked together as part of the management team at Primary Natural Resources I and II, two oil and gas property acquisition and development companies, which achieved a 3:1 return on equity upon divestment. Following the appointment of Leonard and Lanny, we believe Magnolia's Board and management team has never been stronger in terms of having the right mix of industry expertise covering all key areas of the business, including lease acquisition, geology, engineering, and finance.

### **Outlook**

Over the course of 2016, Magnolia elected to participate in just eight wells. By contrast, so far in 2017 we have announced our participation in 28 wells. Even though this figure represents a major increase on the previous full year number, it understates the huge turnaround in sentiment we have witnessed, as it does not include those wells we declined to participate in, let alone the growing number of drilling proposals we continue to receive.

In line with our strategy, all 28 wells announced in 2017 are in highly active plays where the economics of drilling and producing remain attractive at sub US\$50 oil prices. In our view, this highlights the success we have had in taking advantage of the downturn to accelerate the repositioning of our leasehold position in favour of the SCOOP and the STACK. With a strategic foothold in these prolific, low cost plays established and a proven team in place, we will look to add to our position in this US onshore sweet spot as and when it makes commercial sense to do so. We have worked hard to ensure Magnolia's strategy of acquiring and developing leases is relevant in today's world of sub US\$50 oil prices, and under my stewardship we will continue to do so. I look forward to providing updates on our progress in the year ahead.

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.

Rita Whittington  
Chief Executive Officer

16 June 2017

Sycamore Resources ('Sycamore') has completed an evaluation of Magnolia's reserves and associated value. As at 1 January 2017, the Company's ownership in wells within North Dakota and Oklahoma had a total net Proven Developed Reserves ('PDP') of 282,686 barrels of oil and condensate and 2.3 Billion cubic feet of gas. Sycamore has given these reserves a non-discounted value of US\$15,652,000 and an NPV9 of US\$4,300,000 as at April 2017.

### **Oklahoma Production**

Sycamore's evaluation of Magnolia's total PDP reserves in Oklahoma shows 174,971 barrels of oil and condensate and 2.2 BCF of gas, with an assigned non-discounted value of US\$9,063,000.

Magnolia holds interest in wells within two very active oil and gas plays within the state of Oklahoma: The "SCOOP PLAY" South Central Oklahoma Oil Province and the horizontal Woodford Shale development in the western portion of the Arkoma Basin - Pittsburg, Hughes and Coal Counties. Though not a big oil producing area, the Arkoma play produces large quantities of gas. Magnolia has observed an increase in the value of its interests in wells due in part to better product pricing and lower projected well decline rates. Initial production for many of the wells was achieved by flowing up the tubing to the surface. Over time, pressures decrease (along with production rates) until the well cannot sustain production. At this point, the wells are then put on artificial lift (pumping units or submersible pumps). A number of wells in which Magnolia has an interest are just now going on artificial lift which will help sustain production rates. Drilling and completion costs have also seen a decline in the past 12 months which has helped to foster a resurgence in drilling activity.

### **SCOOP**

The primary zone of interest in this play is the Woodford Shale. The play covers an extensive area of over 3,300 square miles and includes portions of Stephens, Grady, Garvin, and Carter Counties, Oklahoma. The oil rich Woodford Shale is up to 400 feet thick and is located at drill depths from 8,000 to 16,000 feet. This is a liquids rich play, yielding high volumes of oil and condensate. Initial production rates can range between over 1,000 BOPD and 7,000 MCFD with ultimate reserves exceeding 500 MBO and 7 BCFG per well. Magnolia holds interests in a number of wells within this play area, including:

- Continental Resources operated Chalfant 1-7H, Woodford Shale Completion, well has recovered 5.37 BCFG and 85 MBO and is still producing over 2.8 Million cubic feet of gas and 30 barrels of oil per day.
- Continental Resources operated Condit 1-5H, Woodford Shale Completion, well has recovered 4.11 BCFG and 105 MBO and is still producing over 2.2 Million cubic feet of gas and 25 barrels of oil per day.
- Continental Resources operated Forrest 2-8H, Woodford Shale Completion, well has recovered 3.20 BCFG and 54 MBO and is still producing over 1.89 Million cubic feet of gas and 22 barrels of oil per day.

### **Arkoma Basin Woodford Shale**

Like the SCOOP Play, the primary zone of interest is the Woodford Shale. The shale in this area is 120 to over 220 feet thick and found at drill depths between 7,500 and 11,000 feet (Shallower than the SCOOP area). The wells were originally drilled with a horizontal lateral section from 2,500 to 5,000 feet. Currently these lateral sections may comprise lengths greater than 10,000 feet. Initial production rates with the shorter laterals exceeded 4,000 MCFD with ultimate recoveries over 5 BCFG. Listed below are examples of wells Magnolia holds an interest in this play:

- Trinity operated Regina 1-2524H, Woodford Shale Completion, has recovered 1.3 BCF and is currently producing 1.72 Million cubic feet of gas per day
- Trinity operated Clara 1-1324H, Woodford Shale Completion, has recovered 0.8 BCF and is currently producing 0.928 Million cubic feet of gas per day

**STACK**

The Stack (Sooner Trend Anadarko (basin) Canadian, Kingfisher counties) is another highly active play that Magnolia is looking for opportunities to invest in. The play has now extended into other adjacent counties, such as Dewey and Custer counties.

The primary zones of this play are the Woodford Shale, Hunton Lime and Mississippi - Mermac formations. All three zones are drilled horizontally - initial wells had lateral sections of 5,000 feet, now they are extending to nearly 10,000 feet.

Wells within the Mississippi portion have initial production rates exceeding 2,100 BOPD and 3,500 MCFGPD, while projected ultimate recoveries are estimated at 400 MBO and 3 BCF per well.

The wells in the Woodford portion of the play have initial production rates exceeding 500 BOPD and 1,500 MCFGPD with ultimate recoveries of 275 MBO and 1 BCFG per well.

Unlike the Northern Oklahoma Mississippi Play - the Mississippi-Mermac produces significantly less formation water which translates into much lower operating costs and reduced capital costs for disposal wells. This play is one of the most active in Oklahoma.

**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. During 2016, the following six wells in which Magnolia holds interests in commenced production from the Mississippi Lime:

- Gray 7-27-12 1H (1.86%): 439.83boepd
- Gray 7-27-12 2H (1.86%): 903 boepd
- Wilber (1.22%): 960.83 boepd
- Maxine (0.40%): 1030 boepd
- Billy Rae 1 (0.54%): 365.5 boepd
- Double R 9 (0.44%): 216.33 boepd

In total Magnolia now holds interests in 35 wells which are producing from the Mississippi Lime.

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

During 2016, the following seven wells in which Magnolia holds interests in commenced production from the Woodford:

- Billy Rae 2 (0.54%): 73.33 boepd
- Moore (0.22%): 902.83 boepd
- Baxendale 3H-1X (0.03%): 1217.83 boepd
- Baxendale 2H-1X (0.03%): 1327.83 boepd
- Baxendale 4H-1X (0.03%): 1448.50 boepd
- Baxendale 5H-1X (0.03%): 2493.66 boepd
- Baxendale 6H-1X (0.03%): 2099.66 boepd

In total Magnolia now holds interests in 56 wells which are producing from the Woodford.

**Other Formations in Oklahoma**

Magnolia holds interests in wells which are producing from other formations in Oklahoma, including the Hunton, Cleveland, Wilcox, Wayside, Simpson Dolomite, Springer and Viola reservoirs. During 2016, the following well in which Magnolia holds an interest in commenced production from the Springer formation:

- Michele Abel H12XH (0.13%): 2,256 boepd

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

Magnolia holds interests in 42 wells which are producing from the Bakken and Three Forks Sanish ('TFS') formations in North Dakota. The Bakken is a reservoir which is estimated to hold 3.65 billion barrels of undiscovered, technically recoverable oil (2013 US Geological Survey). The TFS is a separate reservoir lying directly below the Bakken, with an estimated 3.73 billion barrels of recoverable oil (2013 US Geological Survey).

Production and overall economics have suffered through a very low price period but we have seen good improvements in pricing in the last 6 months. Also with the anticipated completion of the Keystone XL pipeline in the summer of 2017, producers should realize a significant reduction in transportation costs, up to US\$3.00 per barrel lower. The low price period has had a positive effect on the drillers - the average time to drill a well was 20 days but can be as low as 12 days. Better pricing, lower transportation costs and lower drilling costs should result in much greater activity and better economics than has been observed over the past couple of years.

Sycamore Resources (Sycamore) estimated Magnolia's Bakken and Three Forks Proven Developed Reserves ('PDP') at 157,913 barrels of oil and condensate and 135.49 MMcf of natural gas to which Sycamore assigned an undiscounted value of US\$6,589,000.

Wells in this play that Magnolia holds an interest include:

- Marathon Oil operated Lazy DE -24-7H (Bakken completion) - well has recovered over 290,000 barrels of oil and 193 million cubic feet of gas and is still producing over 135 BOPD and 120 MCFD
- Marathon Oil operated Curtis Kerr 24-8H (Bakken completion)- well has recovered over 200,000 BO and 129 million cubic feet of gas and is still producing over 90 BOPD and 75 MCFD
- Marathon Oil operated Nicky Kerr 14-8H (Bakken completion) - well has recovered over 239,000 BO and 140 million cubic feet of gas and is still producing over 95 BOPD and 65 MCFD

**Summary**

During the period, 15 new wells in which Magnolia has an interest commenced production, while the Company elected to participate in another eight. This represents a sharp contraction in activity compared to previous years and highlights the severity of the downturn experienced by the wider US onshore industry.

Post period end, the combination of a recovery in the oil price, Magnolia's exposure to low cost plays in Oklahoma such as the SCOOP and the STACK, and a sharp drop in drilling costs across the sector has led to a significant rebound in the number of wells in which the Company is participating. Already these are having a positive impact on the level of Magnolia's PDP reserves, as demonstrated by the updated operations report.

Lanny Woods  
Technical Adviser to the Company

16 June 2017

During the 12 months to 31 December 2016, net production generated revenues of US\$1,273,612, compared to US\$1,991,021 the previous year. The continued drop in the price of oil is largely responsible for the drop in revenues, both directly by lowering sales prices achieved and indirectly through operators shutting in wells to curtail production.

To minimise the impact of the weaker revenue performance on Magnolia's bottom line, further reductions in the Company's direct operating expenses were made during the year. These totalled US\$1,901,652 in 2016 (2015: US\$2,784,769). US\$1,070,124 (2015: US\$1,547,313) of this total is a non-cash item covering depreciation costs. A further US\$553,510 (2015: US\$990,854) was due to lease operating expenses, while production tax and marketing fees came in at US\$278,018 (2015: US\$246,602).

Property, plant and equipment (comprising producing properties) as at end December 2016 stood at US\$4,518,177 (2015: US\$7,294,470) while intangible assets (comprising new leases and wells that are drilling but not yet completed) stood at US\$1,684,559 (2015: US\$1,830,773). Non-cash impairments have been provided for in the results for the year ended 31 December 2016 totalling US\$2,207,293 (2015: US\$8,511,709). In addition, over the course of the year the Company divested 67 non-commercial wells with little or no economic value.

During the year, £775,000 was raised via the issue of new ordinary shares to fund the drilling of new wells operated by a number of leading operators including Chesapeake Energy, Continental Resources and BP America. A total of 694,642,856 new ordinary shares in the Company were issued over the period.

A request for a longer-term extension to our reserved based lending facility ('the Facility') is currently being processed by the Company's bank. The Bank continues to view the Facility as part of a long-term relationship with Magnolia. In line with this, the Bank has agreed to extend the Facility from 8 June 2017 to 8 August 2017 while it processes the appropriate paperwork, loan documents as well as the relevant financial and reserve report information that has been provided by Magnolia's management. As a reminder, the current ratio covenant was already waived until further written notice by the Bank.

As of 2 June 2017, a general meeting has been requisitioned by Steven Snead, Snead Family LLC, Snead Family 2012 LLC and R. Sterling Snead (the "Activist Shareholder"). Among the proposals as set forth by the Activist Shareholder is a demand for the removal of Rita Whittington as a director. It is further believed, by the Board, that the intent is also to remove Ms Whittington as CEO immediately after the new proposed directors are appointed. This will trigger the Group needing to immediately compensate Ms Whittington according to her employment agreement.

In addition, shareholder approval of such proposal could trigger a Change of Control and an Event of Default under our Loan Agreement with Bank SNB. The remedies available to Bank SNB under our Loan Agreement, are to "terminate its commitment to lend hereunder" and "declare all principal and interest on the Note...due and payable". At this time, we have no assurance that if the shareholders approve the proposals, the Bank will not enforce any of its remedies under the Loan Agreement.

Derec Norman  
Chief Financial Officer

16 June 2017

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 2016.

### 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’s 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 Statement and the Operation Report.

### 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 2016 was two Executive Directors and three Non-Executive Directors; however, Thomas Wagenhofer, Non-Executive Chairman resigned effective 23 February 2017 at which point Ron Harwood was appointed interim Non-Executive Chairman and Steven Snead, CEO and Executive Director resigned effective 1 April 2017. 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, while further reducing costs, where applicable.

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.

### 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>2016</b>	<b>2015</b>
Revenue	\$1,273,612	\$1,991,021
Gross profit margin (excluding depreciation)	34.71%	37.85%

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 16 June 2017 and signed on its behalf:

**Ronald Harwood**

Non-Executive Director, Interim Chairman

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2016.

### 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 2016		1 January 2016 (or later date of appointment)	
	Ordinary Shares	Options and warrants	Ordinary Shares	Options and warrants
Ronald Sanford Harwood <sup>(1)</sup>	34,623,175	13,354,915	33,123,175	3,354,915
Rita Fern Whittington	13,725,669	28,905,661	12,225,669	16,905,661
Leonard Wallace	-	-	-	-
Thomas Wagenhofer <sup>(2)</sup>	4,142,855	-	3,285,713	-
Steven Otis Snead <sup>(3)</sup>	204,226,748	36,417,161	202,726,748	24,417,161

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

(2) Thomas Wagenhofer – resigned with effect 23 February 2017.

(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. Steven Snead resigned with effective 1 April 2017.

### Ronald Sanford Harwood, Non-Executive Chairman

Mr Harwood graduated 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, including oil and gas exploration and production, 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. He founded Bellwood Petroleum Corporation in 1985, and successor 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. Mr. Harwood was also one of the original founders, investor and director of Magnolia Petroleum since 2008.

**Directors and Directors' interests (continued)****Rita Fern Whittington, Chief Executive 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. Mrs Whittington was also one of the original founders, investor and director of Magnolia since 2008.

**Leonard Wallace, Non-Executive Director**

Mr. Wallace is a highly experienced oil and gas engineer, specialising in drilling engineering, well construction and rig operations, and production operations within the exploration and production industry. Mr. Wallace is also currently the owner of Tartan Petroleum Ltd.

Mr. Wallace was a hand on drilling and production engineer and project manager. His early career was with Exxon in the US with focus of drilling and production engineering. International assignments included technical manager for Exxon's first offshore production in the North Sea. BHP / Hamilton Bothers followed his time with Exxon where he managed their offshore North Sea production. In addition, Mr. Wallace was Vice President for international operations for Kerr McGee. After early retirement, he spent 15 years as a consultant for Chevron on projects in Brazil, Singapore building deep water drilling vessels. His last assignment with Chevron was part of a new country drilling team in Kurdistan. He currently serves as an advisor with Alpha Petroleum in Houston, assigned to Pemex's shallow offshore drilling and production in Mexico.

**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 2016:

	Short term employee benefits for the year ended 31 December 2016 US\$	Long term employee benefits for the year ended 31 December 2016 US\$	Other for the year ended 31 December 2016 US\$	Total for the year ended 31 December 2016 US\$	Total for the year ended 31 December 2015 US\$
Thomas Wagenhofer (resigned 23 Feb 2017)	16,198	-	-	16,198	10,695
Steven Otis Snead (resigned 1 Apr 2017)	17,545	-	-	17,545	33,732
Leonard Wallace	3,165	-	-	3,165	-
Rita Fern Whittington	197,545	600	30,270	228,415	245,438
Ronald Sanford Harwood	17,545	-	-	17,545	33,732

### 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 (2015: £Nil).

### Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence through 30 June 2018, as projected. However, this expectation is subject to material adverse unforeseen events that may occur, including but not limited to oil and gas prices, non-operations control of wells and continuation of forbearance by the Bank. Further details on their assumptions and their conclusion thereon are included in the statement of going concern included in Note 2.3 to the Financial Statements. The auditors have drawn attention to going concern in our audit report by way of an emphasis of matter.

### Events after the Reporting Period

The events after the reporting period are set out in Note 26 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.

This report was approved by the board on 16 June 2017 and signed on its behalf:

### Ronald Harwood

Non-Executive Director, Interim Chairman

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.

This report was approved by the board on 16 June 2017 and signed on its behalf:

**Ronald Harwood**

Non-Executive Director, Interim Chairman

## The Board of Directors

As at 31 December 2016, 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	17	16
Leonard Wallace	10	7
Ronald Harwood	17	17
Steven Snead	17	17
Rita Whittington	17	17

## 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 (the Code), as published by the Financial Reporting Council so far as is practicable, taking into account the size and nature of the Company. The Directors do note that they are not required to adopt the Code and nor do they do so.

## Remuneration and Audit Committees

The remuneration committee comprises Leonard Wallace (Chairman) and Ronald Harwood, 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 Ronald Harwood (Chairman) and Leonard Wallace, 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 2016 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 2016 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 \$1,551,275 during the year ended 31 December 2016 and, at that date, the Group had net current liabilities of \$438,248. The company's ability to continue as a going concern is dependent on continuing support from its lenders and its ability to raise funds on the open market. 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, based on the work undertaken in the course of the audit:

- the information given in the Chief Executive Officer's Statement, Operations Report, Financial Report, Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Chief Executive Officer's Statement, Operations Report, Financial Report, Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Chief Executive Officer's Statement, Operations Report, Financial Report, Strategic Report and the Director's Report.

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.

**Joseph Archer (Senior statutory auditor)**  
For and on behalf of PKF Littlejohn LLP  
Statutory Auditor

1 Westferry Circus  
Canary Wharf  
London E14 4HD

16 June 2017

	Note	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>Continuing Operations</b>			
Revenue		1,273,612	1,991,021
Operating expenses	6	(831,528)	(1,237,456)
Depreciation	13	(1,070,124)	(1,547,313)
		<u>                    </u>	<u>                    </u>
<b>Gross (Loss)</b>		(628,040)	(793,748)
Impairment of property, plant and equipment	13	(2,207,293)	(3,538,523)
Impairment of intangible assets	14	-	(4,973,181)
Differences due to foreign exchange		2,117,003	678,001
Administrative expenses	6	(702,354)	(1,045,884)
Other income	9	17,960	-
		<u>                    </u>	<u>                    </u>
<b>Operating (Loss)</b>		(1,402,724)	(9,673,335)
Finance income	11	-	139
Finance costs	11	(148,551)	(120,080)
		<u>                    </u>	<u>                    </u>
<b>(Loss) before Tax</b>		(1,551,275)	(9,793,276)
Income tax	10	-	-
		<u>                    </u>	<u>                    </u>
<b>(Loss) for the year attributable to owners of the parent</b>		(1,551,275)	(9,793,276)
		<u>                    </u>	<u>                    </u>
<b>Other Comprehensive Income:</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Currency translation differences		(2,208,770)	(697,415)
		<u>                    </u>	<u>                    </u>
<b>Other Comprehensive Income for the Year, Net of Tax</b>		(2,208,770)	(697,415)
		<u>                    </u>	<u>                    </u>
<b>Total Comprehensive Income for the Year attributable to the owners of the parent</b>		(3,760,045)	(10,490,691)
		<u>                    </u>	<u>                    </u>
<b>Loss per share attributable to the owners of the parent during the year</b>			
Basic and diluted (cents per share)	12	(0.09)	(0.98)
		<u>                    </u>	<u>                    </u>

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

	Note	As at 31 December 2016 \$	As at 31 December 2015 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	13	4,518,177	7,294,470
Intangible assets	14	1,684,559	1,830,773
		<hr/>	<hr/>
<b>Total Non-Current Assets</b>		6,202,736	9,125,243
		<hr/>	<hr/>
<b>Current Assets</b>			
Trade and other receivables	16	610,941	441,764
Cash and cash equivalents	17	241,347	645,759
		<hr/>	<hr/>
<b>Total Current Assets</b>		852,288	1,087,523
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		7,055,024	10,212,766
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to Owners of Parent</b>			
Share capital	18	2,619,986	1,704,820
Share premium		15,254,643	15,200,219
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		65,163	209,042
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		(3,171,657)	(962,887)
Retained losses		(11,367,372)	(9,959,977)
		<hr/>	<hr/>
<b>Total Equity</b>		3,126,041	5,916,495
		<hr/>	<hr/>
<b>Non-Current Liabilities</b>			
Borrowings	19	-	3,154,784
		<hr/>	<hr/>
<b>Total Non-Current Liabilities</b>		-	3,154,784
		<hr/>	<hr/>
<b>Current Liabilities</b>			
Trade and other payables	20	1,290,536	1,141,487
Borrowings	19	2,638,447	-
		<hr/>	<hr/>
<b>Total Current Liabilities</b>		3,928,983	1,141,487
		<hr/>	<hr/>
<b>TOTAL EQUITY AND LIABILITIES</b>		7,055,024	10,212,766
		<hr/> <hr/>	<hr/> <hr/>

These Financial Statements were approved by the Board of Directors on 16 June 2017 and were signed on its behalf by:

**Ronald Harwood**  
Director

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

	Note	As at 31 December 2016 \$	As at 31 December 2015 \$
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Investments in subsidiaries	15	2,885,085	3,453,879
		<hr/>	<hr/>
<b>Total Non-Current Assets</b>		2,885,085	3,453,879
		<hr/>	<hr/>
<b>Current Assets</b>			
Trade and other receivables	16	1,468,697	12,663,513
Cash and cash equivalents	17	10,197	44,210
		<hr/>	<hr/>
<b>Total Current Assets</b>		1,478,894	12,707,723
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		4,363,979	16,161,602
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to Shareholders</b>			
Share capital	18	2,619,986	1,704,820
Share premium	18	15,254,643	15,200,219
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		65,163	209,042
Translation reserve		(4,129,356)	(1,407,825)
Retained losses		(11,525,560)	(1,570,070)
		<hr/>	<hr/>
<b>Total Equity</b>		4,260,826	16,112,136
		<hr/>	<hr/>
<b>Current Liabilities</b>			
Trade and other payables	20	103,153	49,466
		<hr/>	<hr/>
<b>Total Current Liabilities</b>		103,153	49,466
		<hr/>	<hr/>
<b>TOTAL EQUITY AND LIABILITIES</b>		4,363,979	16,161,602
		<hr/> <hr/>	<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 \$10,099,369 (2015: \$203,635).

These Financial Statements were approved by the Board of Directors on 16 June 2017 and were signed on its behalf by:

**Ronald Harwood**  
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 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>
<b>Transactions with Owners</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>
<b>Balance at 1 January 2016</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>
Loss for the year	-	-	-	-	-	-	(1,551,274)	(1,551,274)
<b>Other Comprehensive Income</b>								
Currency translation differences	-	-	-	-	-	(2,208,770)	-	(2,208,770)
<b>Total Comprehensive Income for the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,208,770)</b>	<b>(1,551,274)</b>	<b>(3,760,044)</b>
Share options cancelled	-	-	-	(143,879)	-	-	143,879	-
<b>Transactions with Owners</b>								
Share issue	915,166	136,740	-	-	-	-	-	1,051,906
Share issue costs	-	(82,316)	-	-	-	-	-	(82,316)
<b>Transaction with owners, recognised directly in equity</b>	<b>915,166</b>	<b>54,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>969,590</b>
<b>Balance at 31 December 2016</b>	<b>2,619,986</b>	<b>15,254,643</b>	<b>1,975,950</b>	<b>65,163</b>	<b>(2,250,672)</b>	<b>(3,171,657)</b>	<b>(11,367,372)</b>	<b>3,126,041</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 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>
<b>Transactions with Owners</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>
<b>Balance at 1 January 2016</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>
Loss for the year	-	-	-	-	-	(10,099,369)	(10,099,369)
<b>Other Comprehensive Income</b>							
Currency translation differences	-	-	-	-	(2,721,531)	-	(2,721,531)
<b>Total Comprehensive Income for the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,721,531)</b>	<b>(10,099,369)</b>	<b>(12,820,900)</b>
Share options cancelled	-	-	-	(143,879)	-	143,879	-
<b>Transactions with Owners</b>							
Share issue	915,166	136,740	-	-	-	-	1,051,906
Share issue costs	-	(82,316)	-	-	-	-	(82,316)
<b>Total contributions by and distributions to owners of the parent, recognised directly in equity</b>	<b>915,166</b>	<b>54,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>969,590</b>
<b>Balance at 31 December 2016</b>	<b>2,619,986</b>	<b>15,254,643</b>	<b>1,975,950</b>	<b>65,163</b>	<b>(4,129,356)</b>	<b>(11,525,560)</b>	<b>4,260,826</b>

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

	Note	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>Cash Flows from Operating Activities</b>			
(Loss) before tax		(1,551,275)	(9,793,276)
Impairment of property, plant and equipment	13	2,207,293	3,538,523
Impairment of intangible assets	14	-	4,973,181
Depreciation	13	1,073,456	1,553,240
Foreign exchange		(2,148,150)	(676,825)
Finance income	11	-	(139)
Finance costs	11	148,551	120,080
		<hr/>	<hr/>
		(270,125)	(285,216)
<b>Changes to working capital</b>			
(Increase)/Decrease in trade and other receivables		(169,177)	555,902
Increase/(Decrease) in trade and other payables		149,049	(392,329)
		<hr/>	<hr/>
<b>Cash (used in) operations</b>		(290,253)	(121,643)
Interest paid	11	(148,551)	(120,080)
		<hr/>	<hr/>
<b>Net Cash (used in) Operating Activities</b>		(438,804)	(241,723)
		<hr/>	<hr/>
<b>Cash Flows from Investing Activities</b>			
Purchases of intangible assets	14	(1,114)	(376,062)
Purchases of property, plant and equipment	13	(413,162)	(1,056,849)
Interest received	11	-	139
		<hr/>	<hr/>
<b>Net Cash used in Investing Activities</b>		(414,276)	(1,432,772)
		<hr/>	<hr/>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of ordinary shares	18	1,051,906	1,563,967
Issue costs	18	(82,316)	(94,350)
Proceeds from borrowings		(516,337)	418,510
		<hr/>	<hr/>
<b>Net Cash generated from Financing Activities</b>		453,253	1,888,127
		<hr/>	<hr/>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		(399,827)	213,632
		<hr/>	<hr/>
<b>Movement in Cash and Cash Equivalents</b>			
Cash and cash equivalents at the beginning of the year	17	645,759	433,748
Exchange loss on cash and cash equivalents		(4,585)	(1,621)
Net (Decrease)/Increase in cash and cash equivalents		(399,827)	213,632
		<hr/>	<hr/>
<b>Cash and Cash Equivalents at the End of the Year</b>	17	241,347	645,759
		<hr/>	<hr/>

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

	Note	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>Cash Flows from Operating Activities</b>			
Loss before tax		(10,099,369)	(203,635)
Foreign exchange		(31,147)	2,139
		<hr/>	<hr/>
		(10,130,516)	(201,496)
<b>Changes to working capital</b>			
Decrease in trade and other receivables		5,006	13,425
Increase in trade and other payables		50,387	17,745
		<hr/>	<hr/>
<b>Net Cash used in Operating Activities</b>		(10,075,123)	(170,326)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of ordinary shares	18	1,051,906	1,563,967
Issue costs	18	(82,316)	(94,350)
(Increase) in funding subsidiary undertaking		9,076,105	(1,257,121)
		<hr/>	<hr/>
<b>Net Cash generated from Financing Activities</b>		10,045,695	212,496
		<hr/>	<hr/>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		(29,428)	42,170
		<hr/>	<hr/>
<b>Movement in Cash and Cash Equivalents</b>			
Cash and cash equivalents at the beginning of the year	17	44,210	3,661
Exchange loss on cash and cash equivalents		(4,585)	(1,621)
Net (Decrease)/Increase in cash and cash equivalents		(29,428)	42,170
		<hr/>	<hr/>
<b>Cash and Cash Equivalents at the End of the Year</b>	17	10,197	44,210
		<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 2016.

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 March 2017 but was extended to 8 June 2017 by Bank SNB. At 31 December 2016 the Group's borrowings under the facility amounted to \$2,638,447.

A request for a longer-term extension to our Facility is currently being processed by the Group's Bank. The Bank continues to view the Facility as part of a long-term relationship with Magnolia. In line with this, the Bank has agreed to extend the Facility from 8 June 2017 to 8 August 2017 while it processes the appropriate paperwork, loan documents as well as the relevant financial and reserve report information that has been provided by the Group's management.

The borrowing base limit liability of \$1,604,565 is due for repayment in full on 8 August 2017 and the decision to extend is at Bank SNB's discretion.

The Group was non-compliant on all covenants, as a reminder, the Bank has waived the current ratio covenant until further written notice. 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 2018 show that the Group has sufficient funds and facilities to fund its current ongoing operating costs and the scheduled principal repayments plus interest of the borrowings in excess of the borrowing base of \$1,604,565. Additional funds will be required if Bank SNB require repayment of the borrowing base liability on 8 August 2017. The Directors have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence through 30 June 2018 as projected; however subject to material adverse unforeseen events that may occur, including but not limited to oil and gas prices, non-operational control of wells and continuation of forbearance by the Bank. For this reason, the Directors continue to adopt the going concern basis of accounting in preparing the Financial Statements.

As of 2 June 2017, a general meeting has been requisitioned by Steven Snead, Snead Family LLC, Snead Family 2012 LLC and R. Sterling Snead (the "Activist Shareholder"). Among the proposals as set forth by the Activist Shareholder is a demand for the removal of Rita Whittington as a director. Under the employment agreement with Ms. Whittington, approximately \$350,000 USD will become immediately due and payable by the Group.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4 Changes in accounting policy and disclosure****a) *New standards, amendments and interpretations adopted by the Group***

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have 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***

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statement. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

**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 for the sale of assets.

**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 Statement of Comprehensive Income.

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 and other reserves**

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.

Other reserves include merger reserve, share option and warrants reserve, reverse acquisition reserve and translation reserve. The share option and warrants reserve represent the movement in fair value of options and warrants in the year. The reverse acquisition reserve represents the reserve on the reverse acquisition of Magnolia Plc by Mangnolia Inc. The translation reserve represents effects of currency translation in the year.

**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-maker, who is 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 2016, the Group's borrowings at variable rates were denominated in US dollars.

At 31 December 2016, if variable interest rates on borrowings are 10 basis points higher/lower with all other variables held constant, the annual interest expense will be \$134,561 higher / \$129,284 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</b>	<b>Less than</b>	<b>Between</b>
<b>At 31 December 2016</b>	<b>1 year</b>	<b>1 and 2 years</b>
Borrowings	-	2,638,447
Trade and other payables	1,132,983	-
<b>At 31 December 2015</b>		
Borrowings	-	3,154,784
Trade and other payables	1,092,137	-

**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 2016, mineral leases and capitalised drilling costs & equipment on producing properties have a total carrying value of \$4,518,177 (2015: \$7,288,003) (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 \$2,207,293 should be recognised to write down the value of the assets.

***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 2016 of \$1,400,340 (2015: \$1,490,520). 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 \$0 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 2016 of \$284,219 (2015: \$340,253). 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 2016			
	USA	UK	Intra-segment balances	Total
	\$	\$	\$	\$
Revenue from external customers	1,273,612	-	-	1,273,612
Gross loss	(628,040)	-	-	(628,040)
Operating profit/(loss)	8,696,646	(10,099,370)	-	(1,402,724)
Impairment – property, plant and equipment	2,207,293	-	-	2,207,293
Impairment – intangible assets	-	-	-	-
Depreciation	1,073,456	-	-	1,073,456
Capital expenditure	414,276	-	-	414,276
Total assets	6,701,392	4,363,979	(4,010,347)	7,055,024
Total liabilities	5,235,312	103,153	(1,409,482)	3,928,983

	Year ended 31 December 2015			
	USA	UK	Intra-segment balances	Total
	\$	\$	\$	\$
Revenue from external customers	1,991,021	-	-	1,991,021
Gross profit	(793,748)	-	-	(793,748)
Operating profit/(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

## 5 SEGMENTAL INFORMATION (continued)

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

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Operating (Loss) for reportable segments	(1,402,724)	(9,673,335)
Finance income	-	139
Finance costs	(148,551)	(120,080)
	<hr/>	<hr/>
(Loss) before tax	(1,551,275)	(9,793,276)
	<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:

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Segmental assets for reportable segments	6,770,805	9,872,513
Unallocated: goodwill	284,219	340,253
	<hr/>	<hr/>
Total assets per Statement of Financial Position	7,055,024	10,212,766
	<hr/> <hr/>	<hr/> <hr/>

**Information about major customers/operating partners**

In the year ended 31 December 2016 revenues of \$330,306 and \$154,266 are derived from two operators. These revenues were all generated in the USA.

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.

**6 EXPENSES BY NATURE**

<b>Group</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Operator costs	553,510	990,854
Production taxes	278,018	246,602
	<hr/>	<hr/>
Total operating expenses	831,528	1,237,456
	<hr/> <hr/>	<hr/> <hr/>
Directors' remuneration and fees	282,868	151,914
Consulting fees	18,863	39,130
Legal, professional and compliance costs	128,599	229,724
Depreciation	3,332	5,927
Office staff costs	103,742	267,514
Other costs	164,950	351,675
	<hr/>	<hr/>
Total administrative expenses	702,354	1,045,884
	<hr/> <hr/>	<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>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated Financial Statements	28,000	27,500
Fees payable to the Company's auditor for other services: - in relation to tax compliance	2,177	2,177
	<hr/> <hr/>	<hr/> <hr/>

**8 STAFF COSTS**

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

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	378,872	481,226
Social security costs	14,645	16,957
Pension costs	600	7,200
Other benefits	58,891	69,995
	<u>453,008</u>	<u>575,378</u>

**Directors' Emoluments**

The Directors' emoluments in respect of qualifying services are detailed in the Directors' Report.

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

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Administrative and managerial	6	7
	<u>6</u>	<u>7</u>
	<b>Company</b>	
	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Administrative and managerial	5	5
	<u>5</u>	<u>5</u>

**9 OTHER INCOME**

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Sale of Assets	17,960	-
	<u>17,960</u>	<u>-</u>

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

The tax charge for the year is \$Nil (2015: \$Nil).

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

The tax charge for each year is explained below:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
(Loss)/profit for the year before taxation	(11,540,274)	(9,793,276)
(Loss)/profit for the period before tax multiplied by the weighted average tax rate of 22.50% (2015: 39.59%)	(2,596,236)	(3,877,092)
Expenses not deductible for tax purposes – impairment of non-current assets	2,743,822	3,984,640
Tax losses for which no deferred tax asset recognised - UK	24,830	80,618
Tax losses for which no deferred tax asset recognised - US	(318,928)	342,819
Revenue deduction for capitalised costs - US	(418,875)	(1,341,233)
	<u>                    </u>	<u>                    </u>
Income tax charge	-	-
	<u>                    </u>	<u>                    </u>

The Group has UK tax losses of approximately \$1,308,000 (2015: \$1,284,000) and US tax losses of approximately \$14,012,000 (2015: losses of approximately \$14,331,000) available to carry forward against future taxable profits. A potential deferred tax asset of approximately \$261,000 (2015: \$260,000) on the UK losses and \$5,604,000 (2015: \$3,659,000) 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>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Interest income	-	139
	<u>                    </u>	<u>                    </u>
Interest expense and fees – bank borrowings	(148,551)	(120,080)
	<u>                    </u>	<u>                    </u>

**12 EARNINGS PER SHARE**

The calculation of earnings per share of loss of 0.09 cents per share (2015 loss per share: 0.98 cents) is calculated by dividing the loss attributable to ordinary shareholders of \$1,551,275 (2015 loss: \$9,793,276) by the weighted average number of ordinary shares of 1,751,458,563 (2015: 995,081,516) 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 2016.

## 13 PROPERTY, PLANT AND EQUIPMENT

Group	Producing properties (Mineral Leases)	Drilling costs and equipment	Motor vehicles and office equipment	Total
Cost	\$	\$	\$	\$
At 1 January 2015	1,344,755	12,231,907	21,671	13,598,333
Additions	3,890	1,049,901	3,058	1,056,849
Impairment	-	-	-	-
Transferred from intangible assets	704	34,307	-	35,011
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2015	1,349,349	13,316,115	24,729	14,690,193
	<hr/>	<hr/>	<hr/>	<hr/>
Additions	7	413,155	-	413,162
Transferred from intangible assets	18,992	72,302	-	91,294
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	1,368,348	13,801,572	24,729	15,194,649
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated Depreciation and Impairment</b>				
At 1 January 2015	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
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2015	1,087,007	6,290,454	18,262	7,395,723
	<hr/>	<hr/>	<hr/>	<hr/>
Charge for the period	114,337	955,787	3,332	1,073,456
Impairment	-	2,207,293	-	2,207,293
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	1,201,344	9,453,534	21,594	10,676,472
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Book Amount</b>				
At 31 December 2015	262,342	7,025,661	6,467	7,294,470
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2016	167,004	4,348,038	3,135	4,518,177
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 \$1,070,124 (2015: \$1,547,313) has been charged in cost of sales.

Motor vehicles and office equipment depreciation expense of \$3,332 (2015: \$5,927) has been charged in administrative expenses.

## 14 INTANGIBLE ASSETS

Group	Goodwill \$	Drilling costs \$	Mineral leases \$	Total \$
<b>Cost</b>				
At 1 January 2015	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)
Disposals	-	-	-	-
Exchange movements	(18,969)	-	-	(18,969)
Impairment	-	(225,230)	(4,747,951)	(4,973,181)
At 31 December 2015	340,253	81,832	1,408,688	1,830,773
Additions	-	1,214	(100)	1,114
Transferred to property, plant and equipment	-	(72,302)	(18,992)	(91,294)
Exchange movements	(56,034)	-	-	(56,034)
Impairment	-	-	-	-
As at 31 December 2016	284,219	10,744	1,389,596	1,684,559
<b>Amortisation</b>				
At 1 January 2015, 31 December 2015 and 31 December 2016	-	-	-	-
<b>Net Book Amount</b>				
<b>At 31 December 2015</b>	340,253	81,832	1,408,688	1,830,773
<b>At 31 December 2016</b>	284,219	10,744	1,389,596	1,684,559

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\$2,207,293 for the year ended 31 December 2016 (2015: \$8,511,704). This is associated with a markdown in the value of its interests in producing properties identified as non-economic at today's low oil prices. The impairment in 2015 was comprised of write-downs associated with the cost of mineral leases which had expired and a markdown in the value of its interests in producing properties identified as non-economic at the day's low oil prices.

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

	2016	2015
	\$	\$
<b>Company</b>		
Shares in group undertakings		
At 1 January	3,453,879	3,646,431
Exchange movements	(568,794)	(192,552)
	<hr/>	<hr/>
At 31 December	2,885,085	3,453,879
	<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.	P.O. Box 140660, Broken Arrow, OK 74014	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	
	2016	2015	2016	2015
	\$	\$	\$	\$
Trade receivables	442,884	254,461	-	-
Other receivables	30,394	30,394	-	-
Amounts due from group undertakings	51,794	-	1,461,276	12,654,385
Prepayments	85,869	156,908	7,421	9,128
	<hr/>	<hr/>	<hr/>	<hr/>
	610,941	441,763	1,468,697	12,663,513
	<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 2016, trade receivables of \$442,884 (2015: \$254,461) 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>2016</b>	<b>2015</b>
	\$	\$
UK Pounds	7,421	9,129
US Dollar	603,520	432,635
	<u>610,941</u>	<u>441,764</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>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	\$	\$	\$	\$
Cash at bank	241,347	645,759	10,197	44,210
	<u>241,347</u>	<u>645,759</u>	<u>10,197</u>	<u>44,210</u>

At 31 December 2016, the Group held cash of \$10,197 (2015: \$44,210) in a bank with a Fitch credit rating of A (Stable) and \$231,150 (2015: \$601,549) 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 2015	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	1,340,543	1,563,967
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	15,200,219	16,905,039
Placing shares	694,642,856	694,642	915,166	95,357	136,740	1,051,906
Issue costs	-	-	-	(66,750)	(82,316)	(82,316)
At 31 December 2016	1,751,458,563	1,751,458	2,619,986	9,548,926	15,254,643	17,874,629

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	
		2016	2015
24 January 2017	2.85	1,754,386	1,754,386
1 November 2018	0.15	225,000,000	-
25 November 2018	1.30	23,397,268	52,820,768
28 January 2020	2.925	5,084,745	20,338,982
31 December 2020	0.4	84,677,737	-
		339,914,136	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 2016 is shown below.

	Year ended 31 December 2016		Year ended 31 December 2015	
	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	339,914,136	0.35	74,914,136	1.78
Exercisable at end of year	339,914,136	0.35	74,914,136	1.78

The warrants and options outstanding at 31 December 2016 had a weighted average remaining contractual life of 2.4 years (2015: 3.2 years).

No options or warrants were exercised during the year. There were 44,677,737 options cancelled, 84,677,737 options granted and 225,000,000 warrants granted during the year.

## 19 BORROWINGS

	Group		Company	
	2016 \$	2015 \$	2016 \$	2015 \$
<b>Non-current</b>				
Bank borrowings (including arrangement fee)	-	3,154,784	-	-
<b>Current</b>				
Bank borrowings (including arrangement fee)	2,638,447	-	-	-

As at 31 December 2016 the Group had a \$6 million revolving credit facility with, subject to certain conditions being met, a maturity date of 8 August 2017 (originally 7 March 2017). 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 3.75%) + 1.25%. The credit facility is secured against all of 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:

## 19 BORROWINGS (continued)

	Group		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Expiring beyond one year	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 20 TRADE AND OTHER PAYABLES

Current	Group		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
Trade and other payables	1,213,873	1,092,137	26,490	116
Accrued expenses	76,663	49,350	76,663	49,350
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	1,290,536	1,141,487	103,153	49,466
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 21 FINANCIAL INSTRUMENTS BY CATEGORY

	Group		Company	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Assets as per Statement of Financial Position</b>				
<b>Loans and receivables:</b>				
Trade and other receivables (excluding prepayments)	525,071	284,855	1,468,697	12,654,385
Cash and cash equivalents	241,347	645,759	10,197	44,210
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	766,418	930,614	1,478,894	12,698,595
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities per Statement of Financial Position</b>				
<b>Financial liabilities at amortised cost:</b>				
Borrowings	2,638,447	3,154,784	-	-
Trade and other payables (excluding non-financial liabilities)	1,290,536	1,141,487	103,153	49,466
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	3,928,983	4,296,271	103,153	49,466
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </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 March 2017 to 8 August 2017. The Group will continue 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 2016 or 2015 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 2016 the Company charged management fees of \$61,501 (2015: \$43,504) to Magnolia Petroleum Inc, the Company's wholly owned subsidiary for the provision of administrative and management services. \$61,501 (2015: \$43,504) in relation to these fees was outstanding at the year end date and is included within Trade and other receivables. As at 31 December 2016, the amount due to the Company from Magnolia Petroleum Inc was \$11,398,483 (2015: \$12,654,385).

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 \$31,000 (2015: \$42,000) 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 31 March 2017 on which day this lease was terminated. Magnolia moved its offices on 31 March 2017.

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 ULTIMATE CONTROLLING PARTY**

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

**26 EVENTS AFTER THE REPORTING PERIOD**

On 23 February 2017 Thomas Wagenhofer resigned from the Board as non-executive Chairman

On 1 April 2017 Steven Snead resigned from the Board and as Chief Executive Officer.

On 26 April 2017 the Company issued 37,500,000 new ordinary shares, at a price of 0.12 pence per share, to the Directors of the Company: Steven Snead; Rita Whittington; Ronald Harwood; and Leonard Wallace in settlement of their fees for the period from 1 April 2016 to 31 March 2017.

On the same date, the Company also issued 25,000,000 new ordinary shares, at a price of 0.12 pence per share, to the Directors of the Company: Steven Snead; Rita Whittington; and Ronald Harwood as bonuses for 2016.

On the same date, Directors of the Company Rita Whittington; and Leonard Wallace subscribed for 21,918,403 new ordinary shares in the Company, for £33,593.75.

On 30 May 2017 the Company received a requisition notice from Steven Snead, Snead Family 2012 LLC, Snead Family LLC and R Sterling Snead. The notice has been deemed valid.

**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 15:30 p.m. BST on 12 July 2017 at The Broadgate Tower, 20 Primrose Street, London EC2A 2EW, UK to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 3 will be proposed as ordinary resolutions:**

1. To receive the directors’ report and audited financial statements of the Company for the year ended 31 December 2016.
2. To re-elect Leonard Wallace as a director of the Company.
3. To re-appoint PKF Littlejohn LLP as auditors of the Company and to authorise the directors to set their fees.

By Order of the Board  
S Salter  
Secretary

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

Dated 16 June 2017

## Notes:

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

If you want to attend, speak and vote at the AGM you must be on the Company's register of members at 18:00 p.m. BST on 10 July 2017. 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 15:30 p.m. BST on 10 July 2017. Any proxy forms (including any amended proxy appointments) received after the deadline will be disregarded.

The completed form may be returned by:

- Sending or delivering it to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, B63 3DA

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

### 4. Appointment of proxy by joint members

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

### 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 15:30 p.m. BST on 10 July 2017. 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 18:00 p.m. BST on the day immediately prior to the date of posting of this notice of AGM, the Company's issued share capital comprised 1,869,826,370 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 1,869,826,370.

# 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 15:30 p.m. BST on 12 July 2017 at The Broadgate Tower, 20 Primrose Street, London EC2A 2EW, UK**

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 15:30 p.m. BST on 12 July 2017 (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 Leonard Wallace as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. 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"/>

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 15:30 p.m. BST on 10 July 2017.**

**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 15:30 p.m. BST on 10 July 2017.
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 15:30 p.m. BST on 10 July 2017 or 48 hours prior to 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.