

Registered number : 05566066

MAGNOLIA PETROLEUM PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 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 2017.

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

As discussed in note 2, subsequent to the year end, the Company has taken the decision, following the repayment of the loan with Simmons Bank, to wind down its operations.

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 2017 was two Executive Directors and two Non-Executive Directors; The Board believes that the present composition provides an appropriate mix to conduct the Group's affairs.

Review of Operations

The Group performed satisfactory during the year and the key performance indicators that are monitored by the Group can be found below. Following the year end, the Group's US subsidiary was unable to extend its loan with its lender and other financing was not available. The Group has subsequently sought to sell down its assets to settle the debts due and has delisted from AIM. The Group is now seeking to wind up its operations and will begin such preceding in due course for all Group entities.

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:

	2017	2016
Revenue	903,435	\$1,273,612
Gross profit margin (excluding depreciation)	24.76%	34.71%

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.

Liquidity risk

The Group is dependent on the support of its lender and shareholders. Should loan be recalled and subsequent financing not be available from other sources there is the risk that the Group may have to liquidate assets to settle outstanding debts. If such action is required there is the risk that amounts received for such assets may be less than the true book value due to the lender requiring swift repayment. Management seek to mitigate this risk by maintaining dialogue with their lender and seeking equity financing opportunities.

This report was approved by the Board on 14th September 2018 and signed on its behalf:


Leonard Wallace
Chairman

MAGNOLIA PETROLEUM PLC**REPORT OF THE DIRECTORS**

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2017.

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 2017		1 January 2017 (or later date of appointment)	
	Ordinary Shares	Options and warrants	Ordinary Shares	Options and warrants
Ronald Sanford Harwood ⁽¹⁾	-	133,549	34,623,175	13,354,915
Rita Fern Whittington ⁽²⁾	434,912	289,056	13,725,669	28,905,661
Leonard Wallace	196,527	-	-	-
Derec Norman ⁽³⁾	133,562	60,000	100,992	6,000,000
Lanny Woods	97,656	-	-	-
Thomas Wagenhofer ⁽⁴⁾	120,714	-	4,142,855	-
Steven Otis Snead ⁽⁵⁾	-	364,171	204,226,748	36,417,161

(1) Ronald Sanford Harwood- resigned with effect 27 July 2017.

(2) Rita Fern Whittington- directorship was terminated with effect 31 July 2018.

(3) Derec Norman- directorship was terminated with effect 31 July 2018.

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

(5) Steven Snead- resigned with effect 1 April 2017.

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.

MAGNOLIA PETROLEUM PLC**REPORT OF THE DIRECTORS**

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 2017:

	Short term employee benefits for the year ended 31 December 2017 US\$	Long term employee benefits for the year ended 31 December 2017 US\$	Other for the year ended 31 December 2017 US\$	Total for the year ended 31 December 2017 US\$	Total for the year ended 31 December 2016 US\$
Thomas Wagenhofer (resigned 23 Feb 2017)	15,435	-	-	15,435	16,198
Steven Otis Snead (resigned 1 Apr 2017)	15,435	-	-	15,435	17,545
Leonard Wallace	60,935	-	-	60,935	3,165
Lanny Woods	29,222	-	-	29,222	-
Derec Norman (terminated 31 July 2018)	102,760	-	38,763	141,523	124,849
Rita Fern Whittington (terminated 31 July 2018)	196,475	-	34,256	230,731	228,415
Ronald Sanford Harwood (resigned 27 July 2017)	15,435	-	-	15,435	17,545

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 (2016: £Nil).

Going Concern

As a result of Group's lenders recalling their loan post period end the Directors do not consider it appropriate to prepare its financial statements. As a result, management have chosen accounting policies that they consider will result in the most relevant and reliable financial information. This has resulted in all non-current assets and liabilities being classified as current and stated at their realisable value. The auditors have made reference to this matter in their audit report as a 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 14th September 2018 and signed on its behalf:


Leonard Wallace
Chairman

**MAGNOLIA PETROLEUM PLC
RESPONSIBILITIES**

STATEMENT OF DIRECTORS'

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 which the Directors consider is inappropriate so to do (see note 2 for further details).

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.

This report was approved by the board on 14th September 2018 and signed on its behalf:


Leonard Wallace
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGNOLIA PETROLEUM PLC.**Opinion**

We have audited the group financial statements of Magnolia Petroleum Plc. (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosures made concerning the preparation of the Financial Statements on a basis other than that of going concern.

The Group made a total comprehensive loss of US\$ 5,141,087 during the year ended 31 December 2017 and, as at that date, the Group's current liabilities exceeded its total assets by US\$461,149. Post year end the Group took the decision to wind down its operations. As stated in note 2, these events or conditions, along with other matters set forth in note 2 have resulted in the financial statements being prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 strategic report and the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so. The Directors have considered that, based on the fact that the Group has decided to cease operations, it is not appropriate to prepare the financial statements using the going concern basis of accounting and have adopted a basis other than the going concern basis in the preparation of the financial statements (See note 2.1 and 2.3).

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Joseph Archer

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

1 Westferry Circus
Canary Wharf
London E14 4HD

19th September

2018

MAGNOLIA PETROLEUM PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Note	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
Continuing Operations			
Revenue		903,435	1,273,612
Operating expenses	6	(679,704)	(831,528)
Depreciation	13	(581,495)	(1,070,124)
		<hr/>	<hr/>
Gross (Loss)		(357,764)	(628,040)
Impairment of property, plant and equipment	13	(1,468,632)	(2,207,293)
Impairment of intangible assets	14	(1,748,946)	-
Differences due to foreign exchange		(97,707)	2,117,003
Administrative expenses	6	(1,979,061)	(702,354)
Other income	9	444,310	17,960
		<hr/>	<hr/>
Operating (Loss)		(5,207,800)	(1,402,724)
Finance costs	11	(135,845)	(148,551)
		<hr/>	<hr/>
(Loss) before Tax		(5,343,645)	(1,551,275)
Income tax	10	-	-
		<hr/>	<hr/>
(Loss) for the year attributable to owners of the parent		(5,343,645)	(1,551,275)
		<hr/>	<hr/>
Other Comprehensive Income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		202,558	(2,208,770)
		<hr/>	<hr/>
Other Comprehensive Income for the Year, Net of Tax		202,558	(2,208,770)
		<hr/>	<hr/>
Total Comprehensive Income for the Year attributable to the owners of the parent		(5,141,087)	(3,760,045)
		<hr/>	<hr/>
Loss per share attributable to the owners of the parent during the year			
Basic and diluted (cents per share)	12	(0.24)	(0.09)
		<hr/>	<hr/>

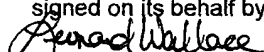
The Notes on pages 18 to 42 form part of these Financial Statements.

MAGNOLIA PETROLEUM PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	As at 31 December 2017	As at 31 December 2016
		\$	\$
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	-	4,518,177
Intangible assets	14	-	1,684,559
Total Non-Current Assets		-	6,202,736
Current Assets			
Property, plant and equipment	13	2,790,800	-
Trade and other receivables	16	635,597	610,941
Cash and cash equivalents	17	235,835	241,347
Total Current Assets		3,662,232	852,288
TOTAL ASSETS		3,662,232	7,055,024
EQUITY AND LIABILITIES			
Equity attributable to Owners of Parent			
Share capital	18	3,783,213	2,619,986
Share premium	18	15,645,313	15,254,643
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		-	65,163
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		(2,969,099)	(3,171,657)
Retained losses		(16,645,854)	(11,367,372)
Total Equity		(461,149)	3,126,041
Current Liabilities			
Trade and other payables	20	1,866,417	1,290,536
Borrowings	19	2,256,964	2,638,447
Total Current Liabilities		4,123,381	3,928,983
TOTAL EQUITY AND LIABILITIES		3,662,232	7,055,024

These Financial Statements were approved by the Board of Directors on 1st September 2018 and were signed on its behalf by:


Leonard Wallace
Director

The Notes on pages 18 to 42 form part of these Financial Statements.

	Note	As at 31 December 2017 \$	As at 31 December 2016 \$
ASSETS			
Non-Current Assets			
Investments in subsidiaries	15	-	2,885,085
Total Non-Current Assets		-	2,885,085
Current Assets			
Trade and other receivables	16	420,291	1,468,697
Cash and cash equivalents	17	16,031	10,197
Total Current Assets		436,322	1,478,894
TOTAL ASSETS		436,322	4,363,979
EQUITY AND LIABILITIES			
Equity attributable to Shareholders			
Share capital	18	3,783,213	2,619,986
Share premium	18	15,645,313	15,254,643
Merger reserve		1,975,950	1,975,950
Share option and warrants reserve		-	65,163
Translation reserve		(3,679,872)	(4,126,356)
Retained losses		(17,489,974)	(11,525,560)
Total Equity		234,630	4,260,826
Current Liabilities			
Trade and other payables	20	201,692	103,153
Total Current Liabilities		201,692	103,153
TOTAL EQUITY AND LIABILITIES		436,322	4,363,979

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 \$6,029,577 (2016: \$10,099,369).

These Financial Statements were approved by the Board of Directors on 19th September 2018 and were signed on its behalf by:


Leonard Wallace
Director

The Notes on pages 18 to 42 form part of these Financial Statements.

MAGNOLIA PETROLEUM PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

Group (\$)	Attributable to the owners of the parent							Total equity
	Share capital	Share Premium	Merger reserve	Share option and warrants reserve	Reverse acquisition reserve	Translation reserve	Retained losses	
Balance at 1 January 2016	1,704,820	15,200,219	1,975,950	209,042	(2,250,672)	(962,887)	(9,959,977)	5,916,495
Loss for the year	-	-	-	-	-	-	(1,551,274)	(1,551,274)
Other Comprehensive Income								
Currency translation differences	-	-	-	-	-	(2,208,770)	-	(2,208,770)
Total Comprehensive Income for the Year	-	-	-	-	-	(2,208,770)	(1,551,274)	(3,760,044)
Share options cancelled	-	-	-	(143,879)	-	-	143,879	-
Transactions with Owners								
Share issue	915,166	136,740	-	-	-	-	-	1,051,906
Share issue costs	-	(82,316)	-	-	-	-	-	(82,316)
Transaction with owners, recognised directly in equity	915,166	54,424	-	-	-	-	-	969,590
Balance at 31 December 2016	2,619,986	15,254,643	1,975,950	65,163	(2,250,672)	(3,171,657)	(11,367,372)	3,126,041
Balance at 1 January 2017	2,619,986	15,254,643	1,975,950	65,163	(2,250,672)	(3,171,657)	(11,367,372)	3,126,041
Loss for the year	-	-	-	-	-	-	(5,343,645)	(5,343,645)
Other Comprehensive Income								
Currency translation differences	-	-	-	-	-	202,558	-	202,558
Total Comprehensive Income for the Year	-	-	-	-	-	202,558	(5,343,645)	(5,141,087)
Share based payment movement	-	-	-	(65,163)	-	-	65,163	-
Transactions with Owners								
Share issue	1,163,227	431,179	-	-	-	-	-	1,594,406
Share issue costs	-	(40,509)	-	-	-	-	-	(40,509)
Transaction with owners, recognised directly in equity	1,163,227	390,670	-	(65,163)	-	-	65,163	1,553,897
Balance at 31 December 2017	3,783,213	15,645,313	1,975,950	-	(2,250,672)	(2,969,099)	(16,645,854)	(461,149)

The Notes on pages 18 to 42 form part of these Financial Statements.

MAGNOLIA PETROLEUM PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

Company (\$)	Attributable to the shareholders						Total equity
	Share capital	Share premium	Merger reserve	Share Option and warrants reserve	Translation reserve	Retained losses	
Balance at 1 January 2016	1,704,820	15,200,219	1,975,950	209,042	(1,407,825)	(1,570,070)	16,112,136
Loss for the year	-	-	-	-	-	(10,099,369)	(10,099,369)
Other Comprehensive Income							
Currency translation differences	-	-	-	-	(2,721,531)	-	(2,721,531)
Total Comprehensive Income for the Year	-	-	-	-	(2,721,531)	(10,099,369)	(12,820,900)
Share options cancelled	-	-	-	(143,879)	-	143,879	-
Transactions with Owners							
Share issue	915,166	136,740	-	-	-	-	1,051,906
Share issue costs	-	(82,316)	-	-	-	-	(82,316)
Total contributions by and distributions to owners of the parent, recognised directly in equity	915,166	54,424	-	-	-	-	969,590
Balance at 31 December 2016	2,619,986	15,254,643	1,975,950	65,163	(4,129,356)	(11,525,560)	4,260,826
Balance at 1 January 2017	2,619,986	15,254,643	1,975,950	65,163	(4,129,356)	(11,525,560)	4,260,826
Loss for the year	-	-	-	-	-	(6,029,577)	(6,029,577)
Other Comprehensive Income							
Currency translation differences	-	-	-	-	449,484	-	449,484
Total Comprehensive Income for the Year	-	-	-	-	449,484	(6,029,577)	(5,580,093)
Share based payment movement	-	-	-	(65,163)	-	65,163	-
Transactions with Owners							
Share issue	1,163,227	431,179	-	-	-	-	1,594,406
Share issue costs	-	(40,509)	-	-	-	-	(40,509)
Total contributions by and distributions to owners of the parent, recognised directly in equity	1,163,227	390,670	-	(65,163)	-	65,163	1,553,897
Balance at 31 December 2017	3,783,213	15,645,313	1,975,950	-	(3,679,872)	(17,489,974)	234,630

The Notes on pages 18 to 42 form part of these Financial Statements.

MAGNOLIA PETROLEUM PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
Cash Flows from Operating Activities			
(Loss) before tax		(5,343,645)	(1,551,275)
Impairment of property, plant and equipment	13	1,468,632	2,207,293
Impairment of intangible assets	14	1,748,946	-
Depreciation	13	584,630	1,073,456
Foreign exchange		97,576	(2,148,150)
Finance costs	11	135,845	148,551
Shares issued for services	18	763,730	-
		(544,286)	(270,125)
Changes to working capital			
(Increase)/Decrease in trade and other receivables		(24,656)	(169,177)
Increase in trade and other payables		575,881	149,049
		6,939	(290,253)
Interest paid	11	(135,845)	(148,551)
Net Cash used in Operating Activities		(128,906)	(438,804)
Cash Flows from Investing Activities			
Purchases of intangible assets	14	(20,336)	(1,114)
Purchases of property, plant and equipment	13	(266,139)	(413,162)
Net Cash used in Investing Activities		(286,475)	(414,276)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares	18	830,676	1,051,906
Issue costs	18	(40,509)	(82,316)
Repayments of borrowings		(381,483)	(516,337)
Net Cash generated from Financing Activities		408,684	453,253
Net Decrease in Cash and Cash Equivalents		(6,697)	(399,827)
Movement in Cash and Cash Equivalents			
Cash and cash equivalents at the beginning of the year	17	241,347	645,759
Exchange gain/(loss) on cash and cash equivalents		1,185	(4,585)
Net decrease in cash and cash equivalents		(6,697)	(399,827)
Cash and Cash Equivalents at the End of the Year	17	235,835	241,347

The Notes on pages 18 to 42 form part of these Financial Statements.

MAGNOLIA PETROLEUM PLC
COMPANY STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
Cash Flows from Operating Activities			
Loss before tax		(6,029,577)	(10,099,369)
Foreign exchange gain (loss)		178,197	(31,147)
Impairment of investment in a subsidiary		3,158,995	-
Impairment of intercompany receivable		1,457,468	9,076,105
Share issued for services	18	763,760	-
		<u>(471,157)</u>	<u>(1,054,411)</u>
Changes to working capital			
(Increase)/Decrease in trade and other receivables		(412,870)	5,006
Increase in trade and other payables		98,539	50,387
		<u>(785,488)</u>	<u>(999,018)</u>
Net Cash used in Operating Activities			
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares	18	830,676	1,051,906
Issue costs	18	(40,509)	(82,316)
		<u>790,167</u>	<u>969,590</u>
Net Cash generated from Financing Activities			
		<u>4,649</u>	<u>(29,428)</u>
Net Increase/(decrease) in Cash and Cash Equivalents			
Movement in Cash and Cash Equivalents			
Cash and cash equivalents at the beginning of the year	17	10,197	44,210
Exchange gain/(loss) on cash and cash equivalents		1,185	(4,585)
Net increase/(decrease) in cash and cash equivalents		<u>4,649</u>	<u>(29,428)</u>
Cash and Cash Equivalents at the End of the Year	17	<u>16,031</u>	<u>10,197</u>

The Notes on pages 18 to 42 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 incorporated and domiciled in England and Wales. Its registered office address is Suite 321, 19-21 Crawford Street, London, W1H 1PJ.

The principal activity of the Group is onshore oil and gas exploration and production in the United States of America (see principal activities in the strategic report for details).

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.

Due to the cessation of trade the directors have decided to prepare the financial statements on a basis other than that of a going concern. In adopting such a basis the following policies were implemented:

- At 31 December 2017 all fixed assets are considered as realisable, hence reclassified as current assets;
- All assets have been disclosed at values at which they are expected to be realised; and
- All liabilities reflect the full amount at which they are expected to materialise.

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 2017.

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.

2.2 Basis of consolidation (continued)

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.

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

At the year-end the Group was in discussion with Simmons Bank, 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. On 6 June 2018, the Group was notified that Simmons Bank would not extend the reserved based lending facility provided to Magnolia Petroleum Inc., a wholly owned operating subsidiary of Magnolia Petroleum plc. The amount outstanding to the Bank was approximately \$2,000,000 and Magnolia Petroleum Inc. was given until 9 July 2018 to repay or refinance its loan.

On 9 July 2018, Magnolia Petroleum Inc. repaid the Group's revolving credit facility in full.

The company made the decision to cease trading effective from the date of repayment of the loan and to wind down its operations. The directors consider it inappropriate to prepare the financial statements on a going concern basis and have therefore prepared them on a basis other than the going concern basis as set out above in the basis of preparation note. The auditors have made reference to this with their audit report as a emphasis of matter.

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 2017 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 2017, 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 pertains to the sale of assets and is recognised in the accounting period in which the sale took place.

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.

All Property, Plant and Equipment has been detailed as current asset due to the accounts being prepared on a basis other than going concern (see Note 2.1 and 2.3).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.8 Intangible assets (continued)**

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.

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 greater than 12 months after the end of the reporting period although given that the Group has taken the decision to wind down its operation all assets, including those with maturity of more than 12 months after the reporting period are included within current assets.

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.

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

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

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

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.14 Borrowings costs**

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

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 Magnolia 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.18 Leasing**

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

2.19 Segmental 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.

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 2017, the Group's borrowings at variable rates were denominated in US dollars.

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. Based on the withdrawal of the borrowing facility in the post year end period, all borrowings have been classified as less than 1 year in the current year.

Group	Less than
At 31 December 2017	1 year
Borrowings	2,256,964
Trade and other payables	1,866,417
	<hr/>
	4,123,381
	<hr/>
At 31 December 2016	
Borrowings	2,638,447
Trade and other payables	1,132,983
	<hr/>
	3,771,430
	<hr/>

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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.

Estimated impairment of producing properties and capitalised drilling costs & equipment

At 31 December 2017, mineral leases and capitalised drilling costs & equipment on producing properties have a total carrying value of \$2,790,800 (2016: \$4,518,177) (Note 13) and as result of the financial statements being prepared as a basis other than that of going concern, are classified as current. 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 \$1,419,630 should be recognised to write down the value of the assets due to the cessation of trade.

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 2017 of \$nil (2016: \$1,400,340). 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 \$1,409,932 should be recognised in respect of said amounts.

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 2017 of \$nil (2016: \$284,219). 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 an impairment charge of \$311,203 is required.

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 2017			
	USA	UK	Intra-segment balances	Total
	\$	\$	\$	\$
Revenue from external customers	903,435	-	-	903,435
Gross loss	(357,764)	-	-	(357,764)
Operating profit/(loss)	(2,161,860)	(2,734,737)	(311,203)	(5,207,800)
Impairment – property, plant and equipment	1,468,632	-	-	1,468,632
Impairment – intangible assets	1,437,743	-	311,203	1,748,946
Depreciation	581,495	-	-	581,495
Capital expenditure	266,139	-	-	266,139
Total assets	3,225,910	436,322	-	3,662,232
Total liabilities	3,921,689	201,692	-	4,123,381

	Year ended 31 December 2016			
	USA	UK	Intra-segment balances	Total
	\$	\$	\$	\$
Revenue from external customers	1,273,612	-	-	1,273,612
Gross profit	(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

5 SEGMENTAL INFORMATION (continued)

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

	Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
Operating (Loss) for reportable segments	(5,207,800)	(1,402,724)
Finance income	-	-
Finance costs	(135,845)	(148,551)
	<u> </u>	<u> </u>
(Loss) before tax	(5,343,645)	(1,551,275)
	<u> </u>	<u> </u>

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 2017 \$	Year ended 31 December 2016 \$
Segmental assets for reportable segments	3,662,232	6,770,805
Unallocated: goodwill	-	284,219
	<u> </u>	<u> </u>
Total assets per Statement of Financial Position	3,662,232	7,055,024
	<u> </u>	<u> </u>

Information about major customers/operating partners

In the year ended 31 December 2017 revenues of \$204,058 and \$197,004 are derived from two operators. These revenues were all generated in the USA.

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.

6 EXPENSES BY NATURE

Group	2017	2016
	\$	\$
Operator costs	261,097	553,510
Production taxes	418,607	278,018
	<hr/>	<hr/>
Total operating expenses	679,704	831,528
	<hr/>	<hr/>
Directors' remuneration and fees	207,350	282,868
Consulting fees	48,118	18,863
Legal, professional and compliance costs	239,757	128,599
Depreciation	3,135	3,332
Office staff costs	243,549	103,742
Other costs	1,237,152	164,950
	<hr/>	<hr/>
Total administrative expenses	1,979,061	702,354
	<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:

	2017	2016
	\$	\$
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated Financial Statements	29,141	28,000
Fees payable to the Company's auditor for other services:		
- in relation to tax compliance	2,177	2,177
	<hr/>	<hr/>

8 STAFF COSTS

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

	Group	
	2017	2016
	\$	\$
Wages and salaries	435,697	378,872
Social security costs	14,058	14,645
Pension costs	-	600
Other benefits	58,961	58,891
	<u>508,716</u>	<u>453,008</u>

Directors' Emoluments/Key Management Personnel

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

The average monthly number of Directors, during the financial year was as follows, there were no other staff during the current financial year. The Director's emoluments are detailed in the staff costs note above:

	Group	
	2017	2016
	No.	No.
Administrative and managerial	<u>4</u>	<u>6</u>

	Company	
	2017	2016
	No.	No.
Administrative and managerial	<u>4</u>	<u>5</u>

9 OTHER INCOME

	Group	
	2017	2016
	\$	\$
Sale of Assets	409,352	17,960
Lease Fund Fee Income	34,958	-
	<u>444,310</u>	<u>17,960</u>

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

The tax charge for the year is \$Nil (2016: \$Nil).

Factors affecting the tax charge for the period

The tax charge for each year is explained below:

	2017 \$	2016 \$
(Loss)/profit for the year before taxation	(5,343,645)	(1,551,275)
(Loss)/profit for the period before tax multiplied by the weighted average tax rate of 25.28% (2016: 22.5%)	(1,350,785)	(348,993)
Expenses not deductible for tax purposes – impairment of non-current assets	1,039,010	737,326
Tax losses for which no deferred tax asset recognised - UK	725,635	24,830
Tax losses for which no deferred tax asset recognised - US	(413,860)	(318,928)
Revenue deduction for capitalised costs - US	-	(94,235)
	<u> </u>	<u> </u>
Income tax charge	-	-
	<u> </u>	<u> </u>

The Group has UK tax losses of approximately \$4,302,064 (2016: \$1,308,000) and US tax losses of approximately \$1,972,386 (2016: losses of approximately \$14,012,000). A potential deferred tax asset of approximately \$860,413 (2016: \$261,000) on the UK losses and \$788,954 (2016: \$5,604,000) on the US losses has not been recognised due to the post year end cessation of trade.

11 FINANCE INCOME AND FINANCE COSTS

	2017 \$	2016 \$
Interest income	-	-
	<u> </u>	<u> </u>
Interest expense and fees – bank borrowings	(135,845)	(148,551)
	<u> </u>	<u> </u>

12 EARNINGS PER SHARE

The calculation of earnings per share of loss of 0.24 cents per share (2016 loss per share: 0.09 cents) is calculated by dividing the loss attributable to ordinary shareholders of \$5,343,645 (2016 loss: \$1,551,275) by the weighted average number of ordinary shares of 2,198,267,692 (2016: 1,751,458,563) 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 2017.

13 PROPERTY, PLANT AND EQUIPMENT

Group	Producing properties (Mineral Leases) \$	Drilling costs and equipment \$	Motor vehicles and office equipment \$	Total \$
Cost				
At 1 January 2016	1,349,349	13,316,115	24,729	14,690,193
Additions	7	413,155	-	413,162
Impairment	-	-	-	-
Transferred from intangible assets	18,992	72,302	-	91,294
Disposals	-	-	-	-
At 31 December 2016	1,368,348	13,801,572	24,729	15,194,649
Additions	487	265,652	-	266,139
Transferred from intangible assets	-	10,744	-	10,744
At 31 December 2017	1,368,835	14,077,968	24,729	15,471,532
Accumulated Depreciation and Impairment				
At 1 January 2016	1,087,007	6,290,454	18,262	7,395,723
Charge for the period	114,337	955,787	3,332	1,073,456
Impairment	-	2,207,293	-	2,207,293
At 31 December 2016	1,201,344	9,453,534	21,594	10,676,472
Charge for the period	76,818	504,677	3,135	584,630
Impairment	90,673	1,377,959	-	1,468,632
Exchange movements	-	(49,002)	-	(49,002)
At 31 December 2017	1,368,835	11,287,168	24,729	12,680,732
Net Book Amount				
At 31 December 2016	167,004	4,348,038	3,135	4,518,177
At 31 December 2017	-	2,790,800	-	2,790,800

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 \$581,495 (2016: \$1,070,124) has been charged in cost of sales.

Motor vehicles and office equipment depreciation expense of \$3,135 (2016: \$3,332) has been charged in administrative expenses.

13 PROPERTY AND EQUIPMENT (continued)

All Property, Plant and Equipment has been classified as current assets (see Note 2.1 and 2.3).

The key estimates used when considering the carrying value of PPE are discount rate (9%), total proved developed producing bbls (264,841) and mcf (1,652,331), oil price (US\$/Bbl 50.96 to US\$/Bbl 68.00) and gas price (US\$/Mcf 2.43 to US\$/Mcf 3.94). Any movement in respect of these assumptions would impact the carrying value of the assets. Post year a proportion of the assets held were sold for an amount above their carrying value.

14 INTANGIBLE ASSETS

Group	Goodwill	Drilling costs	Mineral leases	Total
	\$	\$	\$	\$
Cost				
At 1 January 2016	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)
Disposals	-	-	-	-
Exchange movements	(56,034)	-	-	(56,034)
Impairment	-	-	-	-
At 31 December 2016	284,219	10,744	1,389,596	1,684,559
Additions	-	-	20,336	20,336
Transferred to property, plant and equipment	-	(10,744)	-	(10,744)
Exchange movements	26,984	-	27,811	54,795
Impairment	(311,203)	-	(1,437,743)	(1,748,946)
As at 31 December 2017	-	-	-	-
Amortisation				
At 1 January 2015, 31 December 2016 and 31 December 2017	-	-	-	-
Net Book Amount				
At 31 December 2016	284,219	10,744	1,389,596	1,684,559
At 31 December 2017	-	-	-	-

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.

14 INTANGIBLE ASSETS (continued)

- The Group has disposed of the licence in 2017 therefore the asset has been written down to net realisable value.
- The company made the decision to cease trading and to wind down its operations.

Following their assessment the Directors recognised an impairment charge totalling US\$3,217,578 for the year ended 31 December 2017 (2016: \$2,207,293). This is 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 impairment in 2017 is associated with a markdown in the value of its interests in producing properties identified as non-economic at today's low oil prices based on the reserve report showing the future cash flows of the properties.

The Directors believe that an impairment of \$311,203 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

	2017 \$	2016 \$
Company		
Shares in group undertakings		
At 1 January	2,885,085	3,453,879
Exchange movements	273,910	(568,794)
Impairment	(3,158,995)	-
	<hr/>	<hr/>
At 31 December	-	2,885,085
	<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	
	2017	2016	2017	2016
	\$	\$	\$	\$
Trade receivables	114,744	442,884	-	-
Other receivables	443,164	82,188	412,769	-
Amounts due from group undertakings	-	-	-	1,461,276
Prepayments	77,689	85,869	7,522	7,421
	<u>635,597</u>	<u>610,941</u>	<u>420,291</u>	<u>1,468,697</u>

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 2017, trade receivables of \$114,744 (2016: \$442,884) were fully performing.

Group

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

	2017	2016
	\$	\$
UK Pounds	420,291	7,421
US Dollar	215,306	603,520
	<u>635,597</u>	<u>610,941</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

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cash at bank	<u>235,835</u>	<u>241,347</u>	<u>16,031</u>	<u>10,197</u>

At 31 December 2017, the Group held cash of \$16,031 (2016: \$10,197) in a bank with a Fitch credit rating of A (Stable) and \$219,804 (2016: \$231,150) 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 2016	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
Placing shares	890,669,235	890,669	1,163,227	324,880	431,179	1,594,406
Issue costs	-	-	-	(30,000)	(40,509)	(40,509)
At 31 December 2017	2,642,127,798	2,642,127	3,783,213	9,843,806	15,645,313	19,428,526

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	
		2017	2016
24 January 2017	2.85	-	1,754,386
1 November 2018	0.15	225,000,000	225,000,000
25 November 2018	1.30	23,397,268	23,397,268
28 January 2020	2.925	5,084,745	5,084,745
31 December 2020	0.4	84,677,737	84,677,737
		<u>338,159,750</u>	<u>339,914,136</u>

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

The options and warrants are deemed no value due to the operational ability of the Group in 2018. Details on the subsequent events are detailed discussed in Note 26.

18 SHARE CAPITAL AND PREMIUM (continued)**Share options and warrants (continued)**

A reconciliation of options granted and lapsed during the year ended 31 December 2017 is shown below.

	Year ended 31 December 2017		Year ended 31 December 2016	
	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	339,914,136	0.35	74,914,136	1.78
Outstanding at end of year	338,159,750	0.33	339,914,136	0.35
Exercisable at end of year	338,159,750	0.33	339,914,136	0.35

No options or warrants were exercised during the year. There were 1,754,386 options that expired during the year. The options and warrants are deemed no value due to the operational ability of the Group in 2018. Details on the subsequent events are detailed discussed in Note 26.

As a result, the remaining balance in the share options and warrants reserve has been transferred to retained earnings.

19 BORROWINGS

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Current				
Bank borrowings (including arrangement fee)	2,256,964	2,638,447	-	-

As at 31 December 2017 the Group had a \$6 million revolving credit facility with a maturity date of 4 February 2018. 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 4.5%) +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.

On 9 July 2018, Magnolia Petroleum Inc. decided to repay the Group's revolving credit facility in full due to the notification of the bank that it would not extend the reserved based facility and Magnolia Petroleum was until 9 July 2018 to repaid or refinance the said loan.

20 TRADE AND OTHER PAYABLES

Current	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Trade and other payables	1,664,832	1,213,873	107	26,490
Accrued expenses	201,585	76,663	201,585	76,663
	<u>1,866,417</u>	<u>1,290,536</u>	<u>201,692</u>	<u>103,153</u>

21 FINANCIAL INSTRUMENTS BY CATEGORY

	Group		Company	
	2017	2016	2017	2016
	\$	\$	\$	\$
Assets as per Statement of Financial Position				
Loans and receivables:				
Trade and other receivables (excluding prepayments)	557,908	525,071	412,769	1,468,697
Cash and cash equivalents	235,835	241,347	16,031	10,197
	<u>793,743</u>	<u>766,418</u>	<u>428,800</u>	<u>1,478,894</u>
Liabilities per Statement of Financial Position				
Financial liabilities at amortised cost:				
Borrowings	2,256,964	2,638,447	-	-
Trade and other payables (excluding non-financial liabilities)	1,866,417	1,290,536	201,692	103,153
	<u>4,123,381</u>	<u>3,928,983</u>	<u>201,692</u>	<u>103,153</u>

1-30 days 30-60 days 60-90 days Over 90 days

Trade and other receivables
(excluding prepayments):

Group				
2017	478,580	48,933	-	30,395
2016	151,394	-	34,163	339,514
Company				
2017	412,769	-	-	-
2016	270,593	283,807	914,297	-

	1-30 days	30-60 days	60-90 days	Over 90 days
Trade and other payables (excluding non-financial liabilities):				
Group				
2017	440,101	8,992	-	1,417,324
2016	196,640	33,856	49,058	1,010,982
Company				
2017	201,692	-	-	-
2016	94,440	4,625	1,979	2,109

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; 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 was paid in full on 9 July 2018.

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 2017 or 2016 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 2017 the Company charged management fees of \$67,467 (2016: \$61,501) to Magnolia Petroleum Inc, the Company's wholly owned subsidiary for the provision of administrative and management services. \$67,467 (2016: \$61,501) in relation to these fees was outstanding at the year end date and is included within Trade and other receivables. As at 31 December 2017, the amount due to the Company from Magnolia Petroleum Inc was \$0 (2016: \$1,461,276).

All Group transactions were eliminated on consolidation.

The details of the director's interest and remuneration are detailed in the Directors' Report.

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 29 June 2018 Magnolia Petroleum plc cancelled the admission to trading on AIM of its Ordinary Shares

Magnolia Announced in circular dated 7 June 2018 that it was preparing to divest assets in order to pay off it's outstanding debt to Simmons Bank and has completed such divestiture.

On 9 July 2018 Magnolia Petroleum Inc. paid off its bank loan from the proceeds of selling down some of the Company's assets.

On 31 July 2018 Rita Whittington and Derec Norman were released from their duties for the company and their directorships were terminated.