Magnum Gas & Power Limited

ACN 107 708 305

Half-Year Report for the half-year ended 31 December 2013

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Directors' report

The directors of Magnum Gas & Power Limited ("the Company") submit herewith the financial report of Magnum Gas & Power Limited and its subsidiaries ("the Group") for the half-year ended 31 December 2013. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the directors of the Company during or since the end of the half-year are:

Mr T Fontaine - Non-Executive Chairman
Mr T Wheeler – Managing Director
Mr B Montgomery – Non-Executive Director
Mr R Wheeler – Non-Executive Director

Review of operations

Corporate

Overview

During the six months Magnum successfully completed the current phase of the Botswana CBM exploration programme. The results were very positive providing Magnum with significant data to support prospectivity and basin models. The next phase of exploration drilling is now being planned.

The Australian CBM projects in New South Wales have remained at standstill. As the expected lack of energy supply and increased price of energy develops in NSW, the state will be pressed to develop energy avenues and ideally bring their internal resources to market.

Magnum continues to evaluate other opportunities and strategic relationships to further enhance its portfolio of projects.

Botswana

Overview

The Magnum CBM exploration portfolio consists of multiple Coal Bed Methane Prospecting Licences focused on two separate project areas, Central and Northern CBM project areas, within the overall central Kalahari Karoo basin of Botswana, Africa.

During the period Magnum carried out its current phase exploration programme on the Central CBM project area and made a discovery of Coal and Coal Bed Methane, subsequently announcing the presence of 95% methane in the gas composition results. Magnum has informed the Botswana Ministry of Mines, Energy and Water Resources that a discovery of Coal Bed Methane has been made on the Company prospecting licences. Magnum continued the review and integration of data from its exploration programme on the Central CBM project area.

The carbonaceous package includes coal, carbonaceous mudstone and shale. The total carbonaceous intersection was 90m, with a clean coal thickness of 16m. A total of 14 HQ core samples were desorbed and gas samples taken for analysis. Laboratory testing of the gas samples taken has shown that the gas composition is dominated by methane (95+%).

This result is very important to Magnum as it is a significant step towards the company's goal of certifying gas reserves within the Karoo Basin. The coals of the Karoo Basin are known to potentially contain significant quantities of CBM. The results help confirm Magnums expectations of the basin and the companies exploration acreage. The results support Magnums plans to progress additional exploration drilling, particularly focusing on two of the nearby Central Project Area blocks.

Major CBM exploration programmes are underway in the basin by significant peers, including Kubu Energy (Sasol and Origin Energy), Exxaro and Tlou Energy. Existing power generation facilities in Botswana's critical power market are currently awaiting CBM gas supply.

Magnum's CBM acreage is located in the Central region of Botswana and is held 100% by Magnum. The Central CBM project consists of six blocks, totalling 1,205 km², of prospecting licences over prospective CBM acreage across the "Mmashoro" basin in the Mmashoro Region. Renewals of the Northern CBM PL 644/2009; 645/2009 are pending with the Botswana Government.

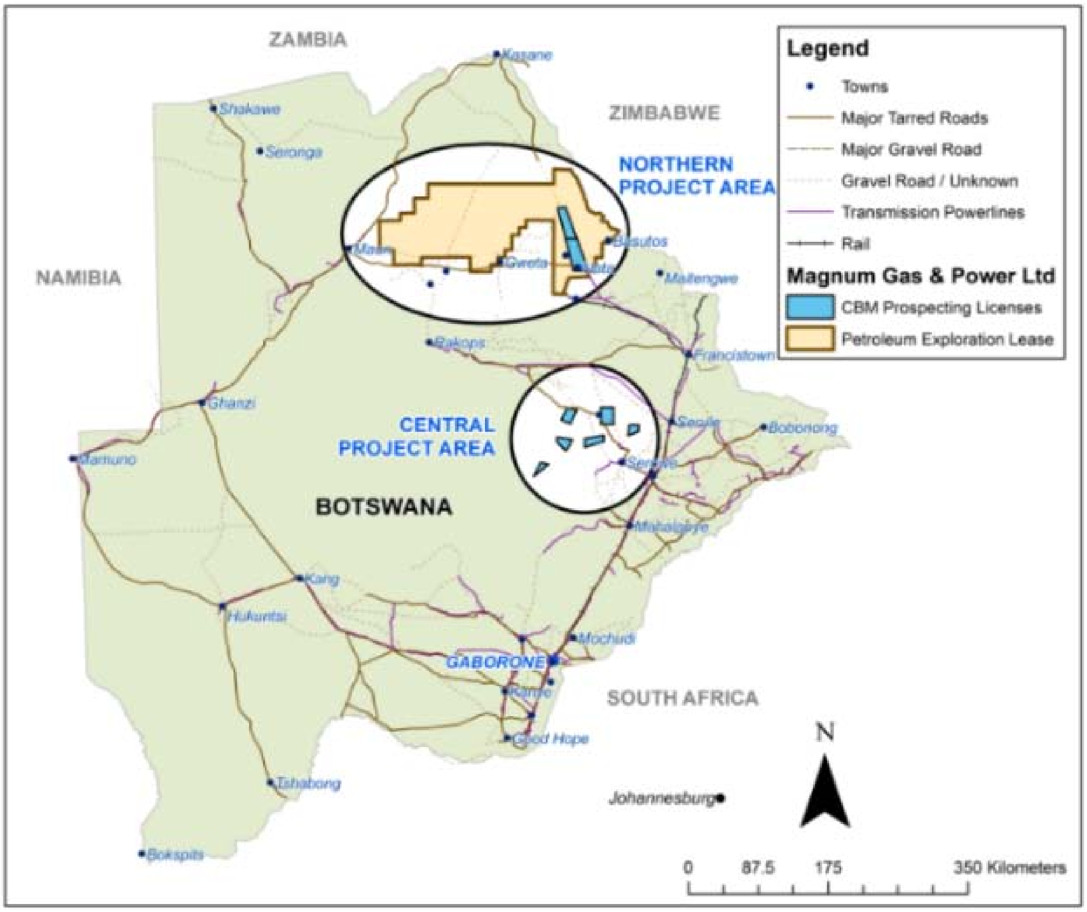

Figure 1. Botswana Project Area's

Petroleum Projects

Overview

In October 2012 Magnum's wholly owned Botswana subsidiary Baobab Resources (Pty) Ltd was awarded Petroleum Exploration Licence ("PEL") No. 154/2012 by the Department of Geological Surveys in the Republic of Botswana.

The PEL 154/2012 covers approximately 23,700 km2 and is located in the Ngamiland and Central districts of Botswana. Magnum continues to progress desktop studies on the acreage.

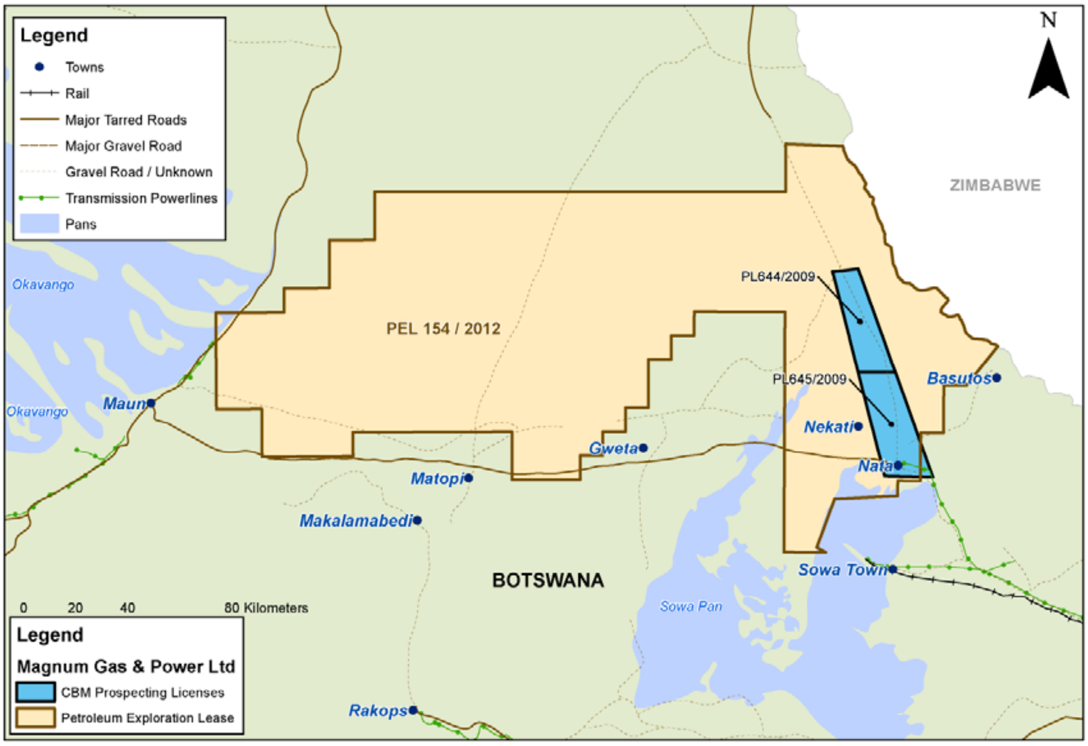

Figure 2. Botswana Petroleum Exploration Licence

New South Wales

Overview

NSW imports 95% of its gas and is currently producing just 5% of its gas needs from Coal Seam Gas ("CSG") compared to Queensland where CSG comprises about 90% of its gas production. According to an ACIL Tasmin report, 'Economic Significance of Coal Seam Methane in New South Wales", gas prices could double by 2014 without the development of a significant local gas supply.

In late November 2013 the NSW government announced that NSW is facing a gas supply shortage without local production, stating that findings released by the Australian Energy Market Operator (AEMO) supported the NSW Government's view that future gas availability was inadequate without new local supply, with AEMO suggesting restrictions on usage may have to be imposed. Prior to this, in mid-November 2013 the NSW government imposed a hold on CSG activities pending an investigation by the NSW Chief Scientist and Engineer. The study will supplement the Chief Scientist's current CSG review. Magnum awaits the report. Subsequently in December 2013 the NSW Minister for Resources and Energy, Chris Hartcher, resigned and the Hon. Anthony Roberts was appointed.

Magnum continues to support a scientific approach to decision making regarding coal seam gas development, and is hopeful that the NSW Chief Scientist process will enable the framework and regulations to stabilise, enabling the Company to re-commence exploration activities.

CBM Projects

The Southern Sydney Basin in New South Wales is of Permo-Triassic age. The Late Permian coal measure sequence, the Illawarra Coal Measures, contains the primary coals in the basin.

Coal is the primary resource produced from the basin, for export and power generation.

Most of the coal mining has been carried out in the youngest seam, the Bulli seam, with lesser activities in the underlying Balgownie, Wongawilli and Tongarra seams. As the sequence dips to the north, the deeper seams successively rise to mineable depth in the southern part of the Southern Coalfields.

The Southern Sydney Basin in which Magnum's interests are located is considered to be more prospective for coal bed methane than the Northern Sydney Basin.

Farm-In to Apex Energy NL

In August 2010 Magnum (formerly Ormil Energy Ltd) and its subsidiaries completed a Farm-In and Purchase agreement with Apex Energy NL ("Apex"). As a result of this agreement, Magnum subsidiary Sydney Basin CBM Pty Ltd acquired a right to earn a 20% interest in the Apex permits, PEL 442, 444 and 454 (and other gas collection rights held by Apex). (Figure 5)

Phase 1 and Phase 2 of the Farm-In agreement have been completed, providing Magnum (via Sydney Basin CBM) with a 20% interest in the permits. Phase 3 of the Farm-In agreement provided Magnum with the right to earn a further 30% interest through additional expenditure. The Farm-In is currently at a standstill due to the political environment in NSW.

Joint Venture Arrangement

A Joint Venture ("JV") with Apex was entered into, whereby Ormil Operations Pty Ltd (a subsidiary of Magnum) is the operator of the JV. The purpose of the JV being to acquire, explore, appraise and develop petroleum deposits in the Joint Venture area.

Exploration

There has been virtually no Coal Seam Gas activity in NSW during the whole of 2012 and 2013 as the Government firstly undertook an extensive public consultation process, introduced a series of regulations which were announced in late 2012 and then in early 2013 the Government announced a further review to be undertaken by the NSW Chief Scientist, this process is ongoing.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

Mr T Wheeler
Managing Director
Perth, 14 March 2014

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Magnum Gas & Power Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
14 March 2014

N G Neill
Partner

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Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2013

	Note	Consolidated	
		Half-year ended 31 Dec 2013 $	Half-year ended 31 Dec 2012 $
Interest revenue		13,701	19,753
Depreciation		(4,340)	(1,114)
Occupancy expenses		(55,436)	(34,615)
Administration expenses		(471,579)	(707,771)
Loss before income tax expense		(517,654)	(723,747)
Income tax expense		-	-
Net loss for the period		(517,654)	(723,747)
Other comprehensive income			
Item that may be subsequently classified to profit and loss:			
Exchange differences on translation of foreign operations		27,059	(57,786)
Total other comprehensive income/(loss) for the period		27,059	(57,786)
Total comprehensive loss for the period		(490,595)	(781,533)

	Cents per share	Cents per share
Loss per share		
Basic and diluted loss per share	(0.07)	(0.13)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position as at 31 December 2013

	Note	Consolidated 31 Dec 2013 $	Consolidated 30 Jun 2013 $
Current assets			
Cash and cash equivalents		855,235	2,226,912
Receivables		157,128	216,918
Total current assets		**1,012,363**	**2,443,830**
Non-current assets			
Other financial assets		2,834,425	2,834,425
Property, plant and equipment		19,422	19,890
Exploration and evaluation assets	3	15,140,504	14,320,251
Total non-current assets		**17,994,351**	**17,174,566**
Total assets		**19,006,714**	**19,618,396**
Current liabilities			
Trade and other payables		168,285	610,671
Total current liabilities		**168,285**	**610,671**
Non-current liabilities			
Deferred tax liabilities		1,962,729	1,962,729
Total non-current liabilities		**1,962,729**	**1,962,729**
Total liabilities		**2,131,014**	**2,537,400**
Net assets		**16,875,700**	**17,044,996**
Equity			
Issued capital	4	30,471,111	30,149,812
Reserves		110,789	83,730
Accumulated losses		(13,706,200)	(13,188,546)
Total equity		**16,875,700**	**17,044,996**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2013

	Consolidated				
	Share capital $	Accumulated losses $	Foreign Currency Translation Reserve $	Share Based Payment Reserve $	Total $
Balance at 1 Jul 2012	18,931,368	(11,871,909)	-	-	7,059,459
Loss for the period	-	(723,747)	-	-	(723,747)
Translation of foreign subsidiaries	-	-	(57,786)	-	(57,786)
Total comprehensive loss for the period	-	(723,747)	(57,786)	-	(781,533)
Share issue (net of costs)	11,218,443	-	-	-	11,218,443
Share based payments	-	-	-	111,594	111,594
Balance at 31 Dec 2012	**30,149,811**	**(12,595,656)**	**(57,786)**	**111,594**	**17,607,963**
Balance at 1 Jul 2013	30,149,812	(13,188,546)	(12,851)	96,581	17,044,996
Loss for the period	-	(517,654)	-	-	(517,654)
Translation of foreign subsidiaries	-	-	27,059	-	27,059
Total comprehensive loss for the period	-	(517,654)	27,059	-	(490,595)
Share issue (net of costs)	321,299	-	-	-	321,299
Balance at 31 Dec 2013	**30,471,111**	**(13,706,200)**	**14,208**	**96,581**	**16,875,700**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2013

	Consolidated	
	Half-year ended 31 Dec 2013 $	**Half-year ended 31 Dec 2012 $**
Cash flows from operating activities		
Payments to suppliers and employees	(624,524)	(557,485)
Interest received	13,701	19,753
Net cash used in operating activities	(610,823)	(537,732)
Cash flows from investing activities		
Payments for property, plant and equipment	(3,873)	(13,879)
Exploration expenditure	(1,051,280)	(335,168)
Cash acquired on business combination	-	152,534
Net cash used in investing activities	(1,055,153)	(196,513)
Cash flows from financing activities		
Proceeds from share issue	316,060	3,591,494
Payments for share issue costs	(21,761)	(154,522)
Net cash provided by financing activities	294,299	3,436,972
(Decrease)/increase in cash and cash equivalents	**(1,371,677)**	**2,702,727**
Cash and cash equivalents at the beginning of the period	2,226,912	556,579
Cash and cash equivalents at the end of the period	**855,235**	**3,259,306**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements

1. Statement of Compliance

These interim condensed consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed consolidated interim financial (half-year) report does not include all the disclosure and notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Magnum Gas & Power Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated interim financial statements were approved by the Board of Directors on 14 March 2014.

(a) Basis of preparation

The half-year report has been prepared on an accruals basis and is based on historic costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim report, the half-year has been treated as a discrete reporting period.

(b) Accounting policies and methods of computation

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretation effective for the current half-year that are relevant to the Group include:

- AASB10 *Consolidated Financial Statements (2011)*
  AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances. The Group has reassessed the control conclusion for its investees at 1 July 2013 and there have been no changes in the control determination of subsidiaries and or associates at that point in time. Consequently there has been no impact on the financial statements.

- AASB11*Joint Arrangements*
  Under AASB 11, the Group has classified its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

  The Group has evaluated its involvement in its joint arrangements and accordingly, there has been no material impact to the financial statements as result.

Notes to the condensed consolidated financial statements (continued)

- AASB13 *Fair Value Measurement*
  AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures.*

  In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the application of this standard has had no significant impact on the measurements of the Group's assets and liabilities.

- AASB119 *Employee Benefits (2011)*
  AASB 119 revised the definition of short-term employee benefits to benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. The standard requires a measurement of annual leave liability of the Group's employees as a long term benefit, where the benefits are expected to be settled after 12 months after the end of the reporting period. There has been no material impact on the financial statements with the application of this standard.

(c) Significant accounting judgements and key estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2013.

Impairment of exploration assets

Whether exploration assets require impairment is based on whether the company no longer wishes to hold that exploration licence or whether a detailed exploration programme has been completed across an entire licence that has yielded no results.

During the prior year, the New South Wales Government announced its intention to amend the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 (Mining SEPP) and called for public submissions on the proposed amendments. At the date of this report, the NSW Government is still to release a final amended Mining SEPP.

The proposed changes include exclusion zones for coal seam gas exploration and development within two kilometres of residential areas. The Group currently has an interest in three Petroleum Exploration licences that may be affected by these changes. In July 2013, the NSW Planning and Assessment Commission did not approve a modification application made by the Group to extend the term over two licences on the basis that the proposed amendments on the Mining SEPP had not yet been concluded. Currently, no drilling activities can take place in these areas.

The Directors and management believe that in their judgement, the potential impact of these proposed amendments triggers the requirement for an assessment of impairment under Australian accounting standards.

Although the Directors remain confident in the potential of the project areas in NSW, the proposed changes are still subject to consultation and have not yet been enacted. As a result they are not in a definitive position to determine the ultimate effect, if any, on the Group's future operations in this area. The value attributed to the area of interest totals $3,824,700 (June 2013: $3,824,700). These conditions constitute a material uncertainty over the recoverability of this expenditure.

Notes to the condensed consolidated financial statements (continued)

(c) Significant accounting judgements and key estimates (continued)

AFS Investment

The Group has investments in unlisted shares of $2,833,772 (June 2013: $2,833,772) that are not traded in an active market but that are also classified as AFS financial assets and stated at cost. As at the reporting date of 31 December 2013 the Directors could not reliably measure the fair value of the investment as the investment is in exploration activities that are still in the early stages of the project, and relate to the exploration assets in NSW subject to proposed Mining SEPP changes and is therefore carried at cost. Once the investment can be reliably measured, the investment will be carried at fair value.

(d) Going Concern

The Directors have prepared this interim report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 31 December 2013, the Group has $855,235 in cash and net current assets of $844,078. For the half-year the Group expended $610,823 of net cash from operations and $1,055,153 of net cash from investing activities. Directors have undertaken an analysis of the Company and the Group's minimum cash flow requirements for the coming 12 month period and are confident that assuming the preferred work plans are put in place there will be sufficient cash reserves for that period, subject to the successful completion of a capital raising in 2014 and if necessary the reduction of operating costs. The Directors will continue to closely monitor operations to ensure the momentum of transformation and growth can be maintained but within available resources.

The Directors are cognisant of the fact that future exploration and administration activities are constrained by the available cash assets and the Company may require raising additional funds to meet its ongoing obligations and subject to the result of its ongoing exploration activities, expand or accelerate its work programs.

The Company also has the capacity, if necessary, to reduce the ongoing costs and commitments significantly. In addition, non-core projects can be sold or farmed-out as required, to enable ongoing commitments to be met.

The Company enjoys the support of its Directors and major shareholders and the Directors believe that the Company will be able to raise sufficient equity funds to enable operations to continue.

The Directors have reviewed the Group's overall position and, in light of those matters mentioned above, are confident of securing funds if and when necessary to meet the Company's exploration and development plans and obligations as and when they fall due, and consider the adoption of the going concern basis to be appropriate in the preparation of this interim report. However, in the unlikely event that the Company is unsuccessful in raising sufficient funding, there exists a material uncertainty that the Company or the Group will be able to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Notes to the condensed consolidated financial statements (continued)

2. Segment Information

The Board has determined that the Group has two reportable segments, being mineral exploration and evaluation in Australia and Botswana. As the Group is focused on mineral exploration and evaluation, the Board monitors the Group based on actual versus budgeted exploration and evaluation expenditure incurred. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the Group and its ongoing exploration and evaluation activities, while also taking into consideration the results of exploration and development work that has been performed to date.

31 Dec 2013	Exploration Botswana	Exploration Australia	Total Segments	Corporate	Consolidated
	$	$	$	$	$
Segment revenue	-	-	-	13,701	13,701
Segment result	-	-	-	(517,654)	(517,654)
Segment assets	11,292,731	6,682,198	17,974,929	1,031,785	19,006,714
Segment liabilities	(2,059,784)	-	(2,059,784)	(71,230)	(2,131,014)

31 Dec 2012	Exploration Botswana	Exploration Australia	Total Segments	Corporate	Consolidated
	$	$	$	$	$
Segment revenue	-	-	-	19,753	19,753
Segment result	-	-	-	(723,747)	(723,747)
Segment assets	9,628,639	6,676,168	16,304,807	3,543,613	19,848,420
Segment liabilities	-	-	-	(277,728)	(277,728)

3. Exploration and evaluation assets

	Six Months to 31 Dec 2013	Year to 30 Jun 2013
	$	$
Non-current		
Balance at beginning of period	14,320,251	3,523,480
Effect of foreign exchange	32,584	-
Expenditure incurred during the year	784,969	1,135,582
Acquisition of exploration and evaluation assets of business combination at fair value	-	9,661,189
Balance at end of period	15,140,504	14,320,251

Recoverability of the carrying amount of exploration assets is dependent upon the successful exploration and sale of resources.

Notes to the condensed consolidated financial statements (continued)

4. Issued Capital

	Six Months to 31 Dec 2013	Year to 30 Jun 2013	Six Months to 31 Dec 2013	Year to 30 Jun 2013
	No.	No.	$	$
Issued share capital	806,413,694	778,575,378	30,471,111	30,149,812
Share movements during the year:				
At the beginning of the year	778,575,378	301,612,250	30,149,812	18,931,368
Shares issued pursuant to Share Purchase plan at 1.2 cents per share	26,338,316	-	316,060	-
Shares issued in lieu of services rendered at 1.8 cents per share	1,500,000	-	27,000	-
Shares issued for the acquisition of Energy Botswana Ltd at 2.5 cents per share	-	293,258,856	-	7,331,471
Shares issued pursuant to rights issue at 2.2 cents per share	-	183,704,272	-	4,041,494
Share issue costs	-	-	(21,761)	(154,521)
At the end of the year	806,413,694	778,575,378	30,471,111	30,149,812

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

5. Options

	31 Dec 2013		30 June 2013	
	No. of options	Weighted Average Exercise Price	No. of options	Weighted Average Exercise Price
Movements in options over ordinary shares on issue:				
Balance at the beginning of period	18,500,000	$0.06	19,000,000	$0.08
Granted	-	-	49,733,400	$0.06
Forfeited / lapsed	-	-	(4,000,000)	($0.06)
Exercised	-	-	-	-
Expired	-	-	(46,233,400)	($0.08)
Balance at end of period	18,500,000	$0.06	18,500,000	$0.06

Notes to the condensed consolidated financial statements (continued)

6. Commitments

In order to maintain current rights of tenure to exploration tenements the Company is required to perform minimum exploration.

These obligations are not provided for in the financial report:

	31 Dec 2013	30 Jun 2013
	$	$
Gas properties		
Not longer than 1 year	1,000,000	964,286
Longer than 1 year and not longer than 5 years	1,102,228	1,125,300
Operating leases		
Not longer than 1 year	52,998	70,650
Longer than 1 year and not longer than 5 years	-	17,663
	2,155,226	2,177,899

The commitments above include balance of commitments payable in Stages 1 and 2 of the Apex Energy NL joint venture and commitments relating to the Botswana licenses held.

The Group through its wholly owned Botswana subsidiary Nata Energy (Pty) Ltd, has one hundred percent of the interest of the Botswana Coal Bed Methane Projects (Prospecting Licence's 352/2008; 353/2008; 644/2009, 645/2009 and 45/2008). As part of the original acquisition agreement in late 2007, which established the Botswana portfolio of assets, Energy Botswana Pty Ltd agreed to provide the then vendors with shares and a net revenue royalty as part of the purchase consideration for their equity. The royalty is payable to the vendors and is equal to twelve and one half percent of the net revenue generated from the sale of any product or any geosequestration from or on the PL's. The Vendors comprised of several founders and sophisticated investors including Messrs R. and T. Wheeler. The completion of successful exploration, leading to the development of a production project on one or more of the prospecting licences, having been transitioned to a mining licence, and resulting in the generation of a net revenue is required for any liability to come in effect as per the agreement.

Since the date of acquisition and up to the date of this report there has been no decision made, study completed or revenue generated which would give rise to any payment or liability.

Operating lease commitments relate to the office lease at an annual rent of $70,650 expiring in October 2014 with an option to renew.

At balance date there were no other commitments not otherwise disclosed in these accounts.

Notes to the condensed consolidated financial statements (continued)

7. Financial Instruments

This note provides information about how the Group determines fair value of various financial assets and liabilities.

The fair values of financial assets and financial liabilities, together with the carrying amounts in the condensed consolidated statement of financial position are as follows:

	31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Loans and receivables				
- Trade and other receivables	157,128	157,128	270,965	270,965
Equity securities - at cost	2,834,425	2,834,425	2,834,425	2,834,425
Financial liabilities				
Financial liabilities held at amortised cost				
- Trade and other payables	168,285	168,285	277,728	277,728

Equity securities

The Group holds an investment in equity shares of Apex Energy N.L. At the reporting date, the Directors could not reliably measure the fair value of this investment as it is in exploration activities that are still in the early stages of the project. Once the investment can be reliably measured, it will be carried at fair value. Refer also to Note 1(c).

8. Contingent liabilities

The directors do not believe there are any contingent liabilities in existence at balance date, not otherwise disclosed in the financial statements.

9. Events occurring after the balance date

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Directors' declaration

In the opinion of the directors of Magnum Gas & Power Limited ("the Company")

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:

   a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b. giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year then ended; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Mr T Wheeler
Managing Director
Perth, 14 March 2014

HLB Mann Judd

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INDEPENDENT AUDITOR'S REVIEW REPORT
To the members of Magnum Gas & Power Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Magnum Gas & Power Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magnum Gas & Power Limited is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualification to the conclusion expressed above, we draw attention to Note 1(d) to the financial statement which state that in the unlikely event that the Company is unsuccessful in raising sufficient funding, there exists a material uncertainty that the Company or the Group will be unable to continue as a going concern and be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Without qualification to the conclusion expressed above, we also draw attention to Note 1(c) to the financial report which indicates that during the prior year, the New South Wales Government announced its intention to amend the State Environmental Planning Policy (Mining, Petroleum Productions and Extractive Industries) 2007 (Mining SEPP) and called for public submissions on the proposed amendments. At the date of this report, the NSW Government is still to release a final amended Mining SEPP. The Group currently has an interest in three petroleum exploration licences and an AFS investment that may be affected by these changes. In July 2013, the NSW Planning and Assessment Commission did not approve a modification application made by the Group to extend the term over two licences on the basis that the proposed amendments on the Mining SEPP has not yet been concluded. The proposed changes are still subject to consultation and have not yet been enacted. As a result the Group is not in a definitive position to determine the ultimate effect, if any, on the Group's future operations in this area. These conditions constitute a material uncertainty over the recoverability of these assets.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Norman Glen

N G Neill
Partner

Perth, Western Australia
14 March 2014