Magnolia Petroleum Plc / Index: AIM / Epic: MAGP / Sector: Oil & Gas

10 September 2012

Magnolia Petroleum Plc ('Magnolia' or 'the Company')

Interim Results for the Six Months to 30 June 2012

Magnolia Petroleum Plc, the AIM quoted US focused oil and gas exploration and production company, announces its interim results for the six month period ended 30 June 2012.

Highlights

- Excellent progress made towards building a significant oil and gas company focused on the proven Bakken and Three Forks Sanish plays in North Dakota, and the Mississippi Lime, Woodford / Hunton formations in Oklahoma
- Revenues for H1 2012 of US$282,208, an increase of 129% on the same period last year (US$123,238) and 17% up on the revenues for the whole of 2011 (US$241,038), with 80 producing wells at the period end
- Loss per share increased to US$0.14, compared to US$0.04 for H1 2011 and US$0.09 for the year to December 2011 reflecting the impact of the costs of increased activity during the period and the expenses of being an AIM quoted company
- Leases over 4,000 net mineral acres acquired in the period, predominantly in the Mississippi Lime formation, bringing total to 5,506 net mineral acres
- Total investment of US$2.36m in the period, partially funded by US$2.15m of share issues; cash outflow of US$718,101 for the period
- Post the period end the Company has secured £10 million equity financing facility, against which it has drawn down £761,000, and raised a further £565,000 in a placing
- Strong pipeline of opportunities across all formations both as participant and operator – over 600 potential drilling locations on existing acreage
- Fulfilling strategy of increasing size of average working and net revenue interests – Thomason well 12.5% / 9.375% and Prucha well 25% / 18.75% (post period end)
- Now participating in 83 producing wells and a further 18 either being drilled or waiting to spud alongside leading operators such as Marathon Oil and Devon Energy

Magnolia CEO, Steven Snead said, "Thanks to a significant increase in the number of producing wells during the period, our first half revenues have exceeded those of the last full year. Post the period end, the number of producing wells in which we have an interest has continued to increase, and currently stands at 83, as has the size of our average interests and we are on course for our target of 100 producing wells at the year end, compared to just 64 at the start of the year.

"With the increase in the number of wells which either have, or are due to, come on stream in the second half, in several of which we have materially larger interests, we believe that revenues for the second half will continue to increase significantly. However, with a further 600 potential drilling locations on our acreage, along with our plans to drill our first well as operator to the Mississippi Lime formation later this year, we believe that this is just the beginning of a period of considerable and sustained growth."

Chief Executive's Statement

Our overall objective is to build Magnolia into a significant US onshore oil and gas company focused on proven, producing, oil rich formations such as the Bakken/ Three Forks Sanish, North Dakota, and the Mississippi Lime and Woodford/ Hunton, Oklahoma. As previously stated, to achieve this goal, we intend to materially grow our net production and revenues by continuing to participate in wells with leading operators, and, at the same time, acquire leases to drill and operate wells in the reopening Mississippi Lime formation in Oklahoma. During the period under review, I am pleased to report excellent progress has been made towards delivering on our strategy.

The six months under review has seen us build on the momentum created following our admission to AIM in November 2011. Since Magnolia's inception, all but one of the wells in which we have participated, have generated a commercial return. We have maintained this excellent success rate during the first half which serves to highlight the robustness and potential of our business model. Having built up such an impressive track record, we are now advancing plans to scale up our operations and, in the process, create significant value for shareholders.

The number of producing properties in which Magnolia has an interest in has already risen to 83 from 64 at the time of our admission to AIM. With a further 18 at various stages of development, this number is expected to rise considerably in the near future and we are confident we will surpass our target of having interests in 100 producing wells by the end of the year. This is just the start. We are receiving multiple proposals to participate in new wells from leading operators such as Marathon Oil and Chesapeake Energy, and with 600 potential drilling opportunities on our existing acreage we have a strong pipeline to drive future revenue growth.

Not only are we increasing the number of producing wells we are participating in, but also the average size of Magnolia's interest. In May this year, we reported the initial production rate of the Thomason well where we have a 9.375% net revenue interest, our largest to date. The Montecristo well, in which Magnolia has a 5.3486% net revenue interest, has recently been spud and is currently drilling and, post period end, we announced our participation in the Prucha well operated by Devon Energy in which we have a 25% working interest / 18.75% net revenue interest. Subject to the drilling results, this well on its own has the potential to materially add to our net production and revenues.

The Thomason, Montecristo and Prucha wells are producing from and are targeting the Mississippi Lime formation in Oklahoma, a historic oil play that has been reopened thanks to the application of modern technology such as horizontal drilling and fracture stimulation. Magnolia, along with leading companies such as Sandridge Energy and Chesapeake Energy, believe the Mississippi Lime to be where the prolific Bakken Formation was just a few years ago, where similar techniques have transformed recovery rates that have led to North Dakota overtaking Alaska to become the second most productive state in the US, behind Texas.

For a small oil company with big ambitions like Magnolia, being able to get into a reopening play early is crucial and our extensive experience and local knowledge has allowed us to do just that. Since the turn of the year we have acquired 3,967 net mineral acres within the boundaries of the Mississippi Lime formation with interests of up to 100%, surpassing the ambitious targets we set ourselves at the time of our listing. This acreage includes 84 proven undeveloped locations with an additional 250 increased density locations in which Magnolia could propose and/or operate. As we already hold a licence to operate in Oklahoma, we are advancing plans to drill our first well as operator later this year.

Meanwhile, in June we assumed operatorship for the first time through the successful work over of two producing wells (Osage Lynn and Solman) that had been acquired in February 2012. Importantly, our production from these two shallow wells is holding our Mississippi Lime acreage, meaning it is now 'Held By Production' and therefore will not expire. We intend to drill down to the Mississippi Lime formation in due course.

The speed with which we have acquired our acreage and increased the number of producing wells has been made possible by the support of both existing and new shareholders. In March 2012, we successfully raised £1.3 million ($2.15 million) in a heavily oversubscribed placing of 100,115,270 new ordinary shares in the Company at a price of 1.3 pence per share, a level considerably higher than the fundraising at the time of our admission to AIM.

Post the period end, we raised a further £565,000 via the issue of 26,588,235 new ordinary shares, the majority of which with Henderson Global Investors, at a price of 2.125 pence per share. At the same time, we signed an agreement for a £10 million Equity Financing Facility ('EFF') with Darwin Strategic Limited, a majority owned subsidiary of Henderson Global Investors' Alphagen Volantis fund. We are delighted to welcome an institution of the calibre of Henderson to our shareholder register which we view as a major vote of confidence in our business model and track record. We have since drawn down £761,000 against the EFF.

The half year numbers reported today provide a readymade snapshot of the progress made by the Company over the period. By 30 June 2012, Magnolia had interests in 80 producing properties, generating revenues of US$282,208 over the six months, surpassing the US$241,038 in revenues generated during the last full year. Gross margins increased significantly to 54.5%. This was due to the initial production rates across the various wells which came on stream during the period. Over time the gross margin for individual wells will tend to decrease as the production rates follow their natural decline curve (assuming constant commodity prices) however it is expected that Magnolia's overall gross margin should remain at around current levels for the next year as a result of new wells coming on stream.

The increase in activity coupled with the higher costs of being quoted on AIM led to an increase in administrative expenses to US$486,256 (compared to US$65,069 in the same period last year and US$213,228 for the whole of last year). We expect administrative expenses for the second half to stabilise and to reduce as a percentage of revenues.

During the period, the Company invested a total of US$2.36 million; of which approximately US$1.42 million was used to increase our leased acreage and US$0.94 million was invested in drilling new wells. This expenditure has been capitalised in line with the Company's accounting policies leading to non-current assets increasing to a total of US$4.09 million.

The drilling activity in the second half will see further significant funds invested as we continue to bring our portfolio of opportunities into production. The scale of drilling opportunities in which Magnolia may elect to participate means that the Company is expected to remain cash consuming in the near term. The EFF helps provide the Company with the funding necessary to satisfy these potential investment opportunities.

The second half will continue to experience growth as we build on the progress we have made so far and we look forward to reporting further substantial increases in revenues as our activity in the oil rich plays in which we have a growing presence continues to increase. We recognise a tremendous opportunity to create substantial shareholder value has opened up right on our doorstep and following the steps we have taken, Magnolia is well placed to take full advantage and, in the process, become a significant oil and gas company.

Finally, I would like to thank the management team, directors and our advisors for all their considerable effort and dedication over the period, and also our shareholders, both new and old, for their continued support.

Steven Snead
Chief Executive Officer
10 September 2012

Operations Report

The Bakken / Three Forks Sanish Formations, North Dakota

During the first half, six new wells targeting the Bakken and Three Forks Sanish formations, North Dakota, were brought into production, bringing the total number of wells in which Magnolia has an interest in these two reservoirs to 20. Post period end, we also announced our participation in an additional well targeting the Bakken, the Curtis Kerr well, operated by Marathon Oil, in which Magnolia has a 1.46677% net revenue interest.

Four of the six wells brought on stream during the period are producing from the prolific Bakken, a reservoir which the 2008 US Geological Survey ('USGS') estimated to hold mean undiscovered recoverable volumes of 3.65 Bbbls and 1.85 Tcf. Daily production from the Bakken is currently 660,000 bopd and is estimated to exceed 700,000 bopd by 2013 and 1.2 MMbopd by 2019. Initial production rates for these four wells were Eckelberg 14-23 H well at 1,263 bopd and 625 MCF, Quill 2-12-3H well at 877 bopd; Skunk Creek 14H at 212 bopd, and Stocke 1-4-9H at 295 bopd. The first two were particularly impressive, with Skunk Creek 14H and Stocke 1-4-9H in line with expectations.

The remaining two wells, Skunk Creek 15H and Eckelberg 14-23 TF, are producing from the Three Forks Sanish formation, a separate reservoir lying directly below the Bakken. At 2,303bopd and 1,234bopd and 602MCF respectively, the initial production rates for both wells exceeded the directors' expectations and in the case of Skunk Creek 15H are Magnolia's best rates recorded to date.

There is a natural decline curve in the production rates associated with new wells and it will not be until next year that the Company will know the level at which the average production rate will stabilise.

A state study evaluating oil reserves in the Three Forks Sanish formation in western North Dakota concluded that there could be as much as 2 billion barrels of recoverable oil in this formation. The projection is based on more than 200 well measurement logs and 85 sets of testimony from technical experts. As the Three

Forks Sanish lies beneath the Bakken, the number of wells which can be drilled per section doubles to eight (four per formation), providing Magnolia with a total of 197 proven development locations on its acreage, 92 on the Bakken and 105 on the Three Forks Sanish, as set out in the Competent Person's Report by Moyes & Co. dated 25 October 2011. Magnolia holds leases in respect of 11,520 gross acres across 18 sections, equating to 412 net mineral acres within the boundaries of the two formations.

Significantly, the initial production rates from the Skunk Creek 15H and Eckelberg 14-23 TF wells are expected to lead to an upgrade in Magnolia's Three Forks Sanish reserves in an updated Competent Person's Report to be commissioned in Q1 2013. This report will also provide an update on the expected average production rates for the formation.

Mississippi Lime Formation, Oklahoma

During the six month period, Magnolia acquired 3,967 net mineral acres in the Mississippi Lime formation with an average net revenue interest of 79%, considerably higher than historical levels. This acreage includes leases with working interests of up to 100%, 84 proven undeveloped locations with an additional 250 increased density locations in which Magnolia could propose and/or operate.

From a standing start, Magnolia now has interests in five horizontal wells producing from the Mississippi Lime, all of which had initial production rates which were ahead of expectations: Brady 17-27-12 1H (702.5 boepd); Lois Rust 7-27-12 1H (353.75 boepd); LaDonna 19-28-16 1H (297 boepd); Thomason 10-27-12 1H (441 boepd) and Westline 30-28-16 1H (403 boepd).

A further six wells are at various stages of drilling and/ or completion and an additional four waiting to spud. Magnolia's working and net revenue interests in a number of these wells are considerably higher than has historically been the case in line with the Company's strategy – Prucha 1-23H (25% / 18.75%); Otis 2-27-12 1H (4.412805% / 3.3702%); Montecristo 6-1H (6.7704% / 5.3486%).

The Mississippi Lime is an historic oil and gas system that has been producing at depths ranging from 4,500 to 7,000 feet from several thousand vertical wells for over 50 years. As with the Bakken, new technology and horizontal drilling has reopened the oil play. Due to the relatively shallow depths and less tight rock formation, drilling costs at between US$2.4 million and US$3.5 million per well in the Mississippi Lime are considerably lower than those in the Bakken, which should lead to shorter payout periods than with the Bakken wells. Horizontal wells generally have shorter lateral lengths of between 2,500ft and 5,000ft and are fracture stimulated in 6-

12 stages – less than those in the Bakken play. Drilling times are relatively short at between 17 and 28 days from spud to total depth.

Woodford / Hunton Formations, Oklahoma

During the six months under review, Magnolia participated in four wells in the Woodford/ Hunton formations, bringing the overall total to 12. Of these, the Zenyatta 2-6 well targeting the Hunton was brought into production with an initial production rate of 17 bopd. Due to it being a vertical well and therefore at a significantly lower cost to drill, this initial production rate was in line with expectations. The well was drilled at a total cost to Magnolia of approximately US$8,246. Three other wells, the Bollinger 1-27H, targeting the Woodford, and the SPS 6-26 and the Beebe 24-W1H targeting the Hunton, are at various stages of drilling/ completion.

The Woodford / Hunton formations in Oklahoma are, as with the Mississippi Lime, reservoirs that have been reopened following the introduction of horizontal drilling and stimulation technology. As a result the Woodford oil play in particular is increasingly being drilled by leading operators. Magnolia holds leases in respect of approximately 67,200 gross mineral acres, 781 net mineral acres, giving rights to participate in the drilling of wells in 105 sections located in 32 counties in central Oklahoma.

Summary

Magnolia has 83 producing wells, a further nine at various stages of drilling/completion and nine additional wells waiting to spud. The Company remains on track to drill its first vertical well as operator before the end of the year in Oklahoma and as a result, we are confident of meeting the target of 100 producing wells by the end of 2012 and reporting a corresponding increase in revenues attributable to the Company.

A new Competent Person’s Report will be commissioned in the first quarter of 2013, to be published later that year. This will include an update on the level of Magnolia’s reserves, which are expected to show a significant increase following the commencement of production at our Three Forks Sanish wells and the increase in our leased acreage, as well as commenting on the average production rates for the portfolio of producing wells.

Rita Whittington
Chief Operations Officer

Summary of Wells

Category	Number of wells
Producing	83
Being Drilled / Completed	9
Elected to participate / waiting to spud	9
TOTAL	101

This summary excludes four out of six wells acquired as part of the acquisition of 800 gross acres with a 100% working interest in Osage County, Oklahoma, as announced on 10 February 2012. These four wells are currently 'shut in' and will require a workover programme at some point in the future to bring back into production.

Glossary

'boe' means barrels of oil equivalent: a unit of energy based on the approximate energy released by burning one barrel (42 US gallons or 158.9873 litres) of crude oil. There are 42 gallons (approximately 159 litres) in one barrel of oil, which will contain approximately 5.8 million British Thermal Units (MBtus) or 1,700 kilowatt hours (kWh). The value is necessarily approximate as various grades of oil have slightly different heating values. BOE is used by oil and gas companies in their financial statements as a way of combining oil and natural gas reserves and production into a single measure.

'boepd' means barrels of oil equivalent per day

'bopd' means barrels of oil per day

'Mcf' means thousand cubic feet

Contact Details

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Condensed Consolidated Statement of Comprehensive Income
period ended 30 June 2012

	Note	6 months to 30 June 2012 Unaudited US $	6 months to 30 June 2011 Unaudited US $
Continuing Operations			
Revenue		282,208	123,238
Operating expenses		(128,514)	(75,938)
Gross Profit		153,694	47,300
Administrative expenses		(486,256)	(65,069)
Impairment of mineral leases		(204,973)	(122,619)
Operating Loss		(537,535)	(140,388)
Finance income		-	-
Finance costs		-	-
Loss from ordinary activities before tax		(537,535)	(140,388)
Taxation		-	-
Loss for the period attributable to the equity holders of the Company		(537,535)	(140,388)
Other comprehensive income:			
Exchange differences on translating foreign operations		(18,282)	1,194
Total comprehensive income for the period attributable to the equity holders of the Company		(555,817)	(139,194)
Loss per share attributable to the equity holders of the Company (expressed in cents per share) - basic and diluted	4	**(0.14)**	**(0.04)**

Condensed Consolidated Balance Sheet
As at 30 June 2012

ASSETS	Notes	30 June 2012 Unaudited US $	31 December 2011 Audited US $
Non-Current Assets			
Property, plant and equipment	5	1,761,507	861,975
Intangible assets	6	2,325,841	1,111,634
Total Non Current Assets		4,087,348	1,973,609
Current Assets			
Trade and other receivables		119,029	70,308
Cash and cash equivalents		159,576	874,037
Total Current Assets		278,605	944,345
Total Assets		4,365,953	2,917,954
EQUITY & LIABILITIES			
Equity			
Called up share capital		1,100,400	926,128
Share premium account		4,015,229	2,218,877
Warrants and options reserve		66,603	66,603
Merger reserve		1,975,950	1,975,950
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		(144,906)	(126,624)
Retained losses		(1,040,253)	(502,718)
Total Equity – Capital and Reserves		3,722,351	2,307,544
Non-Current Liabilities			
Trade and other payables		-	278,431
Total Non-Current Liabilities		-	278,431
Current Liabilities			
Trade and other payables		643,602	331,979
Total Current Liabilities		643,602	331,979
Total Equity and Liabilities		4,365,953	2,917,954

Condensed Consolidated Statement of Changes in Equity

	Share Capital US $	Share Premium US $	Merger Reserve US $	Warrants and Options Reserve US $	Reverse Acquisition Reserve US $	Translation Reserve US $	Retained Earnings US $	Total US $
As at 1 January 2011	587,336	1,347,983	1,867,790	66,603	(2,250,672)	(115,693)	(160,271)	1,343,076
Comprehensive income								
Loss for the period	-	-	-	-	-	-	(140,388)	(140,388)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	1,194	-	1,194
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**1,194**	**(140,388)**	**(139,194)**
As at 30 June 2011	**587,336**	**1,347,983**	**1,867,790**	**66,603**	**(2,250,672)**	**(114,499)**	**(300,659)**	**1,203,882**
As at 1 January 2012	926,128	2,218,877	1,975,950	66,603	(2,250,672)	(126,624)	(502,718)	2,307,544
Comprehensive income								
Loss for the period	-	-	-	-	-	-	(537,535)	(537,535)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	(18,282)	-	(18,282)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(18,282)**	**(537,535)**	**(555,817)**
Transactions with Owners								
Proceeds from share issue	174,272	1,980,507	-	-	-	-	-	2,154,779
Share issue costs	-	(184,155)	-	-	-	-	-	(184,155)
Total Transactions with owners	**174,272**	**1,796,352**	**-**	**-**	**-**	**-**	**-**	**1,970,624**
As at 30 June 2012	**1,100,400**	**4,015,229**	**1,975,950**	**66,603**	**(2,250,672)**	**(144,906)**	**(1,040,253)**	**3,722,351**

Condensed Consolidated Cash Flow Statement
6 months ended 30 June 2012

	6 months to 30 June 2012 Unaudited US $	6 months to 30 June 2011 Unaudited US $
Cash inflow/(outflow) from operating activities		
Loss before tax	(537,535)	(140,388)
Depreciation and amortisation	41,747	56,236
Exchange difference	(24,208)	1,032
Impairment of mineral leases	204,973	122,619
(Increase)/decrease in trade and other receivables	(47,873)	166
Increase in trade and other payables	65,921	4,073
Net cash (outflow)/inflow from operating activities	(296,975)	43,738
Cash flows from investing activities		
Purchases of intangible assets	(1,415,471)	-
Purchases of property, plant and equipment	(941,279)	(127,893)
Net cash used in investing activities	(2,356,750)	(127,893)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	2,154,779	-
Issue costs	(184,155)	-
Repayment of borrowings	(35,000)	-
	1,935,624	-
Net decrease in cash and cash equivalents	(718,101)	(84,155)
Cash and cash equivalents at the beginning of the period	874,037	97,523
Exchange gain on cash and cash equivalents	3,640	2,888
Cash and cash equivalents at the end of the period	**159,576**	**16,256**

Notes to the unaudited financial statements

1. General information

The principal activity of the Group is the acquisition, exploration and development of oil and gas properties primarily located onshore in the United States.

The address of its registered office is The Fitzpatrick Building, 188 -194 York Way, London N7 9AS.

2. Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the requirements of the PLUS Rules for Issuers. As permitted, the Company has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing this interim financial information. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The interim financial information set out above does not constitute statutory accounts within the meaning of the Companies Act 2006. It has been prepared on a going concern basis in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union. Statutory financial statements for the year ended 31 December 2011 were approved by the Board of Directors on 21 May 2012 and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified.

3. Accounting policies

The same accounting policies, presentation and methods of computation are followed in this condensed consolidated financial information as were applied in the preparation of the Company's annual audited financial statements for the year ended 31 December 2011.

The presentational currency of the Group is US dollars.

4. Loss per share – basic and diluted

The calculation of loss per share is based on a loss of $537,535 for the 6 months ended 30 June 2012 (6 months ended 30 June 2011: loss $140,388) and the weighted average number of shares in issue in the period to 30 June 2012 of 379,439,522 (30 June 2011: 341,038,441).

5. Property, plant and equipment

	Producing properties $	Drilling costs and equipment $	Motor Vehicles $	Total $
Cost				
At 1 January 2012	457,648	612,199	-	1,069,847
Additions	668,002	258,277	15,000	941,279
At 30 June 2012	1,125,650	870,476	15,000	2,011,126
Depreciation				
At 1 January 2012	97,958	109,914	-	207,872
Charge for the period	16,193	25,554	-	41,747
At 30 June 2012	114,151	135,468	-	249,619
Net Book Amount at 31 December 2011	359,690	502,285	-	861,975
Net Book Amount at 30 June 2012	1,011,499	735,008	15,000	1,761,507

6. INTANGIBLE ASSETS

Cost	Goodwill $	Drilling costs $	Mineral leases $	Total $
At 1 January 2012	356,216	364,998	390,420	1,111,634
Additions	-	-	1,415,471	1,415,471
Exchange movements	3,709	-	-	3,709
Impairment	-	-	(204,973)	(204,973)
As at 30 June 2012	359,925	364,998	1,600,918	2,325,841
Amortisation				
At 1 January 2012 and At 30 June 2012	-	-	-	-
Net Book Amount at 31 December 2011	356,216	364,998	390,420	1,111,634
Net Book Amount at 30 June 2012	359,925	364,998	1,600,918	2,325,841

Impairment review

Drilling costs and mineral leases represent acquired intangible assets with an indefinite useful life and are tested annually for impairment. As disclosed within Accounting Policies, expenditure incurred on the acquisition of mineral leases is capitalised within intangible assets until such time as the exploration phase is complete or commercial reserves have been discovered. Exploration expenditure including drilling costs are capitalised on a well by well basis if the results indicate the existence of a commercially viable level of reserves.

The directors have undertaken a review to assess whether circumstances exist which could indicate the existence of impairment as follows:

- The Group no longer has title to the mineral lease.
- A decision has been taken by the Board to discontinue exploration due to the absence of a commercial level of reserves.
- Sufficient data exists to indicate that the costs incurred will not be fully recovered from future development and participation.

Following their assessment the directors recognised an impairment charge to the cost of mineral leases of $204,973 (2011 - $122,619) in respect of expired mineral leases.

The Directors believe that no impairment is necessary on the carrying value of goodwill. Goodwill arose on the reverse acquisition of Magnolia Petroleum Plc. The goodwill represents the value of the parent company being an AIM quoted entity to Magnolia Petroleum Inc.