Magnolia Petroleum Plc / Index: AIM / Epic: MAGP / Sector: Oil & Gas
28 September 2015

Magnolia Petroleum Plc ('Magnolia' or 'the Company')
Half-yearly Results

Magnolia Petroleum Plc, the AIM quoted US focused oil and gas exploration and production company, announces its half-yearly results for the six month period ended 30 June 2015.

Operational Overview

- 26% year on year increase in number of producing wells to 195 in proven US onshore formations such as the Bakken/Three Forks Sanish, North Dakota, and the Mississippi Lime, Woodford/Hunton, Oklahoma, (H1 2014: 155)
- Elected to participate in 28 new wells – 10 wells currently at various stages of development
- Daily production of 309 boepd as at 1 August 2015 compared to 281 boepd as at 1 January 2015 due to number of wells commencing production
- Total net 1P oil and condensate reserves of 873 Mbbl of oil and 2,454 MMcf of natural gas as at 1 August 2015 with NPV_9 US$20.888 million - provides significant asset backing to current market valuation
- Taking advantage of lower costs to undertake own operated vertical well drilling programme in Oklahoma targeting multiple conventional formations including the Mississippi Lime/Chat, Redfork Sand and the Lower Skinner Sand
- Strong pipeline of opportunities across all formations both as participant and operator – over 600 potential drilling locations on existing acreage

Financial Overview

- H1 2015 revenues of US$1,083,998 (H1 2014: US$1,755,459) – reflects a more than 50% year on year reduction in the oil price
- Half year EBITDA (after removing loss on foreign exchange) of US$(560,919) compared to US$699,397 during six months to 30 June 2014
- 2% increase in tangible assets to US$11,511,266 compared to US$11,294,373 as at 31 December 2014
- US$1,851,232 cash balances as at 30 June 2015 compared to US$9,210 as at 30 June 2014
- £1 million raised via a placing to fund new drilling

Magnolia CEO, Steven Snead said, "With net production up 10% to 309 boepd as at 1 August 2015, and our producing well count 9% higher at 195 as at 30 June

2015, the first half of 2015 has seen further excellent progress made on the ground in delivering on our strategy to prove up the reserves on our US onshore leases through drilling. Together with our own operations and continued participation in drilling activity alongside leading operators, we expect the momentum behind the business to be maintained going forward despite low oil prices, and I look forward to providing further updates on our progress."

Chief Executive's Statement

Over the last six months, 19 wells commenced production on our US onshore leases, while we elected to participate in a further 28. In all, Magnolia's well count stood at 203 as at 30 June 2015, a 9% increase since 31 December 2014. Post period end, we saw the positive effect this activity has had on our net production, which increased by 10% to 309 boepd between 1 January 2015 and 1 August 2015. Set against the backdrop of a sharply lower oil price compared to the US$90-US$100 per barrel of oil of recent years, our strong operational performance over the first half of 2015 is testament to the quality of our US onshore leases in North Dakota and Oklahoma, particularly in terms of their low costs and prospectivity.

We believe the long term equilibrium in the oil market, the point at which prices more accurately reflect global demand and supply dynamics, lies above current price levels. While calling the tops and bottoms of markets is a thankless task, we are actively taking advantage of today's market conditions to acquire, at competitive rates, leases in favourable locations with exposure to multiple proven hydrocarbon formations. As a result, Magnolia will be well placed for when both oil prices and drilling activity embark on a sustained recovery. In addition, we will continue to reinvest revenues generated from our production to fund further drilling activity, as we look to deliver on our objective to prove up the reserves on our leases and generate significant value for our shareholders.

In the meantime, the US onshore oil and gas industry has not been standing still but is quickly adapting to the US$40-US$50 per barrel of oil price: rig rates have fallen significantly while cost effective techniques such as drilling multiple wells on single pads are increasingly being employed. The net effect is that the cost of drilling wells onshore US has come down dramatically compared to twelve months ago. As a result, we expect to see a sustained pick-up in non-operated well proposals on our leases from operators. We believe we are already seeing the first signs of this: in Q2 we elected to participate in 16 new wells, a 33% increase on the 12 new wells we signed up for in Q1.

We are also taking advantage of lower rig rates by stepping up our vertical well drilling programme on Magnolia-operated leases. We recently commenced this with the drilling of the Shimanek #2 well. High salt water levels lay behind our decision not to complete the well, thereby limiting the cost of drilling operations to just US$175,000 and freeing up funds for investment into other wells in our diversified portfolio of leases, which holds over 600 potential drilling locations.

The lower oil price has inevitably led to what we believe is a temporary reduction in the value of our proven reserves. In the latest reserves report as at 1 August 2015, our P1 reserves stood at 873 Mbbl of oil and 2,454 MMcf of natural gas and have been assigned an NPV_9 of US$20.888 million. Even at this lower level, our proven reserves still far outstrip our current market valuation and therefore provide Magnolia with significant asset backing. We are confident that as oil prices recover, the value of our proven reserves will resume their upwards trajectory, and indeed surpass their previous peaks as new wells come on stream.

Financial Review (extracted from the Strategic Report)

During the six months to 30 June 2015, net production generated revenues of US$1,083,998, compared to US$1,755,459 the previous year. The sharp fall in the price of oil, which has effectively halved over the last twelve months, is responsible for the drop in revenues, both directly by lowering sale prices achieved and indirectly through operators shutting in wells to curtail production. In view of this, the Company has quickly taken steps to reduce overheads to help accommodate the revenue decline: administrative costs totalled US$518,425 as at 30 June 2015 compared to US$578,045 for the six months to 30 June 2014. EBITDA (after removing loss on foreign exchange) totalled US($560,919) compared to US$699,397 in H1 2014.

Tangible assets as at end June 2015 stood at US$11,511,266, a 2% increase on the US$11,294,373 reported as at end December 2014 while intangible assets (new leases and wells that are drilling but not yet completed) stood at US$6,187,408 compared to US$6,481,872 in H2 2014.

Operating Expenses during the period totalled US$1,389,578. US$695,000 of this total is a non-cash item covering depreciation costs. A further US$431,000 was due to Lease Operating Expenses. Labour costs associated with existing wells totalled US$136k, while production tax and marketing fees came in at US$117k.

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

In June 2015, we appointed Mr Thomas Wagenhofer to the Board as a non-executive director. Mr Wagenhofer, who is a highly respected petroleum engineer and oil and gas investment specialist with over 20 years' experience in the global E&P sector, has elected to receive the majority of his annual fee in new ordinary shares of the Company. Accordingly a further 428,571 new ordinary shares were issued during the period to Mr. Wagenhofer.

Outlook

Our operational and financial performance over the last six months ought to provide shareholders with considerable confidence in Magnolia's prospects going forward. To have maintained strong well count and production growth during a period when the prevailing oil price averaged approximately 50% below last year's level and operators are shutting in wells, clearly demonstrates our strategy to acquire and develop low cost US onshore leases works well at US$40 - US$50 oil. In addition, we are looking to use low oil prices to our advantage. We continue to evaluate potential acquisition opportunities that, at the right price, have the potential to scale up our operations and in the process fast track Magnolia's development into a leading US onshore oil and gas company.

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

Steven Snead
Chief Executive Officer

Chief Operations Officer's Report

The Bakken / Three Forks Sanish Formations, North Dakota

During the six months to 30 June 2015, a total of four wells targeting the Bakken and Three Forks Sanish ('TFS') formations in North Dakota commenced production, bringing the total number of producing wells in these formations in which Magnolia has an interest to 41. Of the wells reported during the period, two are producing from the Bakken, a reservoir which is estimated to hold 3.65 billion barrels of undiscovered, technically recoverable oil (2013 US Geological Survey). Gross initial production rates for these two wells were:

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

Gross initial production rates for the two wells which commenced production from the TFS, a separate reservoir lying directly below the Bakken which is estimated to hold as much as 3.73 billion barrels of recoverable oil (2013 US Geological Survey), were as follows:

- Skunk Creek 1-8-17-15H3 (0.684%): 3,612 boepd
- Skunk Creek 1-8-17-16H3 (0.684%): 3,399 boepd

Boepd: Barrels of oil equivalent per day
Bopd: Barrels of oil per day

In their latest report dated 1 August 2015, Moyes & Co. ('Moyes') estimate Magnolia's Bakken 1P reserves at 68,820 barrels of oil and condensate and 37.56MMcf of natural gas to which Moyes has assigned a value of US$1.488 million. Meanwhile, Magnolia's 1P reserves in the TTFS formation are estimated at 22,550 barrels of oil and condensate and 13.93MMcf of natural gas which Moyes has assigned a value of US$0. 531million.

Mississippi Lime Formation, Oklahoma

The Mississippi Lime is an historic oil and gas system that has been producing at depths ranging from 4,500 to 7,000 feet from several thousand vertical wells for over 50 years. Gross initial production rates for 8 producing wells targeting the Mississippi Lime were reported during the six months ending 30 June 2015:

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

Magnolia holds leases covering approximately 5,500 net mineral acres in the Mississippi Lime. The acreage includes leases with working interests of up to 100%. In the latest Reserves Report dated 1 August 2015, Moyes estimated the Company's Mississippi Lime 1P reserves at 565,000 barrels of oil and condensate and 1,456MMcf of natural gas with a value of US$14.11million.

Woodford Formation, Oklahoma

The Woodford lies below and is the source rock to the Mississippi Lime formation in Oklahoma. As a result much of Magnolia's leases in Oklahoma are prospective for both the Woodford and the Mississippi Lime. In the first half of 2015, Magnolia reported gross initial production rates for the following 8 wells:

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

In the updated Reserves Report dated 1 August 2015, Moyes estimated the Company's Woodford 1P reserves at 52,530 barrels of oil and condensate and 786.59MMcf of natural gas with a value of US$2.288million. As the Woodford is at an earlier stage of development compared to the Mississippi Lime, the Reserves Report does not fully reflect the potential of the formation. This is expected to change as more wells are drilled to the Woodford.

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

Other Formations in Oklahoma

During the period, 2 wells in which Magnolia has an interest commenced production from other formations in Oklahoma, the details of which are as follows:

- Fern 30-1H (0.09%): 28 boepd (Oswego)
- Celesta 1-5-32 XH (0.02%): 1,076 boepd (Springer)

Summary

During the period, initial production rates were reported for 22 new wells in proven US onshore formations in which Magnolia has an interest. Post period end a further 7 wells have come on stream, bringing the total number of producing wells within our portfolio to 202. In line with our strategy, revenues generated from production are reinvested into new drilling activity, as we look to prove up the reserves on our leases and generate value for our shareholders. I look forward to providing further updates on our progress over the course of the second half of the year.

Rita Whittington
Chief Operations Officer

Condensed Consolidated Statement of Comprehensive Income
6 months ended 30 June 2015

	Note	6 months to 30 June 2015 Unaudited US $	6 months to 30 June 2014 Unaudited US $
Continuing Operations			
Revenue		1,083,998	1,755,459
Operating expenses		(1,389,578)	(838,863)
Gross (Loss)/Profit		**(305,580)**	**916,596**
Administrative expenses		(518,425)	(578,045)
Impairment of mineral leases		(379,354)	(229,385)
(Loss)/profit on disposal of mineral leases		-	(2,841)
(Loss)/gain on foreign exchange		(144,779)	(491,219)
Operating (Loss)/Profit		**(1,348,138)**	**(384,894)**
Finance income		139	3,374
Finance costs		(55,600)	-
(Loss)/Profit from ordinary activities before tax		**(1,403,599)**	**(381,520)**
Taxation		-	-
(Loss)/Profit for the period attributable to the equity holders of the Company		**(1,403,599)**	**(381,520)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		145,163	434,440
Total comprehensive income for the period attributable to the equity holders of the Company		**(1,258,436)**	**52,920**
Earnings per share attributable to the equity holders of the Company (expressed in cents per share)	4		
- basic		(0.133)	(0.042)
- diluted		(0.133)	(0.042)

Condensed Consolidated Balance Sheet
As at 30 June 2015

ASSETS	Notes	30 June 2015 Unaudited US $	31 December 2014 Audited US $
Non-Current Assets			
Property, plant and equipment	5	11,511,266	11,294,373
Intangible assets	6	6,187,408	6,481,872
Total Non Current Assets		17,698,674	17,776,245
Current Assets			
Trade and other receivables		600,911	997,666
Cash and cash equivalents		1,851,232	433,748
Total Current Assets		2,452,143	1,431,414
Total Assets		**20,150,817**	**19,207,659**
EQUITY & LIABILITIES			
Equity			
Called up share capital		1,704,763	1,481,396
Share premium account		15,202,583	13,954,026
Warrants and options reserve		209,042	209,042
Merger reserve		1,975,950	1,975,950
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		(120,311)	(265,472)
Retained losses		(1,570,299)	(166,701)
Total Equity – Capital and Reserves		15,151,056	14,937,569
Non-current Liabilities			
Borrowings		3,284,210	2,736,274
Total Non-current Liabilities		3,284,210	2,736,274
Current Liabilities			
Borrowings		-	-
Trade and other payables		1,715,551	1,533,816
Total Current Liabilities		1,715,551	1,533,816
Total Equity and Liabilities		**20,150,817**	**19,207,659**

Condensed Consolidated Statement of Changes in Equity

	Attributable to the owners of the parent							
	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 2014	1,481,396	13,954,026	1,975,950	209,042	(2,250,672)	515,389	(1,859,713)	14,025,418
Comprehensive income								
Loss for the period	-	-	-	-	-	-	(381,520)	(381,520)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	434,440	-	434,440
Total comprehensive income for the period	-	**-**	**-**	-	**-**	**434,440**	**(381,520)**	**52,920**
As at 30 June 2014	**1,481,396**	**13,954,026**	**1,975,950**	**209,042**	**(2,250,672)**	**949,829**	**(2,241,233)**	**14,078,338**
As at 1 January 2015	1,481,396	13,954,026	1,975,950	209,042	(2,250,672)	(265,472)	(166,701)	14,937,569
Comprehensive income								
Loss for the period	-	-	-	-	-	-	(1,403,599)	(1,403,599)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	145,163	-	145,163
Total comprehensive income for the period	-	**-**	**-**	-	**-**	**145,163**	**(1,403,599)**	**(1,258,436)**
Proceeds from share issue	223,367	1,340,201	-	-	-	-	-	1,563,568
Share issue costs		(91,644)	-	-	-	-	-	(91,644)
Transactions with owners of the parent, recognised directly in equity	**223,367**	**1,248,557**	**-**	**-**	**-**	**-**	**-**	**1,471,924**
As at 30 June 2015	**1,704,763**	**15,202,583**	**1,975,950**	**209,042**	**(2,250,672)**	**(120,309)**	**(1,570,300)**	**15,151,057**

Condensed Consolidated Cash Flow Statement
6 months ended 30 June 2015

	6 months to 30 June 2015 Unaudited US $	6 months to 30 June 2014 Unaudited US $
Cash flow from operating activities		
(Loss)/profit before tax	(1,403,599)	(381,520)
Finance income	(139)	(3,374)
Loss/(profit) on disposal of mineral leases	-	2,841
Depreciation and amortisation	697,901	589,698
Exchange differences	138,281	420,691
Impairment of mineral leases	379,354	229,385
Decrease/(increase) in trade and other receivables	396,754	(488,564)
Increase in trade and other payables	181,737	526,183
Net cash inflow from operating activities	**390,289**	**895,340**
Cash flows from investing activities		
Purchases of intangible assets	(82,733)	(153,758)
Purchases of property, plant and equipment	(913,757)	(2,165,507)
Proceeds from disposal of property, plant and equipment	-	-
Interest received	139	3,374
Net cash used in investing activities	**(996,351)**	**(2,315,891)**
Cash flows from financing activities		
Proceeds from issue of ordinary shares	1,563,568	-
Issue costs	(91,644)	-
Proceeds from borrowings	547,936	1,200,000
Net cash from financing activities	**2,019,860**	**1,200,000**
Net increase/(decrease) in cash and cash equivalents	1,413,798	(220,551)
Cash and cash equivalents at the beginning of the period	433,748	128,002
Exchange gain/(loss) on cash and cash equivalents	3,686	1,378
Cash and cash equivalents at the end of the period	**1,851,232**	**(91,171)**
Comprising:		
Cash at bank	1,851,232	9,210
Bank overdraft	-	(100,381)

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 Suite 321, 19-21 Crawford Street, London, W1H 1PJ.

2. Basis of preparation

These condensed consolidated half-yearly financial statements have been prepared in accordance with the requirements of the AIM Rules for Issuers. As permitted, the Company has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing this half-yearly financial information. The condensed half-yearly financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The half-yearly 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 2014 were approved by the Board of Directors on 28 May 2015 and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified.

The preparation of consolidated half-yearly financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period. Significant items subject to such estimates are set out in the Group's 2014 Annual Report and Financial Statements. The nature and amounts of such estimates have not changed significantly during the interim period.

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 2014.

The presentational currency of the Group is US dollars.

4. Earnings per share – basic and diluted

The calculation of earnings per share is based on a loss of $1,403,599 for the 6 months ended 30 June 2015 (6 months ended 30 June 2014: loss $381,520) and the weighted average number of shares in issue in the period to 30 June 2015 of 1,056,815,707 (30 June 2014: 910,672,851).

The basic and diluted loss per share in the period ended 30 June 2015 is the same, as the effect of the exercise of share options and warrants would be to decrease the loss per share.

The basic and diluted loss per share in the period ended 30 June 2014 is the same, as the effect of the exercise of share options and warrants would be to decrease the loss per share.

5. Property, plant and equipment

	Producing properties $	Drilling costs and equipment $	Other Assets $	Total $
Cost				
At 1 January 2015	1,344,751	12,231,907	21,671	13,598,329
Additions	-14,740	927,389	1,108	913,757
Transferred from intangible assets	704	335	-	1,039
At 30 June 2015	1,330,715	13,159,631	22,779	14,513,125
Depreciation				
At 1 January 2015	450,201	1,841,424	12,334	2,303,959
Charge for the period	50,653	644,493	2,755	697,901
At 30 June 2015	500,854	2,485,917	15,089	3,001,860
Net Book Amount at 31 December 2014	894,550	10,390,483	9,337	11,294,370
Net Book Amount at 30 June 2015	829,861	10,673,714	7,690	11,511,265

6. INTANGIBLE ASSETS

Cost	Goodwill $	Drilling costs $	Mineral leases $	Total $
At 1 January 2015	359,222	50,037	6,072,614	6,481,873
Additions	-	21,650	61,083	82,733
Transferred to property, plant and equipment	-	(335)	(704)	(1,039)
Exchange movements	3,196	-	-	3,196
Impairment	-	-	(379,354)	(379,354)
Disposals	-	-	-	-
As at 30 June 2015	362,418	71,352	5,753,639	6,187,409
Amortisation				
At 1 January 2015 and At 30 June 2015	-	-	-	-
Net Book Amount at 31 December 2014	359,222	50,037	6,072,614	6,481,873
Net Book Amount at 30 June 2015	362,418	71,352	5,753,639	6,187,409

Impairment review

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.

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 $379,354 (2014 - $229,385) in respect of expired mineral leases.

The Directors believe that no impairment is necessary on the carrying value of goodwill.

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Notes

Magnolia Petroleum Plc is an AIM quoted, US focused, oil and gas exploration and production company. Its portfolio includes interests in 195 producing and non-producing assets, primarily located in the highly productive Bakken/Three Forks Sanish hydrocarbon formations in North Dakota as well as the oil rich Mississippi Lime and the substantial and proven Woodford and Hunton formations in Oklahoma.

Summary of Wells

Category	Number of wells
Producing	202
Being drilled / completed	10
Elected to participate / waiting to spud	21
TOTAL	233

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