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

22 September 2014

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

Interim Results

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 2014.

Highlights

- 93% increase in H1 2014 revenues to US$1,755,459 (H1 2013: US$910,721)
- Half year EBITDA of US$699,397 compared to US$237,552 (after removing gain on foreign exchange) during six months to 30 June 2013
- 155 producing wells in proven US onshore formations such as the Bakken/Three Forks Sanish, North Dakota, and the Mississippi Lime, Woodford/Hunton, Oklahoma, 32% year on year increase (H1 2013: 117)
- Reported initial production rates ('IPRs') for 15 wells
- Elected to participate in 39 new wells – 74 wells currently at various stages of development
- Daily production of 257 boepd as at 1 July 2014 compared to 150 boepd as at 1 April 2014 due to number of wells commencing production in which Magnolia has larger interests – Parmley 1-1WH (12.187%)
- US$9.143 million value of proven developed producing reserves ('PDP') compared to US$8.416 million as at 1 April 2014
- Total net proved reserves ('1P') of 719 Mbbl of oil and condensate and 2,093 MMcf gas with NPV10 of US$31.832 million as at 1 July 2014
- Strong pipeline of opportunities across all formations both as participant and operator – over 600 potential drilling locations on existing acreage

Magnolia CEO, Steven Snead said, "As this latest set of half year numbers show, Magnolia's well count, production, and revenues continue to grow at double-digit rates. With proven reserves valued at US$32 million providing asset backing, production of 257 boepd as at 1 July 2014 generating revenues of US$1,755,459 over the course of the last half year, and a new and improved US$6 million credit facility secured, we have a strong platform with which to prove up the reserves on our 13,500 net minerals acres. We already have a pipeline of 74 wells under development and continue to receive multiple proposals to participate in new drilling activity on our leases in proven US onshore formations, and as a result we expect to report further excellent growth going forward."

Chief Executive's Statement

We are successfully building an extensive portfolio of proven reserves in liquids rich US onshore formations such as the prolific Bakken and Three Forks Sanish, North Dakota and the Woodford and Mississippi Lime, Oklahoma. From a standing start, the value of Magnolia's proven reserves have grown to US$32 million, having been just US$1.5 million at the time of our Admission to AIM in October 2011. This growth has not been achieved by purchasing leases with production already established, but is the result of success at the drill bit. This in turn is due to our focus on proven US onshore formations, our participation in drilling alongside leading operators such as Devon Energy, Chesapeake Energy and Statoil, and the use of advanced technologies and techniques to enhance flow and recovery rates. With over 600 possible drilling locations on our leases, we have merely scratched the surface of proving up our portfolio's potential, and we expect further strong growth in the value of our reserves going forward.

At the half year end, Magnolia had interests in 155 producing wells on leases covering over 13,500 net mineral acres in liquids rich US onshore plays. As at 1 July 2014, these wells produced 257 boepd net to Magnolia and had proven developed producing reserves ('PDP') valued at US$9.1 million. Compare these to the equivalent figures at the time of our Admission to AIM: 1,259 net mineral acres; interests in 64 wells producing approximately 7 boepd with PDP reserves of US$919,000. The excellent progress made by Magnolia in terms of building a portfolio of leases, growing production and proving up reserves is clear.

Over the last six months, 15 new wells were brought into production on our acreage. In line with our strategy, Magnolia has higher interests in a number of these wells such as the Parmley 1-1WH well (12.187%) and, combined with excellent initial production rates, the strong operational performance on the ground has translated into another record set of financial numbers. Half yearly revenues have almost doubled to US$1,755,459 million, compared to the equivalent period last year (H1 2013: US$910,721) and have risen 15% compared to the second half of 2013 (H2 2013: US$1,532,523). This is the 5th consecutive half year period we have reported double digit revenue growth and importantly we expect to extend this run going forward thanks to a long pipeline of future production and revenue growth. During the six month period we elected to participate in a further 35 new wells and at the time of writing, Magnolia has interests in 74 wells at various stages of development.

In addition, we continue to receive multiple proposals from operators to participate in new wells on our leases. Armed with a refined view of the Mississippi Lime formation's geology, which is now viewed as being comprised of a series of highly productive wedges rather than a uniform resource, we are focusing on drilling Mississippi Lime 'sweet spots' identified on our leases. The benefits of this strategy are already bearing fruit and post period end we announced initial production rates of 525.52 boepd for the Chesapeake Energy operated Cummings 31-28-12-1H well in which we have a 3.34% interest. These are among the best rates we have seen for our Mississippi Lime wells

and highlight the potential of this historic play. In our view, Cummings bodes well for Magnolia's future participation in the Mississippi Lime, not just in terms of production, but also reserves. In the latest Reserves Report, a large portion of Mississippi Lime possible and probable reserves ('2P' and '3P') were reclassified as resources to reflect this new wedge model for the play. Future drilling will upgrade these substantial resources into the reserves categories.

The Woodford formation provides another exciting potential source of substantial reserves growth. We have always known that across the majority of our leases in Oklahoma, the Woodford formation lies below the Mississippi Lime. The Woodford is at an earlier stage of development than the Lime play but as more wells are drilled this is changing fast with the industry increasingly regarding it as being the more prospective and productive of the two plays. Initial production rates for wells in which Magnolia has an interest such as the Bolay#1-19HW (542 boepd) and the Parmley 1-1 WH (445 boepd) are consistent with this view. More horizontal wells need to be drilled to the Woodford before Magnolia's reserves in the formation are upgraded from the resources classification but the impact on our reserves could far outstrip that of the Mississippi Lime. The Woodford promises to do to our Oklahoma acreage what the Three Forks Sanish has done to our leases in North Dakota, effectively doubling the number of potential drilling locations on each section to eight, four per formation, and increasing recovery rates. We are already starting to see operators propose drilling eight wells per section in Oklahoma to maximise the recovery of reserves from both the Woodford and Mississippi Lime.

The presence of multiple payzones was one of the reasons why we acquired leases covering over 5,000 plus net mineral acres in Oklahoma. The Mississippi Lime however was the priority target. Now with the Woodford looking so promising following highly positive drilling results across the play, we view the lower lying formation's prospectivity as at least equal to if not greater than that of the Mississippi Lime. As both formations are present on the majority of our leases, our footprint and potential drilling locations are effectively doubled. With our revenues maintaining their upwards trajectory and a new and improved US$6 million credit facility secured post period end, Magnolia is well placed to fund the drilling activity required to prove up what we believe are substantially higher recoverable resources/ reserves on our acreage.

Financial Review (extracted from the Strategic Report)

During the six months to 30 June 2014, net production generated revenues of US$1,755,459, a 93% increase on last year's US$910,721. EBITDA (after removal of non-cash items) totalled US$699,397 compared to US$237,552 (after removing gain on foreign exchange) in H1 2013. These funds were reinvested into drilling new wells.

Tangible assets as at end June 2014 stood at US$9,932,918, a 19% increase on the US$8,352,385 reported as at end December 2013 while intangible assets (new leases

and wells that are drilling but not yet completed) stood at US$6,329,437 compared to US$6,400,258 in H2 2013. In line with our policy to invest as much of our revenues into drilling new wells and acquiring additional leases, administrative costs continue to be tightly managed.

Post period end, the Company secured a new two year US$6 million revolving credit facility with an initial borrowing base of US$4.6 million and an improved rate of interest charged on credit drawn down at Wall Street Journal Prime (currently 3.25%) +0.75%. In tandem with the Company's revenues, the credit facility funds drilling activity on our leases.

Outlook

From the outset, we set out to create value by proving up the reserves on our leases. The post period end sale of 24 small interests in non-core wells for US$240,750, almost three times the US$83,000 value assigned to their combined PDPs, demonstrates both how the market values non-operated properties such as these, and also highlights the strong appetite for de-risked US onshore leases. The sale provides a real time, albeit much smaller scale, example of what we are aiming to achieve with the Company as a whole by acquiring and developing leases in US onshore formations. With a new US$6 million credit facility secured and rapidly growing revenues, Magnolia is in a stronger than ever position to monetise its leases and in the process generate significant value for all shareholders.

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

Steven Snead
CEO

Chief Operations Officer's Report

The Bakken / Three Forks Sanish Formations, North Dakota

The Bakken currently produces over 850,000 bopd and is estimated to hold a mean of 3.65 billion barrels of undiscovered, technically recoverable oil (2013 US Geological Survey). 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 120 proven development locations on its acreage, 60 on the Bakken and 60 on the Three Forks Sanish.

Magnolia holds leases in respect of 11,520 gross acres across 28 sections, equating to 421 net mineral acres within the boundaries of the Bakken / TFS formations. In their latest report dated 1 July 2014, Moyes & Co. ('Moyes') estimate Magnolia's Bakken 1P

reserves at 145,000 barrels of oil and condensate and 67 MMcf of natural gas to which Moyes has assigned a value of US$3.691 million. Meanwhile, Magnolia's 1P reserves in the Three Forks Sanish formation are estimated at 56,000 barrels of oil and condensate and 28 MMcf of natural gas which Moyes has assigned a value of US$1.439 million.

Mississippi Lime Formation, Oklahoma

Since its admission to AIM in November 2011, Magnolia has acquired approximately 5,500 net mineral acres in the Mississippi Lime. The acquired acreage includes leases with working interests of up to 100%.

As more horizontal wells are drilled on the formation and more production rates are reported, the Mississippi Lime is increasingly being regarded as comprised of multiple wedges rather than a uniform resource. Production rates therefore vary markedly depending on whether or not a well encounters a very productive wedge. This industry wide re-evaluation of the Mississippi Lime has resulted in the reclassification of a significant amount of Magnolia's 2P and 3P reserves to contingent resources. As more wells are drilled, the Directors expect these to be upgraded to reserves categories.

In the latest Reserves Report dated 1 July 2014, Moyes & Co. estimated the Company's Mississippi Lime 1P reserves at 395,000 barrels of oil and condensate and 1,002 MMcf with a value of US$20.605 million.

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 pay-out periods.

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 updated Reserves Report dated 1 July 2014, Moyes & Co. estimated the Company's Woodford 1P reserves at 77,000 barrels of oil and condensate and 808 MMcf natural gas with a value of US$4.214 million. 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.

Summary

During the period, initial production rates were reported for 15 new wells in proven US onshore formations in which Magnolia has an interest. In addition we elected to participate in 39 new wells, bringing the total number we currently have under development to 74. A number of these are increased density or infill wells that maximise the recovery of reserves on leases held by production. As well as increasing production, infill wells have the potential to quickly add to our PDPs which in turn determine the borrowing base limit of our credit facility. This creates a virtuous circle, as along with our growing revenues, the larger credit line increases the funds available to participate in further drilling to increase production further and prove up more reserves. I look forward to providing further updates on our progress over the course of the second half of 2014.

Rita Whittington
Chief Operations Officer

For further information on Magnolia Petroleum Plc visit www.magnoliapetroleum.com or contact the following:

Steven Snead	Magnolia Petroleum Plc	+01 918 449 8750
Rita Whittington	Magnolia Petroleum Plc	+01 918 449 8750
Jo Turner/James Caithie	Cairn Financial Advisers LLP	+44 20 7148 7900
John Howes/Alice Lane	Northland Capital Partners Limited	+44 20 7382 1100
Lottie Brocklehurst	St Brides Media and Finance Ltd	+44 20 7236 1177
Frank Buhagiar	St Brides Media and Finance Ltd	+44 20 7236 1177

Notes

Magnolia Petroleum Plc is an AIM quoted, US focused, oil and gas exploration and production company. Its portfolio includes interests in 160 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	161
Waiting on first sales / IP rates	8

Being drilled / completed	6
Elected to participate / waiting to spud	53
TOTAL	**228**

Condensed Consolidated Statement of Comprehensive Income
6 months ended 30 June 2014

	Note	6 months to 30 June 2014 Unaudited US $	6 months to 30 June 2013 Unaudited US $
Continuing Operations			
Revenue		1,755,459	910,721
Operating expenses		(838,863)	(410,147)
Gross Profit		**916,596**	**500,574**
Administrative expenses		(545,568)	(667,634)
Impairment of mineral leases		(229,385)	(67,070)
(Loss)/profit on disposal of mineral leases		(2,841)	208,705
(Loss)/gain on foreign exchange		(491,219)	669,999
Operating (Loss)/Profit		**(352,417)**	**644,574**
Finance income		3,374	-
Finance costs		(32,477)	-
(Loss)/Profit from ordinary activities before tax		**(381,520)**	**644,574**
Taxation		-	-
(Loss)/Profit for the period attributable to the equity holders of the Company		**(381,520)**	**644,574**
Other comprehensive income: Items that may be reclassified subsequently to profit or loss			
Currency translation differences		434,440	(696,872)
Total comprehensive income for the period attributable to the equity holders of the Company		**52,920**	**(52,298)**
Earnings per share attributable to the equity holders of the Company (expressed in cents per share)	4		
- basic		(0.042)	0.074

- diluted		(0.042)	0.072

Condensed Consolidated Balance Sheet
As at 30 June 2014

ASSETS	Notes	30 June 2014 Unaudited US $	31 December 2013 Audited US $
Non-Current Assets			
Property, plant and equipment	5	9,932,918	8,352,385
Intangible assets	6	6,329,437	6,400,258
Total Non Current Assets		16,262,355	14,752,643
Current Assets			
Trade and other receivables		1,757,387	1,268,823
Cash and cash equivalents		9,210	128,002
Total Current Assets		1,766,597	1,369,825
Total Assets		**18,028,952**	**16,149,468**
EQUITY & LIABILITIES			
Equity			
Called up share capital		1,481,396	1,481,396
Share premium account		13,954,026	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		949,829	515,389
Retained losses		(2,241,233)	(1,859,713)
Total Equity – Capital and Reserves		14,078,338	14,025,418
Non-current Liabilities			
Borrowings		2,100,000	900,000
Total Non-current Liabilities		2,100,000	900,000
Current Liabilities			
Borrowings		100,381	-
Trade and other payables		1,750,233	1,224,050
Total Current Liabilities		1,850,614	1,224,050
Total Equity and Liabilities		**18,028,952**	**16,149,468**

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 2013	1,390,244	11,888,717	1,975,950	66,603	(2,250,672)	47,300	(1,577,876)	11,540,266
Comprehensive income								
Profit for the period	-	-	-	-	-	-	644,574	644,574
Other comprehensive income								
Currency translation differences	-	-	-	-	-	(696,872)	-	(696,872)
Total comprehensive income for the period	-	-	-	-	-	**(696,872)**	**644,574**	**(52,298)**
Proceeds from share issue	91,152	2,187,648	-	-	-	-	-	2,278,800
Share issue costs	-	(122,339)	-	-	-	-	-	(122,339)
Transactions with owners of the parent, recognised directly in equity	**91,152**	**2,065,309**	**-**	**-**	**-**	**-**	**-**	**2,156,461**
As at 30 June 2013	**1,481,396**	**13,954,026**	**1,975,950**	**66,603**	**(2,250,672)**	**(649,572)**	**(933,302)**	**13,644,429**
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)**	**948,829**	**(2,241,233)**	**14,078,338**

Condensed Consolidated Cash Flow Statement
6 months ended 30 June 2014

	6 months to 30 June 2014 Unaudited US $	6 months to 30 June 2013 Unaudited US $
Cash flow from operating activities		
(Loss)/profit/(Loss) before tax	(381,520)	644,574
Finance income	(3,374)	-
Finance costs	32,477	-
Loss/(profit) on disposal of mineral leases	2,841	(208,705)
Depreciation and amortisation	589,698	262,977
Exchange differences	420,691	(664,106)
Impairment of mineral leases	229,385	67,070
	890,198	101,810
Changes to working capital		
Increase in trade and other receivables	(488,564)	(270,214)
Increase in trade and other payables	526,183	1,023,867
	927,817	855,463
Interest paid	(32,477)	-
Net cash inflow from operating activities	**895,340**	**855,463**
Cash flows from investing activities		
Purchases of intangible assets	(153,758)	(1,863,181)
Purchases of property, plant and equipment	(2,165,507)	(2,488,000)
Proceeds from disposal of property, plant and equipment	-	698,602
Interest received	3,374	-
Net cash used in investing activities	**(2,315,891)**	**(3,652,579)**
Cash flows from financing activities		
Proceeds from issue of ordinary shares	-	2,278,800
Issue costs	-	(122,339)
Proceeds from borrowings	1,200,000	-
Net cash from financing activities	**1,200,000**	**2,156,461**
Net decrease in cash and cash equivalents	(220,551)	(640,655)
Cash and cash equivalents at the beginning of the period	128,002	2,293,153
Exchange gain/(loss) on cash and cash equivalents	1,378	(11,010)
Cash and cash equivalents at the end of the period	**(91,171)**	**1,641,488**
Comprising:		
Cash at bank	9,210	1,641,488
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 interim 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 interim financial information. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, 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 2013 were approved by the Board of Directors on 13 May 2014 and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified.

The preparation of consolidated interim 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 2013 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 2013.

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 $381,520 for the 6 months ended 30 June 2014 (6 months ended 30 June 2013: profit $644,574) and the weighted average number of shares in issue in the period to 30 June 2014 of 910,672,851 (30 June 2013: 865,258,486).

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.

Diluted earnings per share in the period ended 30 June 2013 assumes that options and warrants outstanding at 30 June 2013 were exercised at 1 January 2013 for options and warrants where the exercise price was less than the average price of

the ordinary shares during the period. A calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of subscription rights to outstanding share options and warrants. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the options and warrants. On this basis, the calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders divided by 890,051,915 shares.

5. Property, plant and equipment

	Producing properties $	Drilling costs and equipment $	Motor Vehicles $	Total $
Cost				
At 1 January 2014	1,255,743	8,112,955	19,059	9,387,757
Additions	111,296	2,054,211	-	2,165,507
Transferred from intangible assets	-	4,724	-	4,724
At 30 June 2014	1,367,039	10,171,890	19,059	11,557,988
Depreciation				
At 1 January 2014	190,841	837,233	7,298	1,035,372
Charge for the period	135,302	452,014	2,382	589,698
At 30 June 2014	326,143	1,289,247	9,680	1,625,070
Net Book Amount at 31 December 2013	1,064,902	7,275,722	11,761	8,352,385
Net Book Amount at 30 June 2014	1,040,896	8,882,643	9,379	9,932,918

6. INTANGIBLE ASSETS

Cost	Goodwill $	Drilling costs $	Mineral leases $	Total $
At 1 January 2014	381,733	3,995	6,014,530	6,400,258
Additions	-	24,644	129,114	153,758
Transferred to property, plant and equipment	-	(4,724)	-	(4,724)
Exchange movements	12,371	-	-	12,371
Impairment	-	-	(229,385)	(229,385)
Disposals	-	-	(2,841)	(2,841)
As at 30 June 2014	394,104	23,915	5,911,418	6,329,437
Amortisation				
At 1 January 2014 and At 30 June 2014	-	-	-	-
Net Book Amount at 31 December 2013	381,733	3,995	6,014,530	6,400,258
Net Book Amount at 30 June 2014	394,104	23,915	5,911,418	6,329,437

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 $229,385 (2013 - $67,070) in respect of expired mineral leases.

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

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