Magnolia Petroleum Plc / Index: AIM / Epic: MAGP / Sector: Oil & Gas
22 September 2017

Magnolia Petroleum Plc ('Magnolia' or 'the Company')
Half-Year Report

Magnolia Petroleum Plc, the AIM quoted US focused oil and gas exploration and production company, announces its half-year report covering the six months ended 30 June 2017.

Overview

- Interests in 159 producing wells in proven US onshore formations (H1 2016: 151) - 10 new wells commenced production during H1 2017
- Increase in activity seen – approximately 75 proposals received for new wells in highly active plays such as the SCOOP and the STACK in Oklahoma
- Elected to participate in 28 new wells – majority are low risk, increased density wells on leases where production has already been established
- Successful pilot programme with Western Energy Development LLC ('WED') led to post period end agreement to invest up to US$18.5 million on behalf of WED into the Oklahoma oil and gas market in return for Magnolia earning fees and equity in new leases and wells
    - US$500,000 pilot programme generated 100% rate of return and 3.26 times return on investment
    - Over US$200,000 in value generated for Magnolia: US$75,500 via lease bonus and carried interest for 25% in first well within each spacing unit; US$127,982 uplift in PV_9 value of reserves
    - WED is an affiliate of Western Energy Regional Center LLC, a United States Citizenship and Immigration Services ('USCIS') designated Regional Center
    - WED expects the first investments to be received shortly following finalisation of relevant documentation between underlying clients and WED

Financial Review

- H1 2017 revenues of US$510,290 (H1 2016: US$633,585)
- Half year EBITDA of US($77,558) compared to US$135,556 after removing foreign exchange and impairments during six months to 30 June 2016
- Tangible assets (comprising producing properties) of US$3,856,948 (H1 2016: US$7,217,415)
- Issue of 763,730,000 new ordinary shares in the Company, representing 29% of the enlarged issued share capital to WED as part of above exclusive capital management agreement
- US$208,950 repayment of credit facility – balance of credit facility as of 30 June 2017 US$2,561,766, current balance of credit facility is US$2,315,789

Magnolia CEO, Rita Whittington said, "Our portfolio of 159 producing wells, low cost / low risk strategy to acquire and develop leases alongside established operators, and management team with a track record of value generation in the US onshore sector provide us with a strong platform to capitalise on the pick-up in sentiment and activity we are seeing. WED recognises this and, along with the successful pilot programme, lay behind their decision to select Magnolia as their exclusive partner to manage US$18.5million on their behalf under the US Immigrant Investor programme. We look forward to receiving the initial funds under this agreement."

Chief Executive's Statement

The half year period under review has seen a marked shift in activity levels within the US onshore oil and gas industry, specifically in the low cost and prolific plays, such as the SCOOP and the STACK in Oklahoma, where Magnolia is focused. In H1 2017 we elected to participate in 28 new wells alongside leading operators such as Continental Resources and Marathon. This compares to H1 2016 when we participated in just three wells. Furthermore the 28 new wells were among 75 proposals we received during the period to participate in new drilling activity.

Magnolia's business model is centred on utilising the team's expertise in acquiring leases in proven US onshore plays at attractive prices and then proving up the reserves by drilling alongside established operators. As at the half year end we had interests in 159 producing wells. These serve as our main revenue generator as well as provide the Company with asset backing in the form of proven reserves.

The Magnolia team has previously had notable success with this "acquire, develop and prove" model. Thanks partly to this track record as well as a highly successful pilot programme, we were able to secure for Magnolia an US$18.5 million capital management agreement with WED post period end.

By way of background, in 1993 the US Congress set up the Immigrant Investor programme which allows foreign nationals to obtain visas in return for investing US$500,000 into job-creating schemes. WED has been authorised by the US Citizenship and Immigration Services to manage up to US$19 million of capital owned by foreign nationals as part of the programme. Having signed an exclusive agreement with WED, Magnolia will invest and manage up to US$18.5 million of assets belonging to WED's clients into oil and gas interests in Oklahoma. In return, we will receive an acquisition fee of US$500 per acre secured; a 25% carried working interest in the first well on a spacing unit (we will pay all our costs for any subsequent wells drilled on the same spacing units); a maintenance fee of US$5,000 per US$500,000 capital deployed; and a sliding scale of a portion of the net revenue (revenue minus production tax and transportation) up to a ceiling of US$200,000 pa.

The Agreement with WED will therefore provide us with an additional revenue stream. Furthermore, thanks to benefiting from a 25% carried interest we get to see how productive a spacing unit can be before we commit Magnolia's funds to drilling any de-risked increased density wells. We understand WED is in the process of finalising the relevant documentation with regards to its first clients under the Immigrant Investor programme, and with this in mind we look forward to receiving the initial tranche of funds under the Agreement and investing these in oil and gas properties in Oklahoma.

We know this arrangement has the potential to create value for Magnolia because using US$500,000 of WED's funds we conducted a pilot investment programme which generated a rate of return of 100%; a return on investment of 3.26 times; US$75,500 in value to date for Magnolia (lease bonus plus a carried interest for 25% in the first well, within each spacing unit); and US$127,982 uplift in the PV_9 value of Magnolia's reserves. Extrapolate the above based on the minimum US$10 million WED has committed under the agreement and the value on offer is there for all to see.

With numbers like that, it goes without saying we faced stiff competition to secure the WED contract. Just to have been awarded the deal on its own is testament to our proven expertise in the specialist field of US onshore oil and gas lease acquisition, development and management. However, WED's decision to accept shares in lieu of a cash fee serves as a major vote of confidence not only in the Magnolia team, but also in our business model.

Corporate

During the period, a number of changes were made to the composition of the Board and management team. In April 2017, I took up the position of CEO of the Company following the resignation of Steven Snead. At the same time, we were pleased to announce the appointment of Lanny Woods as a technical consultant. Lanny has many years of experience as an exploration and production geologist, particularly exploring and developing onshore US fields in Oklahoma, Texas and Wyoming. Previously Lanny and I worked together as part of the management team at Primary Natural Resources I and II.

Post period end, Ron Harwood, interim non-executive Chairman, retired from the Board. Ron is a founding member of Magnolia who has made an invaluable contribution to the Company's development over the years. Myself and the Board wish him all the very best with his retirement. Leonard Wallace, an existing non-executive Director of Magnolia, has assumed the position of Chairman of the Company on an interim basis until a permanent replacement is appointed. Leonard joined the Board as a Non-executive Director in May 2016. He is an experienced management professional specialising in drilling engineering, well construction, production management and rig operation with many years' experience within the oil and gas exploration and production industry, particularly the US onshore sector.

Also post period end we announced the appointment of Derec Norman to the Board of Magnolia as Chief Financial Officer, and Lanny Woods as Non-executive Director. Derec was appointed the Company's Vice President of Accounting on 22 August 2014 after spending eight years with leading operator Chesapeake Energy Corporation (NYSE: CHK), where he specialised in oil and gas accounting, acquisitions, divestitures, and mergers managing deals totalling over US$10 billion. Since moving to Magnolia he has been responsible for all aspects of the Company's accounting operations, and the management of all transactions relating to general ledger, receivables, payables, financials and payroll reporting. In this role, he has identified and secured significant cost savings for the Company both internally and when dealing with operators.

Following the above changes, I believe Magnolia's Board and management has the right mix of industry expertise covering all key areas of the business, including lease acquisition, geology, engineering, and finance with which to take the Company forward.

On 26 May 2017, Nostra Terra Oil & Gas ('NTOG') announced that it had agreed to acquire the shares of former CEO Steven Snead and members of his family ('the Snead Group') and on 29 May 2017, the Company received a requisition notice served by the Snead Group calling for a General Meeting of Shareholders to vote on three resolutions: to remove myself from the Board; and to appoint two of its nominees as Non-executive directors of the Company. All three resolutions were strongly opposed by all members of the Board and management team.

To say the Requisitioned GM was an unwelcome distraction would be a considerable understatement. Not only did it cost us a considerable sum in legal and advisory fees which would have been better spent being invested into new wells. It also took up a tremendous amount of management time and energy. NTOG have only recently announced the completion of the purchase of these shares and have stated that they will be selling their holding. The Board and management believes that this is likely to have negatively impacted the Company's share price and may continue to do so until NTOG have disposed of their entire shareholding. We were pleased to note that NTOG have now sold down a significant portion of their holding already and we welcome the transfer of these shares to new shareholders.

Financial Review

During the six months to 30 June 2017, net production generated revenues of US$510,290 (H1 2016: US$633,585). The impact of subdued oil prices on activity in the US onshore sector is largely responsible for the reduction in revenues. EBITDA totalled US$(77,558) compared to US$135,556 after removing foreign exchange and impairments during six months to 30 June 2016. Tangible assets (comprising producing properties) as at end June 2017 stood at US$3,856,948 (H1 2016: US$7,217,415).

Magnolia continues to be a low cost business. Administrative expenses for the period totalled US$410,061, which would have been considerably lower than H1 2016's total of US$374,371 had it not been for legal and advisory fees and other costs associated with dealing with the requisitioned GM.

During the period under review, 763,730,000 new ordinary shares in the Company, representing 29% of the enlarged issued share capital, were issued to WED as part of the exclusive capital management agreement.

The Company made a US$208,950 repayment of its existing credit facility during the half year period. As at 30 June 2017, the balance of the credit facility stood at US$2,561,766. The current balance is US$2,315,789

Outlook

Magnolia has had great success in the past acquiring and developing onshore US leases alongside leading operators particularly when oil prices were trading at US$90 per barrel. Since the downturn, we have worked hard to bring costs down and to focus more on areas which require low oil prices to breakeven. Our low cost, low risk model has generated revenue returns in the past and thanks to the agreement we have signed with WED, we will start to make progress towards generating value once more for shareholders.

In July, we announced that we had sold some non-core wells post period end and it is our intention to continue to review the portfolio and to rationalise and realign it in light of the core counties in which WED can invest. We have used some of the proceeds to reduce our bank debt and continue to manage working capital carefully. Future well investment is likely to be funded from new funds received as part of the WED contract, by further portfolio rationalisation and by raising funds in the future.

Finally, I would like to thank the Board, management team and all our advisers for their hard work during the last six-month period. I would especially like to take this opportunity to thank our shareholders for their support over the years, particularly over the recent summer months and for their support in rejecting the hostile resolutions proposed by NTOG. With this in mind, I look forward to providing updates on our progress in the months ahead.

Rita Whittington
Chief Executive Officer

21 September 2017

Condensed Consolidated Statement of Comprehensive Income
6 months ended 30 June 2017

	Note	6 months to 30 June 2017 Unaudited US $	6 months to 30 June 2016 Unaudited US $
Continuing Operations			
Revenue		510,290	633,585
Operating expenses		(968,197)	(613,915)
Gross (Loss)/Profit		**(457,907)**	**19,670**
Administrative expenses		(410,061)	(374,371)
Impairment of property, plant and equipment		(490,349)	
Impairment of intangible assets		(1,389,596)	(8,334)
Other income		254,907	-
(Loss)/Gain on foreign exchange		(68,598)	1,974,513
Operating (Loss)/Profit		**(2,561,604)**	**1,611,478**
Finance income		-	-
Finance costs		(68,675)	(67,806)
(Loss)/Profit from ordinary activities before tax		**(2,630,279)**	**1,543,672**
Taxation		-	-
(Loss)/Profit for the period attributable to the equity holders of the Company		**(2,630,279)**	**1,543,672**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		97,872	(1,355,904)
Total comprehensive income for the			

period attributable to the equity holders of the Company		**(2,532,407)**	**187,768**
Earnings per share attributable to the equity holders of the Company (expressed in cents per share)	4		
- basic		(.141)	0.121
- diluted		(.141)	0.121

Condensed Consolidated Balance Sheet
As at 30 June 2017

ASSETS	Notes	30 June 2017 Unaudited US $	31 December 2016 Audited US $
Non-Current Assets			
Property, plant and equipment	5	3,856,948	4,518,177
Intangible assets	6	310,231	1,684,559
Total Non Current Assets		4,167,179	6,202,736
Current Assets			
Trade and other receivables		468,604	610,941
Cash and cash equivalents		300,659	241,347
Total Current Assets		769,263	852,288
Total Assets		**4,936,442**	**7,055,024**
EQUITY & LIABILITIES			
Equity			
Share capital		2,771,916	2,619,986
Share premium		15,297,441	15,254,643
Share option and warrants reserve		65,163	65,163
Merger reserve		1,975,950	1,975,950
Reverse acquisition reserve		(2,250,672)	(2,250,672)
Translation reserve		(3,073,785)	(3,171,657)
Retained losses		(13,997,650)	(11,367,372)
Total Equity – Capital and Reserves		788,363	3,126,041
Non-current Liabilities			
Borrowings		-	-
Total Non-current Liabilities		-	-
Current Liabilities			
Borrowings		2,561,766	2,638,447
Trade and other payables		1,586,313	1,290,536
Total Current Liabilities		4,148,079	3,928,983
Total Equity and Liabilities		**4,936,442**	**7,055,024**

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 2016	1,704,820	15,200,219	1,975,950	209,042	(2,250,672)	(962,887)	(9,959,977)	5,916,495
Comprehensive income								
Profit for the period	-	-	-	-	-	-	1,543,672	1,543,672
Other comprehensive income								
Currency translation differences	-	-	-	-	-	(1,355,904)	-	(1,355,904)
Total comprehensive income for the period	-	**-**	**-**	-	**-**	**(1,355,904)**	**1,543,672**	**187,768**
Proceeds from share issue	314,879	136,807	-	-	-	-	-	451,686
Share issue costs		(21,877)	-	-	-	-	-	(21,877)
Transactions with owners of the parent, recognised directly in equity	**314,879**	**114,930**	**-**	**-**	**-**	**-**	**-**	**429,809**
As at 30 June 2016	**2,019,699**	**15,315,149**	**1,975,950**	**209,042**	**(2,250,672)**	**(2,318,791)**	**(8,416,305)**	**6,534,072**
As at 1 January 2017	2,619,986	15,254,643	1,975,950	65,163	(2,250,672)	(3,171,657)	(11,367,372)	3,126,041
Comprehensive income								
Loss for the period	-	-	-	-	-	-	(2,630,278)	(2,630,278)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	97,872	-	97,872
Total comprehensive income for the period	-	**-**	**-**	-	**-**	**97,872**	**(2,630,278)**	**(2,532,406)**
Proceeds from share issue	151,930	42,798	-	-	-	-	-	194,728
Share issue costs		-	-	-	-	-	-	-
Transactions with owners of the parent, recognised directly in equity	**151,930**	**42,798**	**-**	**-**	**-**	**-**	**-**	**194,728**
As at 30 June 2017	**2,771,916**	**15,297,441**	**1,975,950**	**65,163**	**(2,250,672)**	**(3,073,785)**	**(13,997,650)**	**788,363**

Condensed Consolidated Cash Flow Statement
6 months ended 30 June 2017

	6 months to 30 June 2017 Unaudited US $	6 months to 30 June 2016 Unaudited US $
Cash flow from operating activities		
(Loss)/Profit before tax	(2,630,279)	1,543,672
Finance income	-	-
Loss/(profit) on disposal of mineral leases	-	-
Depreciation and amortisation	535,503	490,257
Exchange differences	82,174	(1,291,349)
Impairment of property, plant and equipment	490,349	
Impairment of intangible assets	1,389,596	8,334
Decrease in trade and other receivables	142,336	40,457
Increase/(Decrease) in trade and other payables	295,777	(946,020)
Net cash (outflow)/inflow from operating activities	**305,456**	**(154,649)**
Cash flows from investing activities		
Purchases of intangible assets	-	100
Purchases of property, plant and equipment	(364,623)	(301,665)
Proceeds from disposal of property, plant and equipment	-	-
Interest received	-	-
Net cash used in investing activities	**(364,623)**	**(301,565)**
Cash flows from financing activities		
Proceeds from issue of ordinary shares	194,728	451,686
Issue costs	-	(21,877)
Repayment of borrowings	(76,681)	-
Net cash from financing activities	**118,047**	**429,809**
Net (decrease)/increase in cash and cash equivalents	58,880	(26,405)
Cash and cash equivalents at the beginning of the period	241,347	645,759
Exchange (loss)/gain on cash and cash equivalents	432	(29,751)
Cash and cash equivalents at the end of the period	**300,659**	**589,603**
Comprising:		
Cash at bank	300,659	589,603

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 2016, 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 2016 were approved by the Board of Directors on 16 June 2017 and delivered to the Registrar of Companies. The auditors have drawn attention to going concern in our audit report by way of an emphasis of matter.

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 2016 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 2016.

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 $2,630,279 for the 6 months ended 30 June 2017 (6 months ended 30 June 2016: profit $1,543,672) and the weighted average number of shares in issue in the period to 30 June 2017 of 1,869,826,370 (30 June 2016: 1,276,458,563).

The basic and diluted loss per share in the period ended 30 June 2017 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 2016 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 2017	1,368,348	13,801,572	24,729	15,194,649
Additions	-	364,623	-	364,623
Transferred from intangible assets	-	-	-	-
At 30 June 2017	1,368,348	14,166,195	24,729	15,559,272
Depreciation				
At 1 January 2017	1,201,344	9,453,534	21,594	10,676,472
Charge for the period	36,651	497,825	1,027	535,503
Impairment	-	490,349	-	490,349
At 30 June 2017	1,237,995	10,441,708	22,621	11,702,324
Net Book Amount at 31 December 2016	167,004	4,348,038	3,135	4,518,177
Net Book Amount at 30 June 2017	130,353	3,724,487	2,108	3,856,948

6. INTANGIBLE ASSETS

Cost	Goodwill $	Drilling costs $	Mineral leases $	Total $
At 1 January 2017	284,219	10,744	1,389,596	1,684,559
Additions	-	-	-	-
Transferred to property, plant and equipment	-	-	-	-
Exchange movements	15,268	-	-	15,269
Impairment	-	-	(1,389,596)	(1,389,596)
Disposals	-	-	-	-
As at 30 June 2017	299,487	10,744	-	310,231
Amortisation				
At 1 January 2017and At 30 June 2017	-	-	-	-
Net Book Amount at 31 December 2016	284,219	10,744	1,389,596	1,684,559
Net Book Amount at 30 June 2017	299,487	10,744	-	310,231

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 that 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 $1,389,596 (2016 - $8,334) in respect of expired mineral leases.

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

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