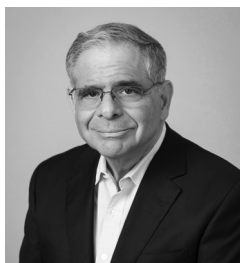




Magnolia Oil & Gas Corporation
2020 Annual Report

From the Chairman



2020 turned out to be a very uneven year for Magnolia Oil & Gas. On one hand, our revenue suffered from the severe decline in product prices resulting from demand weakness brought on by the COVID-19 pandemic. On the other hand, as a result of the quality of our assets, disciplined approach toward capital spending and low debt, we emerged from this period largely unscathed. In truth, Magnolia exited the year as a stronger and more resilient organization than when we entered it.

2020 HIGHLIGHTS We managed our drilling and completion program safely and effectively, responding with appropriate reductions through the period of unprecedented product price volatility. We made significant progress further de-risking our Giddings acreage position, shifting this field to development mode. We enhanced our asset portfolio, closing a series of small and strategic bolt-on oil and gas property acquisitions. Financially, we generated significant free cash flow, repurchased almost 2% of our total shares outstanding and ended 2020 with more cash on our balance sheet than at the start of the year. All told, and despite the unique challenges of 2020, Magnolia emerged with solid momentum that we expect will benefit the company and our stakeholders during 2021.

We attribute our ability to exit 2020 in strong condition to our business model, which allows us to respond effectively to volatility, even on the scale we experienced last year. That model involves maintaining low financial leverage, spending within 60% of our gross cash flow sufficient for generating moderate organic growth and consistent free cash flow with strong pre-tax margins. We believe these are all characteristics that will appeal to generalist investors.

2021 OUTLOOK We don't plan to change our business model in 2021. As always, we remain committed to limiting our spending on drilling, completions, and infrastructure to within 60% of gross cash flow. The recent strength in product prices means our spending percentage could be a little lower during this year. We expect to operate a one-rig program at Giddings, drilling additional multi-well development pads primarily in our initial core area. Lower drilling and completion costs and improved well performance in Giddings should continue to reduce our overall finding and development costs. At Karnes, we plan to complete 10 drilled but uncompleted wells, mostly during the first half of the year. We anticipate these activities will allow us to deliver mid-single digit organic production growth year-over-year.

As we did in 2020, we expect to use most of our unallocated cash flow to acquire small bolt-on properties or for the repurchase of Magnolia shares. In the absence of acquisitions, the cash would be used to repurchase more of our shares. In addition, Magnolia intends to initiate payment of a cash dividend beginning in mid-2021, a measure of confidence in our ability to execute on our business plan and the strength of our assets.

ENHANCING SAFETY AND DIVERSITY The COVID-19 pandemic brought issues of workplace safety and business continuity into sharp relief in 2020. Like many other companies, Magnolia responded with enhanced safety processes to protect our employees, maintain essential services, and continue to operate as efficiently and effectively as possible. We sustained these measures even as we effectively tripled the size of our workforce, staffing two field offices, and filling multiple positions at our Houston headquarters. Our goal in this effort was to hire the most qualified individuals while fostering workforce diversity. By year end 2020, 24% of our employees were female and 32% identified as members of a minority group. We believe the diversity of expertise, experiences, and ideas we gain will contribute to our future success.

In summary, we remain focused on activities that set us apart from our peers: generating significant free cash flow after capital expenditures; delivering consistent organic production growth; achieving high, full-cycle operating margins; maintaining a conservative leverage profile; and reinvesting free cash flow effectively. This focus served us well in 2020. We expect it will also differentiate us in 2021 and beyond.

At Magnolia, we believe the most accurate measure of our success is reflected in our stock price performance. In this regard, Magnolia's management and our entire workforce are aligned with shareholders. We will continue to focus our efforts on generating long-term stock market value. Thank you for your continuing confidence.

Sincerely,

A handwritten signature in black ink that reads "Stephen Chazen". The signature is written in a cursive, flowing style.

Stephen I. Chazen
Chairman, President, and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-38083

Magnolia Oil & Gas Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

81-5365682
(I.R.S. Employer
Identification No.)

Nine Greenway Plaza, Suite 1300

Houston, Texas
(Address of principal executive offices)

77046
(Zip Code)

Registrant's telephone number, including area code: (713) 842-9050

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001	MGY	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$0.7 billion based on the closing price on that day on the New York Stock Exchange.

As of February 19, 2021, there were 162,780,227 shares of Class A Common Stock, \$0.0001 par value per share, and 85,789,814 shares of Class B Common Stock, \$0.0001 par value per share, outstanding.

Documents Incorporated By Reference

Portions of the registrant's definitive proxy statement for the 2021 Annual Meeting of Stockholders, to be filed no later than 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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GLOSSARY OF OIL AND NATURAL GAS TERMS

The following are abbreviations and definitions of certain terms used in this document, some of which are commonly used in the oil and gas industry:

“*Bbl.*” One stock tank barrel, of 42 U.S. gallons liquid volume, used herein in reference to crude oil, condensate, natural gas liquids, or water.

“*Bbls/d.*” Stock tank barrels per day.

“*Bcf.*” billion cubic feet of natural gas.

“*boe.*” Barrels of oil equivalent. One boe is equal to one Bbl, six thousand cubic feet of natural gas, or 42 gallons of natural gas liquids. Based on approximate energy equivalency.

“*boe/d.*” Barrels of oil equivalent per day.

“*British Thermal Unit or Btu.*” The quantity of heat required to raise the temperature of a one-pound mass of water by one degree Fahrenheit.

“*DD&A.*” Depletion, depreciation, and amortization.

“*Developed acreage.*” The number of acres that are allocated or assignable to productive wells or wells capable of production.

“*Development well.*” A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

“*Dry well.*” A well that is determined to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil and natural gas well.

“*Exploratory well.*” A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.

“*Field.*” An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms structural feature and stratigraphic condition are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

“*Formation.*” A layer of rock which has distinct characteristics that differs from nearby rock.

“*Gross acres or gross wells.*” Gross acres or gross wells are the total acres or wells in which all or part of the working interest is owned.

“*Henry Hub.*” A distribution hub in Louisiana that serves as the delivery location for natural gas futures contracts on the NYMEX.

“*Horizontal drilling.*” A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at an angle within a specified interval.

“*MBbls.*” One thousand barrels of crude oil, condensate or NGLs.

“*Mboe/d.*” Thousand barrels of oil equivalent per day.

“*Mcf.*” One thousand cubic feet of natural gas.

“*Mcf/d.*” Thousand cubic feet of natural gas per day.

“*MMboe.*” Million barrels of oil equivalent.

“*MMBtu.*” One million British thermal units.

“*MMBtu/d.*” Million British thermal units per day.

“*MMcf.*” One million cubic feet of natural gas.

“*NGL*” or “*NGLs.*” Natural gas liquids. Hydrocarbons found in natural gas which may be extracted as purity products such as ethane, propane, isobutane and normal butane, and natural gasoline.

“*Net acres or net wells.*” The sum of fractional working interests owned in gross acres or gross wells.

“*NYMEX.*” The New York Mercantile Exchange.

“*Productive well.*” An exploratory, development, or extension well that is not a dry well. Productive wells include producing wells and wells mechanically capable of production.

“*Proved developed reserves.*” Proved oil and natural gas reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

“*Proved reserves.*” Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

“*Proved undeveloped reserves.*” Proved oil and natural gas reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as undeveloped reserves only if a plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

“*Reservoir.*” A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“*Standardized measure.*” Discounted future net cash flows estimated by applying the 12-month unweighted arithmetic average of the first-day-of-the-month price for the preceding 12 months to the estimated future production of year-end proved reserves. Future cash inflows are reduced by estimated future production and development costs based on period-end costs to determine pre-tax cash inflows. Future income taxes, if applicable, are computed by applying the statutory tax rate to the excess of pre-tax cash inflows over Magnolia’s tax basis in the natural gas and oil properties. Future net cash inflows after income taxes are discounted using a 10% annual discount rate.

“*Undeveloped acreage.*” Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil, natural gas, and NGLs regardless of whether such acreage contains proved reserves.

“*Unit.*” The joining of all or substantially all interests in a reservoir or field, rather than a single tract, to provide for development and operation without regard to separate property interests. Also, the area covered by a unitization agreement.

“*Working interest.*” The right granted to the lessee of a property to explore for, to produce, and to own natural gas or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

“*WTI.*” West Texas Intermediate light sweet crude oil.

GLOSSARY OF CERTAIN OTHER TERMS AND CONVENTIONS USED HEREIN

The following are definitions of certain other terms and conventions that are used in this Annual Report on Form 10-K:

The “Company” or “Magnolia.” Magnolia Oil & Gas Corporation (either individually or together with its consolidated subsidiaries, as the context requires, including Magnolia Intermediate, Magnolia LLC, Magnolia Operating, and Magnolia Oil & Gas Finance Corp).

“Magnolia Intermediate.” Magnolia Oil & Gas Intermediate LLC.

“Magnolia LLC.” Magnolia Oil & Gas Parent LLC.

“Magnolia LLC Units.” Units representing limited liability company interests in Magnolia LLC.

“Magnolia Operating.” Magnolia Oil & Gas Operating LLC.

“EnerVest.” EnerVest, Ltd.

“Business Combination.” The acquisition, which closed on July 31, 2018, of certain right, title, and interest in certain oil and natural gas assets located primarily in the Karnes County portion of the Eagle Ford Shale in South Texas; certain right, title, and interest in certain oil and natural gas assets located primarily in the Giddings area of the Austin Chalk; and a 35% membership interest in Ironwood Eagle Ford Midstream, LLC.

“Class A Common Stock.” Magnolia’s Class A Common Stock, par value \$0.0001 per share.

“Class B Common Stock.” Magnolia’s Class B Common Stock, par value \$0.0001 per share.

“Closing Date.” July 31, 2018.

“Giddings Assets.” Certain right, title, and interest in certain oil and natural gas assets located primarily in the Giddings area of the Austin Chalk formation.

“Giddings Purchase Agreement.” The Purchase and Sale Agreement, dated as of July 31, 2018, by and among Magnolia LLC and the Giddings Sellers for certain right, title, and interest in certain oil and natural gas assets located primarily in the Giddings area of the Austin Chalk formation.

“Giddings Sellers.” EnerVest Energy Institutional Fund XI-A, L.P., EnerVest Energy Institutional Fund XI-WI, L.P., EnerVest Holding, L.P., and EnerVest Wachovia Co-investment partnership, L.P.

“Ironwood Interests.” A 35.0% membership interest in Ironwood Eagle Ford Midstream, LLC.

“Ironwood Sellers.” EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-C, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P.

“Issuers.” Magnolia Operating and Magnolia Oil & Gas Finance Corp., a wholly owned subsidiary of Magnolia Operating, as it relates to the 2020 Senior Notes.

“Karnes County Assets.” Certain right, title, and interest in certain oil and natural gas assets located primarily in the Karnes County portion of the Eagle Ford Shale formation in South Texas.

“Karnes County Contribution Agreement.” The Contribution and Merger Agreement, dated as of July 31, 2018, by and among Magnolia LLC and the Karnes County Contributors for certain right, title, and interest in certain oil and natural gas assets located primarily in the Karnes County portion of the Eagle Ford Shale formation in South Texas.

“Karnes County Contributors.” EnerVest Energy Institutional Fund XIV-A, L.P., a Delaware limited partnership, EnerVest Energy Institutional Fund XIV-WIC, L.P., a Delaware limited partnership, EnerVest Energy Institutional Fund XIV-2A, L.P., a Delaware limited partnership, EnerVest Energy Institutional Fund XIV-3A, L.P., a Delaware limited partnership, and EnerVest Energy Institutional Fund XIV-C, L.P., a Delaware limited partnership.

“RBL Facility.” Senior secured reserve-based revolving credit facility.

"2026 Senior Notes." 6.0% Senior Notes due 2026.

"Services Agreement." That certain Services Agreement, as amended, dated as of July 31, 2018, by and between the Company, Magnolia Operating, and EnerVest Operating LLC ("EVO"), pursuant to which EVO provides certain services to the Company as described in the agreement.

"Stockholder Agreement." The Stockholder Agreement, dated as of July 31, 2018, by and between the Company and the other parties thereto.

"2018 Predecessor Period." January 1, 2018 to July 30, 2018.

"2018 Successor Period." July 31, 2018 to December 31, 2018.

"Successor Periods." July 31, 2018 to December 31, 2018, the year ended December 31, 2019, and the year ended December 31, 2020.

FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding the Company’s future financial position, business strategy, budgets, projected revenues, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, the Company’s management. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “plan,” “believe,” or “continue” or similar terminology. Although Magnolia believes that the expectations reflected in such forward-looking statements are reasonable, the Company can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company’s expectations include, but are not limited to, Magnolia’s assumptions about:

- the length, scope, and severity of the ongoing coronavirus disease 2019 (“COVID-19”) pandemic, including the effects of related public health concerns and the impact of continued actions taken by governmental authorities and other third parties in response to the pandemic and its impact on commodity prices, supply and demand considerations, and storage capacity;
- legislative, regulatory, or policy changes, including those following the change in presidential administrations;
- the market prices of oil, natural gas, natural gas liquids (“NGLs”), and other products or services;
- the supply and demand for oil, natural gas, NGLs, and other products or services;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditures and other contractual obligations;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- cyber attacks;
- occurrence of property acquisitions or divestitures;
- the integration of acquisitions;
- the securities or capital markets and related risks such as general credit, liquidity, market, and interest-rate risks; and
- other factors disclosed under Items 1 and 2 - *Business and Properties*, Item 1A - *Risk Factors*, Item 7 - *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, Item 7A - *Quantitative and Qualitative Disclosures About Market Risk*, and elsewhere in this Annual Report on Form 10-K.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, Magnolia assumes no duty to update or revise its forward-looking statements based on changes in internal estimates or expectations or otherwise.

PART I

Items 1 and 2. Business and Properties

Overview

Magnolia Oil & Gas Corporation (either individually or together with its consolidated subsidiaries, as the context requires, the “Company” or “Magnolia”) is a Delaware corporation formed in February 2017 as a special purpose acquisition company under the name TPG Pace Energy Holdings Corp. for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination with one or more businesses.

On July 31, 2018, Magnolia consummated its initial business combination (the “Business Combination”) through its acquisition of certain oil and natural gas assets in the Karnes County portion of the Eagle Ford Shale in South Texas (the “Karnes County Assets” and, such business, the “Karnes County Business”), certain oil and natural gas assets in the Giddings area of the Austin Chalk (the “Giddings Assets”), and a 35.0% membership interest in Ironwood Eagle Ford Midstream, LLC (the “Ironwood Interests”), which owns an Eagle Ford gathering system, each with certain affiliates of EnerVest, Ltd. (“EnerVest”). As of December 31, 2020, Magnolia owned a 65.6% interest in Magnolia Oil & Gas Parent LLC (“Magnolia LLC”), which owns the assets acquired in the Business Combination.

In connection with the Business Combination, Magnolia entered into a Services Agreement (the “Services Agreement”) with EnerVest Operating L.L.C. (“EVOC”), an affiliate of EnerVest, pursuant to which EVOC operates Magnolia’s assets under the direction of Magnolia’s management by providing services substantially identical to the services historically provided by EVOC in operating the assets Magnolia acquired in the Business Combination, including administrative, back office, and day-to-day field-level services reasonably necessary to operate the Company’s business, subject to certain exceptions. On August 1, 2020, the Company provided written notice to EVOC of its intent to terminate the Services Agreement. Pursuant to the Services Agreement, EVOC will continue to provide services during the transition, which Magnolia expects to complete on or before August 1, 2021.

In connection with the Business Combination, the Company has been identified as the acquirer for accounting purposes and the Karnes County Business was deemed to be the accounting predecessor (“Predecessor”). For the periods on or after the Business Combination, the Company, including the combination of the Karnes County Business, the Giddings Assets, and the Ironwood Interests, is the accounting successor (“Successor”). The Business Combination was accounted for using the acquisition method of accounting and the Successor financial statements reflect a new basis of accounting based on the fair value of the net assets acquired. As a result of the application of the acquisition method of accounting, the Company’s consolidated and combined financial statements and certain presentations are separated into two distinct periods to indicate the different ownership and accounting basis between the periods presented, the period before the consummation of the Business Combination, which includes the period from January 1, 2018 to July 30, 2018 (the “2018 Predecessor Period”); and the period on and after the consummation of the Business Combination, from July 31, 2018 to December 31, 2018 (the “2018 Successor Period”), the year ended December 31, 2019, and the year ended December 31, 2020.

Available Information

Magnolia’s principal executive offices are located at Nine Greenway Plaza Suite 1300, Houston, Texas 77046. Magnolia’s website is located at www.magnoliaoilgas.com.

Magnolia furnishes or files with the Securities and Exchange Commission (the “SEC”) its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q, and its Current Reports on Form 8-K. Magnolia makes these documents available free of charge at www.magnoliaoilgas.com under the “Investors” tab as soon as reasonably practicable after they are filed or furnished with the SEC. Information on Magnolia’s website is not incorporated by reference into this Annual Report on Form 10-K or any of the Company’s other filings with the SEC.

Magnolia’s Class A Common Stock, par value \$0.0001 per share, is listed and traded on the New York Stock Exchange (“NYSE”) under the symbol “MGY.”

Segment Information and Geographic Area

The Company operates in one reportable segment engaged in the acquisition, development, exploration, and production of oil and natural gas properties located in the United States. Magnolia’s operations are conducted primarily in one geographic area of the United States. Magnolia’s oil and natural gas properties are located primarily in the Karnes and Giddings areas in South Texas where the Company primarily targets the Eagle Ford Shale and the Austin Chalk formations. Additional data and discussion are provided in

Properties

As of December 31, 2020, Magnolia's assets consisted of a total leasehold position of 677,833 gross (460,398 net) acres, including 42,972 gross (23,513 net) acres in the Karnes area and 634,861 gross (436,885 net) acres in the Giddings area. As of December 31, 2020, Magnolia had 1,796 gross (1,160 net) wells with total production of 61.8 Mboe/d for the year ended December 31, 2020. As of December 31, 2020, Magnolia was running a one-rig program for the Giddings Assets. Approximately 51.3%, 29.0%, and 19.7% of production from Magnolia's assets was attributable to oil, natural gas, and NGLs, respectively, for the year ended December 31, 2020.

The Karnes County Assets are located in Karnes, Gonzales, DeWitt, and Atascosa Counties, Texas, in the core of the Eagle Ford Shale. The acreage comprising the Karnes County Assets also includes the Austin Chalk formation overlying the Eagle Ford Shale. The Austin Chalk formation has shown itself to be an independent reservoir from the Eagle Ford Shale and represents a very attractive development target. The Karnes County Assets include a well-known, low-risk acreage position that has been developed with a focus on maximizing returns and improving operational efficiencies.

The Giddings Assets are located in Austin, Brazos, Burleson, Fayette, Lee, Grimes, Montgomery, and Washington Counties, Texas. The Austin Chalk formation produces along a northeast-to-southwest trend that is approximately parallel to the Texas Gulf Coast. There are several notable producing areas along the Austin Chalk trend, the largest of which is the Giddings area. The Giddings area has seen two major drilling cycles. The first cycle began in the late 1970s and into the early 1980s and consisted primarily of vertical well drilling. The second cycle ran through much of the 1990s and involved primarily horizontal well drilling. The wells included in the Giddings Assets have historically targeted the lower third of the Austin Chalk formation. Recent improvements in drilling and completion technologies have unlocked new development opportunities in the Giddings area. Wells drilled over the past three years have helped to substantiate the strong economic viability of new drilling activity across the Giddings area. Future development results may allow for further expansion of existing location inventory throughout the leasehold.

Reserve Data

Estimated Proved Reserves

The estimates of Magnolia's proved oil and natural gas reserves included in this Annual Report on Form 10-K are as of December 31, 2020. The majority of the Company's proved reserves volumes, approximately 97%, are based on evaluations prepared by the independent petroleum engineering firm of Miller and Lents, in accordance with Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers and definitions and guidelines established by the SEC. Miller and Lents was selected for its historical experience and expertise in evaluating hydrocarbon resources.

Proved oil and natural gas reserves are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. Oil and natural gas prices applied in estimating proved reserves are determined using an unweighted arithmetic average of the first-day-of-the-month price for the trailing historical 12 months.

Proved reserves are sub-divided into two categories, proved developed and proved undeveloped. Proved developed reserves are volumes that can be expected to be recovered through existing wells with existing equipment and operating methods or where the cost of the required equipment is relatively minor compared to the cost of a new well. Proved undeveloped reserves are volumes that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Proved undeveloped reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as undeveloped reserves only if a plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. All of Magnolia's proved undeveloped reserves as of December 31, 2020, that are included in this Annual Report, are planned to be developed within one year.

The technical and economic data used to estimate proved reserves include, but are not limited to, well logs, geologic maps, well-test data, production data, well data, historical price and cost information, and property ownership interests. This technical data,

together with standard engineering and geoscience methods, or a combination of methods, including performance analysis, decline curve methods, volumetric analysis, and assessment of analogues, are applied to estimate proved reserves.

The proved developed reserves per well are estimated by applying performance analysis and decline curve methods. For proved developed wells that lack adequate production history, reserves were estimated using performance-based type curves and offset location analogues. Proved undeveloped reserves are estimated by using a combination of geologic and engineering data for planned drilling locations. Performance data along with log and core data was used to delineate consistent, continuous reservoir and performance characteristics in core areas of development to identify areas of technical certainty that meets the criteria for proved reserves. Performance based type curves are applied to forecast proved undeveloped well performance.

Preparation of Oil and Natural Gas Reserve Information

Magnolia’s Director of Reserves, Peter Corbeil, is the technical person primarily responsible for overseeing the internal reserves estimation process. Mr. Corbeil has more than 20 years of oil and gas industry experience in reservoir engineering, reserves assessment, field development, and technical management. His experience prior to joining Magnolia includes tenures in the corporate reserve groups at three large and diversified oil and gas companies. He holds a Bachelor of Engineering degree and a Master of Business Administration degree and is a member of the Society of Petroleum Engineers.

The Director of Reserves works closely with EVOC’s petroleum engineers and geoscience professionals to ensure the integrity, accuracy, and timeliness of the data furnished to Miller and Lents for the preparation of their reserve reports. Periodically, Magnolia’s internal staff and EVOC’s technical teams meet with the independent reserves engineers to review properties, methods, and assumptions used to prepare reserve estimates for Magnolia’s assets.

The reserve reports were prepared by Miller and Lents’ team of geologists and reservoir engineers who integrate geological, geophysical, engineering, and economic data to produce reserve estimates and economic forecasts. The process to prepare Magnolia’s proved reserves as of December 31, 2020 was supervised by Katie M. Reinaker, Senior Vice President and an officer of Miller and Lents. Ms. Reinaker is a professionally qualified licensed Professional Engineer in the State of Texas with more than 10 years of relevant experience in the estimation, assessment, and evaluation of oil and natural gas reserves.

Reserves estimation involves a degree of uncertainty and estimating volumes of economically recoverable oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation. As a result, the estimates of different engineers often vary. In addition, the results of drilling, testing, and production may justify revisions of such estimates. Accordingly, reserve estimates often differ from the quantities of oil, natural gas, and NGLs that are ultimately recovered. Estimates of economically recoverable oil, natural gas, NGLs, and of future net revenues are based on a number of variables and assumptions, all of which may vary from actual results, including geologic interpretation, prices, future production rates, and costs. Please refer to the Company’s “*Risk Factors*” in Item 1A in this Annual Report on Form 10-K.

Proved Reserves

The following table presents Magnolia’s estimated net proved oil and natural gas reserves as of December 31, 2020. This table shows reserves on a boe basis in which natural gas is converted to an equivalent barrel of oil based on a ratio of six Mcf to one Bbl. This ratio is not reflective of the current price ratio between the two products. The proved undeveloped reserves volumes in the table below are expected to be converted to proved developed reserves within one year.

	December 31, 2020			
	Oil (MMBbls)	Natural Gas (Bcf)	NGLs (MMBbls)	Total (MMboe)
Proved reserves				
Total proved developed	38.1	165.5	20.2	85.8
Total proved undeveloped	11.2	42.1	8.3	26.5
Total proved reserves	<u>49.3</u>	<u>207.6</u>	<u>28.5</u>	<u>112.3</u>

Development of Proved Undeveloped Reserves

As of December 31, 2020, the proved undeveloped reserves volumes are expected to be converted to proved developed reserves within one year. The following table summarizes the changes in Magnolia's proved undeveloped reserves during the year ended December 31, 2020:

	<u>Total (MMboe)</u>
Proved undeveloped reserves at January 1, 2020	22.5
Conversions into proved developed reserves	(13.0)
Extensions	17.7
Acquisitions	0.2
Revisions of previous estimates	(0.9)
Proved undeveloped reserves at December 31, 2020	<u>26.5</u>

As of December 31, 2020, Magnolia's assets contained approximately 26.5 MMboe of proved undeveloped reserves, consisting of 11.2 MMBbls of oil, 42.1 Bcf of natural gas, and 8.3 MMBbls of NGLs. The Company's total estimated proved undeveloped reserves increased 4.0 MMboe during the year ended December 31, 2020. Magnolia converted 13.0 MMboe of proved undeveloped reserves to proved developed reserves as a result of drilling activities completed during 2020. Extensions of 17.7 MMboe resulted from the planned drilling program. The Company's acquisitions resulted in an increase in proved undeveloped reserves of approximately 0.2 MMboe. A downward revision of 0.9 MMboe to proved undeveloped reserves was comprised of positive revisions of 2.2 MMboe for technical updates and 0.5 MMboe due to infill drilling in the Karnes County Assets that were offset by downward revisions of 3.4 MMboe related to optimizing development activity and 0.2 MMboe due to lower commodity prices.

During the year ended December 31, 2020, Magnolia incurred costs of approximately \$92.2 million to convert the reserves associated with 32 of its net proved undeveloped locations to 13.0 MMboe of proved developed reserves.

Drilling Statistics

The following table describes new development and exploratory wells drilled within Magnolia's assets during the years ended December 31, 2020, 2019, and 2018. The information should not be considered indicative of future performance, nor should it be assumed that there is necessarily any correlation among the number of productive wells drilled, quantities of reserves found, or economic value. A dry well is a well that proves to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil and natural gas well. A productive well is an exploratory, development, or extension well that is not a dry well. Productive wells include producing wells and wells mechanically capable of production. Completion refers to installation of permanent equipment for production of oil or natural gas, or, in the case of a dry well, to reporting to the appropriate authority that the well has been abandoned. As of December 31, 2020, 87 gross (18 net) wells were in various stages of completion. As of December 31, 2020, Magnolia was running a one-rig program for the Giddings Assets.

	Successor			Predecessor and Giddings Assets
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
Net exploratory wells				
Productive	—	—	—	—
Dry	—	—	—	—
Net development wells				
Productive	44	76	25	42
Dry	—	—	—	—
	44	76	25	42
Net total wells				
Productive	44	76	25	42
Dry	—	—	—	—
Total	<u>44</u>	<u>76</u>	<u>25</u>	<u>42</u>

Productive Oil and Natural Gas Wells

Productive wells consist of exploratory, development, or extension wells that are not dry wells. Productive wells include producing wells and wells mechanically capable of production. Gross wells are the total number of productive wells in which Magnolia owns a working interest, and net wells are the sum of the fractional working interests of gross wells. The following table sets forth information relating to the productive wells in which Magnolia owned a working interest as of December 31, 2020.

	Oil	Natural Gas	Total
Gross	1,371	425	1,796
Net	794	366	1,160

Production, Pricing, and Lease Operating Cost Data

The following table describes, for each of the last three fiscal years, oil, natural gas, and NGL production volumes, average lease operating costs per boe (including transportation costs, but excluding severance and other taxes), and average sales prices related to Magnolia's operations:

	Successor			Predecessor and Giddings Assets
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
Production				
Crude oil (MMBbls)	11.6	12.9	5.1	6.4
Natural gas (Bcf)	39.4	41.3	14.1	13.5
Natural gas liquids (MMBbls)	4.4	4.6	1.9	1.7
Average lease operating cost per boe	\$ 4.77	\$ 5.28	\$ 4.83	\$ 5.42
Average sale price				
Crude oil (per barrel)	\$ 35.99	\$ 60.00	\$ 67.37	\$ 69.14
Natural gas (per Mcf)	1.71	2.27	3.04	2.82
Natural gas liquids (per barrel)	11.10	15.17	25.93	25.99

Gross and Net Undeveloped and Developed Acreage

The following table sets forth certain information regarding the total developed and undeveloped acreage in which Magnolia held an interest as of December 31, 2020:

	Acreage		
	Undeveloped	Developed	Total
Gross	55,916	621,917	677,833
Net	41,779	418,619	460,398

Undeveloped Acreage Expirations

As of December 31, 2020, Magnolia's total undeveloped acres across its assets that will expire in 2021, 2022, and 2023 are 8,218 gross (6,221 net), 4,127 gross (3,223 net), and 983 gross (982 net) acres, respectively, unless production is established within the spacing units covering the acreage prior to the expiration dates or unless such leasehold rights are extended or renewed. There are no expirations after 2023.

Delivery Commitments

Magnolia has a contract with the commitment to deliver a fixed minimum sales volume of oil production from the Karnes County Assets. This contract requires Magnolia to deliver approximately 2,730 MBbls through September 30, 2021. In addition, the Giddings Assets are subject to a contract with a third-party midstream company that provides for firm pipeline transportation for a portion of the natural gas produced from the Giddings Assets. Under this contract, Magnolia currently has reserved firm capacity of up to 30,000 MMBtu/d, which amount Magnolia has the right to reduce during the term of the agreement based on current capacity requirements. This contract requires Magnolia to pay a pipeline demand fee for the reserved capacity amount. Magnolia expects to fulfill both of these commitments with existing proved developed and proved undeveloped reserves, which are regularly monitored to ensure sufficient availability. In addition, Magnolia monitors current production, anticipated future production, and future development plans in order to meet its commitments.

Operations

General

Pursuant to the Services Agreement entered into in connection with the Business Combination, EVOC, under the direction of Magnolia's management, has provided services to Magnolia since the Business Combination substantially identical to the services historically provided by EVOC, including administrative, back office and day-to-day field-level services reasonably necessary to operate Magnolia's business and its assets, subject to certain exceptions. On August 1, 2020, the Company provided written notice to EVOC of its intent to terminate the Services Agreement. Pursuant to the Services Agreement, EVOC will continue to provide services during the transition through August 1, 2021.

Facilities

Production facilities related to Magnolia's assets are located near producing wells and consist of storage tanks, two-phase and/or three-phase separation equipment, flowlines, metering equipment, and safety systems. Predominant artificial lift methods include gas lift, rod pump lift, and plunger lift.

Magnolia is subject to the terms of a crude oil gathering agreement with Ironwood Eagle Ford Midstream, LLC that expires in July 2027, which allows natural gas and oil production to be delivered and sold to various intrastate and interstate markets, or to various crude oil refining markets on a competitive pricing basis. Magnolia's assets previously included the Ironwood Interests, which were sold on October 23, 2020, while retaining the aforementioned crude oil gathering agreement. The majority of natural gas production related to the Karnes County Assets is currently processed to collect NGLs. The Karnes County Assets also include a saltwater disposal well, which currently handles a portion of water production from the Karnes County Assets.

The Giddings Assets include access to natural gas gathering systems, which allows production to be delivered to third-party natural gas processors. The majority of natural gas production related to the Giddings Assets is currently processed to collect NGLs. Produced natural gas can be sold to various intrastate and interstate markets on a competitive pricing basis. The Giddings Assets also include a saltwater disposal well that handles a small portion of water production from the Giddings Assets.

Marketing and Customers

For the year ended December 31, 2020, Phillips 66 Company and EOG Resources Inc. accounted for 39.9% and 16.7%, respectively, of the combined oil, natural gas, and NGL revenue. For the year ended December 31, 2019, Phillips 66 Company and EOG Resources Inc. accounted for 43.3% and 18.5%, respectively, of the combined oil, natural gas, and NGL revenue. For the 2018 Successor Period, Phillips 66 Company and EOG Resources Inc. accounted for 42.2% and 19.1%, respectively, of the combined oil, natural gas, and NGL revenue. For the 2018 Predecessor Period, Phillips 66 Company, EOG Resources Inc., and Shell Trading (US) Company accounted for 47.6%, 14.5%, and 12.2%, respectively, of the combined oil, natural gas, and NGL revenue.

No other purchaser accounted for 10% or more of Magnolia's revenue on a combined basis in each respective period. Please see "*Risk Factors—Magnolia depends upon a small number of significant purchasers for the sale of most of its oil, natural gas, and NGL production. The loss of one or more of such purchasers could, among other factors, limit Magnolia's access to suitable markets for the oil, natural gas, and NGLs it produces.*" in Item 1A in this Annual Report on Form 10-K for more information.

The natural gas production from the Giddings Assets is gathered and processed under acreage dedications with two third-party midstream companies. The natural gas plant residue volumes are sold either to the natural gas processor or various third parties utilizing the firm transportation agreement described under "*Delivery Commitments.*" Residue sales utilizing the firm transportation are at market prices with terms of 12 months or less. The NGL production extracted from the Giddings Assets is sold to third parties

pursuant to purchase agreements with varying terms at market prices. Magnolia sells the majority of the oil production from the Giddings Assets to three third parties at market prices, with such purchasers transporting the oil from the lease via trucks under contracts of 12 months or less. The remainder of the oil production from the Giddings Assets is sold to various third-party purchasers at market prices under contracts with terms of 12 months or less.

In addition, Magnolia sells the natural gas production from the Karnes County Assets to various third parties pursuant to the terms of multiple natural gas processing and purchase contracts of varying terms. Such natural gas production is gathered and processed under agreements with terms ranging from month-to-month to the life of the applicable lease agreements. Magnolia transports the majority of its crude oil production from the Karnes County Assets on a gathering agreement with Ironwood Eagle Ford Midstream, LLC that expires in July 2027, which provides an outlet for Magnolia to sell oil production via pipeline from the Karnes County Assets to third-party purchasers at market prices. The remaining oil production is transported from the lease via trucks at market prices with terms of 12 months or less. The NGL production from the Karnes County Assets is sold to midstream natural gas processors in the Eagle Ford area.

Competition

The oil and gas industry is a highly competitive environment and Magnolia competes with both major integrated and other independent oil and gas companies in all aspects of the Company's business to explore, develop, and operate its properties and market its production. Competitive conditions may be affected by future legislation and regulations as the United States develops new energy and climate-related policies. In addition, some of Magnolia's competitors may have a competitive advantage when responding to factors that affect demand for oil and natural gas production, such as changing prices, domestic and foreign political conditions, weather conditions, the proximity and capacity of natural gas pipelines and other transportation facilities, and overall economic conditions. Magnolia also faces indirect competition from alternative energy sources, including wind, solar, and electric power. Magnolia's ability to acquire additional prospects and to find and develop reserves in the future will depend on the Company's ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

Environmental, Health and Safety Matters

Oil and natural gas operations are substantially affected by federal, state, and local laws and regulations. In particular, oil and natural gas production and related operations are, or have been, subject to price controls, taxes, and numerous other laws and regulations. All of the jurisdictions in which Magnolia's assets are located have statutory provisions regulating the development and production of oil and natural gas. These laws and regulations can impose recordkeeping, monitoring, and reporting requirements or other operational constraints on the Company's business, including operational controls for minimizing pollution, costs to remediate releases of regulated substances, including crude oil, into the environment, or costs to remediate sites to which the Company sent regulated substances for disposal. In some cases, these laws can impose strict liability for the entire cost of clean-up on any responsible party without regard to negligence or fault and impose liability on the Company for the conduct of others (such as prior owners or operators of Magnolia's assets) or conditions others have caused, or for the Company's acts that complied with all applicable requirements when they were performed. The Company could incur capital, operating, maintenance, and remediation expenditures as a result of environmental laws and regulations. New laws have been enacted, and regulations are being adopted by various regulatory agencies on a continuing basis, and the costs of compliance with these new laws and regulations can only be broadly appraised until their implementation becomes more defined.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Governments have tried to slow the spread of the virus by taking actions such as imposing social distancing guidelines, travel restrictions, and stay-at-home orders. As a result of the pandemic and the corresponding preventative measures, there has been a significant decrease in activity in the global economy and the demand for oil and natural gas. The implications of the decrease in global demand for oil, which, if coupled with the general oversupply, may have further negative effects on the Company's business, such as production curtailment and reductions to its operating plans as a result of decreased prices and reduced storage capacity similar to the first half of 2020. Demand and pricing may again decline if there is a resurgence of the outbreak across the U.S. and other locations across the world and the related social distancing guidelines, travel restrictions, and stay-at-home orders. The extent of the additional impact on the industry and Magnolia's business cannot be reasonably predicted at this time.

As a producer of oil and natural gas, Magnolia is recognized as an essential business and has continued to operate while taking steps to protect the health and safety of its workers. Magnolia has implemented protocols to reduce the risk of an outbreak within its operations, and these protocols have not reduced production or efficiency in a significant manner. At the beginning of the pandemic, the Company implemented remote working procedures for a significant portion of its workforce for health and safety reasons and/or to comply with applicable national, state, and/or local government requirements. As a result, the Company relied on such persons having sufficient access to its information technology systems, including through telecommunication hardware, software,

and networks. Magnolia's board of directors continues to monitor the unfolding COVID-19 pandemic very closely, including the effect on internal controls over financial reporting and information technology security. Magnolia has been able to maintain a consistent level of effectiveness through these arrangements, including maintaining day-to-day operations, financial reporting systems, and internal control over financial reporting. On October 1, 2020, the substantial majority of Magnolia's employees returned to the office.

Air and Climate Change

The threat of climate change continues to attract considerable attention globally. In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, following the U.S. Environmental Protection Agency (the "EPA") determination that emissions of carbon dioxide, methane, and other greenhouse gases ("GHG") present an endangerment to public health and welfare in December 2009, the EPA adopted regulations in 2011 to regulate GHG emissions from certain large stationary sources, require the monitoring and reporting of GHG emissions from certain sources, and (together with the National Highway Traffic Safety Administration), implement GHG emissions limits on vehicles manufactured for operation in the United States, among other things. President Biden has highlighted addressing climate change as a priority of his administration, and federal regulators, state and local governments, and private parties have taken (or announced that they plan to take) actions that have or may have a significant influence on the Company's operations. The Biden Administration has also issued several executive orders that have, among others, recommitted the United States to the Paris Agreement, called for a government-wide approach to addressing climate change, and called for the reinstatement or issuance of methane emissions standards for new, modified, and existing oil and gas facilities. Additional climate-related regulations have been passed by several states, and additional laws may be implemented at the federal, state, or local levels. Please see "Risk Factors" in Item 1A in this Annual Report on Form 10-K for further discussion of risks related to climate change and the regulation of methane emissions and GHGs.

Separately, the EPA finalized a more stringent National Ambient Air Quality Standard ("NAAQS") for ozone in October 2015 and completed attainment/nonattainment designations in 2018. State implementation of the revised NAAQs in the areas in which Magnolia operates could result in increased costs for emission controls and requirements for additional monitoring and testing, as well as a more cumbersome permitting process. Failure to comply with air quality regulations may also result in administrative, civil, and/or criminal penalties for non-compliance.

Hydraulic Fracturing Activities

Hydraulic fracturing is an important and common practice that is used to stimulate production of oil and/or natural gas from dense subsurface rock formations. The hydraulic fracturing process involves the injection of water, proppants, and chemicals under pressure into targeted subsurface formations to fracture the surrounding rock and stimulate production. Hydraulic fracturing is regularly used by operators of Magnolia's assets. Hydraulic fracturing is typically regulated by state oil and natural gas commissions, but the EPA has asserted federal regulatory authority over certain aspects of the process, including air emissions, fracturing fluid constituents, and wastewater disposal, among others.

At the state level, several states have adopted, or are considering, legal requirements that could impose more stringent permitting, disclosure, and well construction requirements on hydraulic fracturing activities. For example, the Texas Railroad Commission has adopted a "well integrity rule," which updated the requirements for drilling, putting pipe down, and cementing wells. The rule also imposes new testing and reporting requirements, such as (i) the requirement to submit cementing reports after well completion or after cessation of drilling, whichever is later, and (ii) the imposition of additional testing on wells less than 1,000 feet below usable groundwater. Local governments also may seek to adopt ordinances within their jurisdictions regulating the time, place, and manner of drilling activities in general or hydraulic fracturing activities in particular.

Compliance with existing laws has not had a material adverse effect on operations related to Magnolia's assets, but if new or far more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where Magnolia's assets are located, operators could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of development activities, and perhaps even be precluded from drilling wells.

Water

The federal Clean Water Act ("CWA"), and analogous state laws, impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and hazardous substances, into state waters and waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. Federal and state regulatory agencies can impose administrative, civil, and criminal penalties for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations. The CWA also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by permit. In September 2015, the EPA and the U.S. Army Corps of Engineers ("Corps") issued new rules defining the scope of the EPA's and the Corps' jurisdiction under the CWA with respect to certain types of waterbodies and classifying these waterbodies as regulated wetlands (the

“WOTUS” rule). However, following the change in presidential administrations, there have been several attempts to modify this rule. For example, on January 23, 2020, the EPA and the Corps finalized the Navigable Waters Protection Rule, which narrows the definition of “waters of the United States” relative to the prior 2015 rulemaking. Legal challenges to the definition of WOTUS are ongoing, and the Biden Administration may propose a new interpretation of WOTUS. To the extent any final rule expands the scope of the CWA’s jurisdiction, Magnolia could face increased permitting costs and project delays.

In addition, Magnolia may be required under the CWA to obtain and maintain approvals or permits for the discharge of wastewater or storm water and are required to develop and implement spill prevention, control, and countermeasure plans, also referred to as “SPCC plans,” in connection with on-site storage of significant quantities of oil.

Hazardous Substances and Waste Handling

The Comprehensive Environmental Response, Compensation and Liability Act (the “CERCLA”), also known as the “Superfund” law, and comparable state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered responsible for the release of a “hazardous substance” into the environment. These persons include the current and past owner or operator of the disposal site or the site where the release occurred and persons that disposed or arranged for the disposal or the transportation for disposal of the hazardous substances at the site where the release occurred.

The Resources Conservation and Recovery Act (the “RCRA”) and analogous state laws, impose detailed requirements for the generation, handling, storage, treatment, and disposal of nonhazardous and hazardous solid wastes. RCRA specifically excludes drilling fluids, produced waters, and other wastes associated with the development or production of crude oil, natural gas, or geothermal energy from regulation as hazardous wastes. However, these wastes may be regulated by the EPA or state agencies under RCRA’s less stringent nonhazardous solid waste provisions, state laws or other federal laws. It is, however, possible that certain oil and natural gas drilling and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. A loss of the RCRA exclusion for drilling fluids, produced waters, and related wastes could result in an increase in the costs to manage and dispose of generated wastes.

Endangered Species Act

The Endangered Species Act (the “ESA”) and (in some cases) comparable state laws were established to protect endangered and threatened species. Pursuant to the ESA, if a species is listed as threatened or endangered, restrictions may be imposed on activities adversely affecting that species’ habitat. The U.S. Fish and Wildlife Service may designate critical habitat and suitable habitat areas that it believes are necessary for survival of a threatened or endangered species. A critical habitat or suitable habitat designation could result in further material restrictions to land use and may materially delay or prohibit land access for oil and natural gas development. The identification or designation of previously unprotected species as threatened or endangered in areas where underlying property operations are conducted could cause increased costs arising from species protection measures or could result in limitations on development activities that could have an adverse impact on the ability to develop and produce reserves within Magnolia’s assets. If a portion of Magnolia’s assets were to be designated as a critical or suitable habitat, it could adversely impact the value of its assets.

OSHA

Magnolia is subject to the requirements of the Occupational Health and Safety Act (“OSHA”) and comparable state statutes whose purpose is to protect the health and safety of workers. Violations can result in civil or criminal penalties as well as required abatement. In addition, the OSHA hazard communication standard, the Emergency Planning and Community Right-to-Know Act, and comparable state statutes and any implementing regulations require that Magnolia organizes and/or discloses information about hazardous materials used or produced in its operations and that this information be provided to employees, state and local governmental authorities, and citizens.

Related Permits and Authorizations

Many environmental laws require permits or other authorizations from state and/or federal agencies before initiating certain drilling, construction, production, operation, or other oil and natural gas activities, and require maintaining these permits and compliance with their requirements for on-going operations. These permits are generally subject to protest, appeal, or litigation, which could in certain cases delay or halt projects and cease production or operation of wells, pipelines, and other operations related to Magnolia’s assets.

Human Capital Disclosures

Magnolia's Human Capital Philosophy

At Magnolia, employees drive the Company's strategy and success. The experience and expertise of Magnolia's employees is critical to the Company's ability to create value for Magnolia's investors by growing the Company's asset platform, generating free cash flow, maintaining financial flexibility, and ensuring thoughtful capital allocation. With that in mind, Magnolia seeks to attract, develop, and retain highly qualified individuals who are committed to helping Magnolia become an investment of choice with a broad shareholder base, an employer of choice with a winning culture, and an operator of choice with best-in-class assets. The discussion below highlights the Company's efforts to effectively manage human capital at Magnolia.

Growing the Magnolia Team

On December 31, 2020, Magnolia had 136 employees with 63 of those employees located in the Company's field offices in Giddings and Gillett, Texas and 73 located at Magnolia's corporate headquarters in Houston, Texas. A key factor driving the Company's human capital strategy in 2020 was the decision to terminate the Services Agreement. On August 1, 2020, the Company provided written notice of its intent to terminate the Services Agreement. Pursuant to the Services Agreement, EVOC will continue to provide services during the transition, which Magnolia expects to complete on or before August 1, 2021.

EVOC had historically provided Magnolia with administrative, back office, and day-to-day field-level services, under Magnolia's direction. As a result of the contract termination, Magnolia assumed responsibility for operation of its Karnes County and Giddings Assets, which involved recruiting, interviewing, hiring, and onboarding 63 new field employees. In addition, Magnolia recruited and hired qualified candidates for positions in the Company's Houston office, beginning with key leader roles in the Operations and Accounting groups as well as other support functions. Magnolia continues to recruit for and hire qualified individuals to fill positions in functions formerly provided by EVOC.

To ensure the successful integration of new hires into the existing Magnolia teams, the Company developed and launched a set of foundational elements in support of Magnolia's culture. These elements included a company purpose and mission statement, four core values, and a vision statement. New employees are introduced to these elements of Magnolia's culture during new hire orientation to ensure they are aligned on the underlying values that drive the Company's business decisions and long-term vision as an employee group. As Magnolia continues to mature as an organization, the Company plans to continue to provide its team with opportunities for professional development to enhance the skills and competencies that are critical to delivering on Magnolia's business strategy.

Valuing Diversity

Magnolia's team is made up of individuals from a variety of different backgrounds and career paths. Magnolia values and uses its diverse expertise, experiences, and ideas and recognizes that the Company's success depends on it. One of Magnolia's key human capital priorities is to hire the most qualified individuals while promoting the Company's workforce diversity. As of December 31, 2020, 24% of Magnolia's total employee population were female and 32% identified as a minority group, as defined by the U.S. Equal Employment Opportunity Commission. At the Company's headquarters location in Houston, Texas, 38% of Magnolia's employees were female and 36% identified as a minority group. At Magnolia's Giddings and Gillett, Texas locations, combined, 8% of Magnolia's employees were female and 27% identified as a minority group.

Ensuring the Health and Safety of the Magnolia Team

At Magnolia, safety is a core value, and the Company is committed to taking proactive measures to protect everyone on all worksites. In support of that commitment, Magnolia tracks safety performance across its operations through regularly updated safety scorecards and other measures. In addition to common lagging indicators, such as employee and contractor recordable incidents, Magnolia also tracks leading indicators such as safety observations and near-miss reports.

Like many other companies, Magnolia has responded to the COVID-19 pandemic with enhanced safety processes and protocols. The primary goals in the Company's COVID-19 response are to ensure Magnolia employees are safe, sustain essential services, and strive to operate as efficiently and effectively as possible. As the pandemic developed and began to impact communities where Magnolia employees live and work, the Company:

- Initiated regular communications with its employees to explain the pandemic's impact on the Company's operations, Magnolia's response, and the measures the Company is taking to ensure health and safety;
- Formed a cross-functional COVID-19 Response Team to monitor external and internal data and implement appropriate protocols and work processes to promote the safety of the Magnolia team;

- Equipped employees with computer equipment and accessories to allow them to work from home, as needed;
- Developed a COVID-19 Response Playbook to outline actions Magnolia is taking and expectations of the team in response to the pandemic;
- Brought employees back to into Magnolia’s office locations on an alternating schedule for several months as the Company continued to monitor local and statewide reopening activities;
- Enhanced cleaning protocols and implemented a self-screening process for employees at all Company locations;
- Established social distancing protocols at all Company locations;
- Provided each employee with personal protective equipment when they returned to the office, including masks, gloves, hand sanitizer, and cleaning supplies;
- Modified workspaces as needed with plexiglass dividers for employee use;
- Implemented procedures to address actual and suspected COVID-19 cases and potential exposure; and
- Required employees to wear masks at all Company locations.

Remaining Focused

Magnolia encourages its employees to think and act as owners and to engage, energize, and inspire each other to deliver top performance. The Company plans to remain focused on providing its employees with opportunities to build a winning company that safeguards workers and the environment, enhances careers, strengthens local communities, and increases value for all stakeholders.

Item 1A. Risk Factors

The nature of Magnolia's business activities subjects the Company to certain hazards and risks. The following risks and uncertainties, together with other information set forth in this Annual Report on Form 10-K, should be carefully considered by current and future investors in the Company's securities. These risks and uncertainties are not the only ones Magnolia faces. Additional risks and uncertainties presently unknown to Magnolia, or currently deemed immaterial, also may impair the Company's business operations. The occurrence of one or more of these risks or uncertainties could materially and adversely affect the Company's business, its financial condition, and the results of Magnolia's operations, which in turn could negatively impact the value of the Company's securities.

Risks Related to the Ongoing COVID-19 Pandemic

COVID-19 and other pandemic outbreaks could negatively impact Magnolia's business and results of operations.

The Company may face additional risks related to the ongoing outbreak of COVID-19, which has been declared a "pandemic" by the World Health Organization. International, federal, state, and local public health and governmental authorities have taken extraordinary and wide-ranging actions to contain and combat the outbreak and spread of COVID-19 in regions across the United States and the world, including mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations. To the extent COVID-19 continues or worsens, governments may impose additional similar restrictions. The full impact of COVID-19 is unknown and rapidly evolving. The outbreak and any preventative or protective actions that the Company or its customers may take in response to this virus may result in a period of disruption, including the Company's financial reporting capabilities, its operations generally, and could potentially impact the Company's customers, distribution partners, and third parties. In addition, many of the Company's non-operational employees worked remotely, which increased the risk of security breaches or other cyber-incidents or attacks, loss of data, fraud, and other disruptions. Any resulting impacts from the outbreak cannot be reasonably estimated at this time, and may materially affect the business and the Company's financial condition and results of operations. The extent and duration of such impacts will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. On October 1, 2020, the substantial majority of Magnolia's employees returned to the office.

The marketability of Company production is dependent upon market demand, vehicles, transportation and storage facilities, and other facilities, most of which the Company does not control. If these vehicles or facilities are unavailable, or if the Company is unable to access such vehicles or facilities on commercially reasonable terms, operations could be interrupted, production could be curtailed or shut in, and revenues could be reduced.

The marketing of oil, natural gas, and NGL production depends in large part on the availability, proximity, and capacity of trucks, pipelines, and storage facilities, natural gas gathering systems, and other transportation, processing, and refining facilities, as well as the existence of adequate markets. If there is a resurgence of the outbreak across the United States and other locations across the world and the related social distancing guidelines, travel restrictions, and stay-at-home orders due to the COVID-19 pandemic and such resurgence reduces demand for oil and natural gas, available storage and transportation capacity for the Company's production may be limited or unavailable in the future. If there is insufficient capacity, if the capacity is unavailable to the Company, or if the capacity is unavailable on commercially reasonable terms, the prices Magnolia receives for its production could be significantly depressed.

As a result of continued or further storage and/or market shortages, the Company could be forced to temporarily shut in some or all of its production or delay or discontinue drilling plans and commercial production following a discovery of hydrocarbons while the Company constructs or purchases its own facilities or system. If the Company is forced to shut in production, it may incur greater costs to bring the associated production back online. Potential cost increases associated with bringing wells back online may be significant enough that such wells may become non-economic at low commodity price levels, which may lead to decreases in proved reserve estimates and potential impairments and associated charges to earnings. If the Company is able to bring wells back online, there is no assurance that such wells will be as productive following commencement as they were prior to being shut in. For example, in the second quarter of 2020, the Company temporarily shut in some low producing wells due to depressed commodity prices. Additionally, some of the Company's non-operated wells were shut in. Many of the wells have returned to production and there was not a significant impact on net production, however, should sustained periods of lower oil and natural gas prices return, the Company may further shut in wells or curtail production.

Risks Related to Magnolia's Overall Business Operations

Oil, natural gas, and NGL prices are volatile. A sustained period of low oil, natural gas, and NGL prices could adversely affect Magnolia's business, financial condition, results of operations, and ability to meet its expenditure obligations and financial commitments.

The prices Magnolia receives for its oil, natural gas, and NGL production will heavily influence its revenue, profitability, access to capital, future rate of growth, and the carrying value of its properties. Oil, natural gas, and NGLs are commodities, and their prices may fluctuate widely in response to market uncertainty and to relatively minor changes in the supply of and demand for oil, natural gas, and NGLs. Historically, oil, natural gas, and NGL prices have been volatile. The prices Magnolia receives for its production and the levels of Magnolia's production, depend on numerous factors beyond Magnolia's control, which include the following:

- the length, scope, and severity of the ongoing COVID-19 pandemic, including the effects of related public health concerns and the impact of continued actions taken by governmental authorities and other third parties in response to the pandemic and its impact on commodity prices, supply and demand considerations, and storage capacity;
- U.S. federal, state, local, and non-U.S. governmental regulation and taxes;
- worldwide and regional economic conditions impacting the global supply and demand for oil, natural gas, and NGLs;
- the price and quantity of foreign imports of oil, natural gas, and NGLs;
- political and economic conditions in or affecting other producing regions or countries, including the Middle East, Africa, South America, and Russia;
- actions of the Organization of the Petroleum Exporting Countries, its members, and other state-controlled oil companies relating to oil price and production controls;
- the level of global exploration, development, and production;
- the level of global inventories;
- prevailing prices on local price indexes in the areas in which Magnolia operates;
- the proximity, capacity, cost, and availability of gathering and transportation facilities;
- localized and global supply, demand fundamentals, and transportation availability; the cost of exploring for, developing, producing, and transporting reserves;
- weather conditions and natural disasters;
- technological advances affecting energy consumption;
- the price and availability of alternative fuels;
- expectations about future commodity prices; and
- events that impact global market demand.

Lower commodity prices may reduce Magnolia's cash flow and borrowing ability. If Magnolia is unable to obtain needed capital or financing on satisfactory terms, its ability to develop future reserves could be adversely affected. Also, using lower prices in estimating proved reserves may result in a reduction in proved reserves volumes due to economic limits. In addition, sustained periods with lower oil and natural gas prices may adversely affect drilling economics and Magnolia's ability to raise capital, which may require it to re-evaluate and postpone or eliminate its development program, and result in the reduction of some proved undeveloped reserves and related standardized measure. If Magnolia is required to curtail its drilling program, Magnolia may be unable to hold leases that are scheduled to expire, which may further reduce reserves. As a result, a substantial or extended decline in commodity prices may materially and adversely affect Magnolia's future business, financial condition, results of operations, liquidity, and ability to finance planned capital expenditures.

Part of Magnolia's business strategy involves using some of the latest available horizontal drilling and completion techniques, which involve risks and uncertainties in their application.

Magnolia's operations involve utilizing some of the latest drilling and completion ("D&C") techniques. The difficulties Magnolia faces drilling horizontal wells include landing its wellbore in the desired drilling zone, staying in the desired drilling zone while drilling horizontally through the formation, running its casing the entire length of the wellbore, and being able to run tools and other equipment consistently through the horizontal wellbore.

The difficulties that Magnolia faces while completing its wells include the ability to fracture stimulate the planned number of stages, the ability to run tools the entire length of the wellbore during completion operations, and the ability to successfully clean out the wellbore after completion of the final fracture stimulation stage.

Use of new technologies may not prove successful and could result in significant cost overruns or delays or reductions in production, and, in extreme cases, the abandonment of a well. In addition, certain of the new techniques may cause irregularities or interruptions in production due to offset wells being shut in and the time required to drill and complete multiple wells before any such

wells begin producing. Furthermore, the results of drilling in new or emerging formations are more uncertain initially than drilling results in areas that are more developed and have a longer history of established production. Newer and emerging formations and areas have limited or no production history and, consequently, Magnolia may be more limited in assessing future drilling results in these areas. If its drilling results are less than anticipated, the return on investment for a particular project may not be as attractive as anticipated, and Magnolia could incur material write-downs of unevaluated properties, and the value of undeveloped acreage could decline in the future.

For example, potential complications associated with the new D&C techniques that Magnolia utilizes may cause Magnolia to be unable to develop its assets in line with current expectations and projections. Further, Magnolia's recent well results may not be indicative of its future well results.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect Magnolia's business, financial condition, or results of operations.

Magnolia's future financial condition and results of operations will depend on the success of its development, production, and acquisition activities, which are subject to numerous risks beyond its control, including the risk that drilling will not result in commercially viable oil and natural gas production.

Magnolia's decisions to develop or purchase prospects or properties will depend, in part, on the evaluation of data obtained through geophysical and geological analysis, production data, and engineering studies, which are often inconclusive or subject to varying interpretations. For a discussion of the uncertainty involved in these processes, see "*Crude oil, natural gas, and NGL reserves are estimates, and actual recoveries may vary significantly.*" In addition, the cost of drilling, completing, and operating wells is often uncertain.

Further, many factors may curtail, delay, or cancel scheduled drilling projects, including:

- delays imposed by, or resulting from, permitting activities, compliance with regulatory requirements, including limitations on wastewater disposal, emission of greenhouse gases ("GHGs"), and hydraulic fracturing;
- pressure or irregularities in geological formations;
- sustained periods of low oil and natural gas prices;
- shortages of or delays in obtaining equipment and qualified personnel or in obtaining water for hydraulic fracturing activities;
- equipment failures, accidents, or other unexpected operational events;
- lack of available gathering facilities or delays in construction of gathering facilities;
- lack of available capacity on interconnecting transmission pipelines;
- adverse weather conditions;
- issues related to compliance with environmental regulations;
- environmental or safety hazards, such as oil and natural gas leaks, oil spills, pipeline and tank ruptures, and unauthorized discharges of brine, well stimulation and completion fluids, toxic gases, or other pollutants into the surface and subsurface environment;
- limited availability of financing on acceptable terms;
- title issues;
- other market limitations in Magnolia's industry; and
- the length, scope, and severity of the ongoing COVID-19 pandemic, including the effects of related public health concerns and the impact of continued actions taken by governmental authorities and other third parties in response to the pandemic and its impact on commodity prices, supply and demand considerations, and storage capacity.

Crude oil, natural gas, and NGL reserves are estimates, and actual recoveries may vary significantly.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to current and future economic conditions and commodity prices. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves. In order to prepare the reserve estimates, Magnolia must project production rates and timing of development expenditures. The Company must also analyze available geological, geophysical, production, and engineering data. The extent, quality, and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. Magnolia cannot assure you that its management team's assumptions with respect to projected production and/or the timing of development expenditures will not materially change in subsequent periods. Magnolia's management team and board may determine to secure and deploy development capital at a faster or slower pace than currently assumed.

Actual future production, oil prices, natural gas prices, NGL prices, revenues, taxes, development expenditures, operating expenses, and quantities of recoverable oil and natural gas reserves may vary from Magnolia's estimates. For instance, initial production rates reported by Magnolia or other operators may not be indicative of future or long-term production rates, recovery efficiencies may be worse than expected, and production declines may be greater than anticipated and may be more rapid and irregular when compared to initial production rates. In addition, estimates of proved reserves may be adjusted to reflect additional production history, results of development activities, current commodity prices, and other existing factors. Any significant variance could materially affect the estimated quantities and present value of reserves. Moreover, there can be no assurance that reserves will ultimately be produced or that proved undeveloped reserves will be developed within the periods anticipated.

Actual future prices and costs may differ materially from those used in the present value estimate. If spot prices are below such calculated amounts, using more recent prices in estimating proved reserves may result in a reduction in proved reserve volumes due to economic limits.

The standardized measure of estimated reserves may not be an accurate estimate of the current fair value of estimated oil and natural gas reserves.

The standardized measure is a reporting convention that provides a common basis for comparing oil and gas companies subject to the rules and regulations of the SEC. The standardized measure requires historical 12-month pricing as required by the SEC as well as operating and development costs prevailing as of the date of computation. Consequently, it may not reflect the prices ordinarily received or that will be received for oil and natural gas production because of varying market conditions, and it also may not reflect the actual costs that will be required to produce or develop the oil and natural gas properties. In addition, the sellers in the Business Combination were generally not subject to U.S. federal, state, or local income taxes other than certain state franchise taxes. Magnolia is subject to U.S. federal, state, and local income taxes. As a result, estimates included in this Annual Report on Form 10-K of future net cash flow may be materially different from the future net cash flows that are ultimately received. Therefore, the standardized measure of estimated reserves included in this Annual Report on Form 10-K should not be construed as accurate estimates of the current fair value of such proved reserves.

Properties Magnolia has acquired or will acquire may not produce as projected, and Magnolia may be unable to determine reserve potential, identify liabilities associated with such properties, or obtain protection from sellers against such liabilities.

Acquiring oil and natural gas properties requires Magnolia to assess reservoir and infrastructure characteristics, including recoverable reserves, future oil and natural gas prices and their applicable differentials, development and operating costs, and potential liabilities, including environmental liabilities. In connection with these assessments, Magnolia performs a review of the subject properties that it believes to be generally consistent with industry practices. Such assessments are inexact and inherently uncertain. For these reasons, the properties Magnolia has acquired or will acquire may not produce as expected. In connection with the assessments, Magnolia performs a review of the subject properties, but such a review may not reveal all existing or potential problems. In the course of due diligence, Magnolia may not review every well, pipeline, or associated facility. Magnolia cannot necessarily observe structural and environmental problems, such as groundwater contamination, when a review is performed. Magnolia may be unable to obtain or successfully enforce contractual indemnities from the seller for liabilities created prior to Magnolia's purchase of the property. Magnolia may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with its expectations. Additionally, the success of future acquisitions will depend on Magnolia's ability to integrate effectively the then-acquired business into its then-existing operations. The process of integrating acquired assets may involve unforeseen difficulties and may require a disproportionate amount of managerial and financial resources. Magnolia's failure to achieve consolidation savings, to incorporate the additionally acquired assets into its then-existing operations successfully, or to minimize any unforeseen operational difficulties, or the failure to acquire future assets at all, could have a material adverse effect on its financial condition and results of operations.

Magnolia is not the operator on all of its acreage or drilling locations, and, therefore, is not able to control the timing of exploration or development efforts, associated costs, or the rate of production of any non-operated assets and could be liable for certain financial obligations of the operators or any of its contractors to the extent such operator or contractor is unable to satisfy such obligations.

Magnolia conducts many of its exploration and production operations through joint operating agreements with other parties under which the Company may not control decisions, either because the Company does not have a controlling interest or is not an operator under the agreement. There is risk that these parties may at any time have economic, business, or legal interests or goals that are inconsistent with Magnolia's, and therefore decisions may be made that are not what the Company believes are in its best interest. Moreover, parties to these agreements may be unable or unwilling to meet their economic or other obligations, and Magnolia may be required to fulfill those obligations alone. In either case, the value of Magnolia's investment may be adversely affected.

Magnolia's producing properties are predominantly located in South Texas, making Magnolia vulnerable to risks associated with operating in a limited geographic area.

Substantially all of Magnolia's producing properties are geographically concentrated in the Karnes County portion of the Eagle Ford Shale in South Texas and the Giddings area of the Austin Chalk. As a result, Magnolia may be disproportionately exposed to various factors, including, among others: (i) the impact of regional supply and demand factors, (ii) delays or interruptions of production from wells in such areas caused by governmental regulation, (iii) processing or transportation capacity constraints, (iv) market limitations, (v) availability of equipment and personnel, (vi) water shortages or other drought related conditions, or (vii) interruption of the processing or transportation of oil, natural gas, or NGLs. The concentration of Magnolia's assets in a limited geographic area also increases its exposure to changes in local laws and regulations, certain lease stipulations designed to protect wildlife and unexpected events that may occur in the regions such as natural disasters, seismic events, industrial accidents, or labor difficulties. Any one of these factors has the potential to cause producing wells to be shut-in, delay operations, decrease cash flows, increase operating and capital costs, and prevent development of lease inventory before expirations. Any of the risks described above could have a material adverse effect on Magnolia's business, financial condition, results of operations, and cash flow.

Magnolia may incur losses as a result of title defects in the properties in which it invests.

The existence of a material title deficiency can render a lease worthless and adversely affect Magnolia's results of operations and financial condition. While Magnolia typically obtains title opinions prior to commencing drilling operations on a lease or in a unit, the failure of title may not be discovered until after a well is drilled, in which case Magnolia may lose the lease and the right to produce all or a portion of the minerals under the property. Additionally, if an examination of the title history of a property reveals that an oil or natural gas lease or other developed right has been purchased in error from a person who is not the owner of the mineral interest desired, Magnolia's interest would substantially decline in value. In such cases, the amount paid for such oil or natural gas lease or leases would be lost.

The development of proved undeveloped reserves may take longer and may require higher levels of capital expenditures than anticipated. Therefore, proved undeveloped reserves may not be ultimately developed or produced.

As of December 31, 2020, Magnolia's assets contained 26.5 MMboe of proved undeveloped reserves consisting of 11.2 MMBbls of oil, 42.1 Bcf of natural gas, and 8.3 MMBbls of NGLs. Development of these proved undeveloped reserves may take longer and require higher levels of capital expenditures than anticipated. Magnolia's ability to fund these expenditures is subject to a number of risks. Magnolia may be unable to obtain required capital or financing on satisfactory terms, which could lead to a decline in its ability to access or grow production and reserves. Delays in the development of reserves, increases in costs to drill and develop such reserves, or decreases in commodity prices will reduce the value of the proved undeveloped reserves and future net revenues estimated for such reserves, and may result in some projects becoming uneconomic. In addition, delays in the development of reserves could cause Magnolia to have to reclassify proved undeveloped reserves as unproved reserves. Furthermore, there is no certainty that Magnolia will be able to convert proved undeveloped reserves to developed reserves, or that undeveloped reserves will be economically viable or technically feasible to produce.

Certain factors could require Magnolia to write-down the carrying values of its properties, including commodity prices decreasing to a level such that future undiscounted cash flows from its properties are less than their carrying value.

Accounting rules require that Magnolia periodically review the carrying value of its properties for possible impairment. Based on prevailing commodity prices, specific market factors, circumstances at the time of prospective impairment reviews, the continuing evaluation of development plans, production data, economics, and other factors, Magnolia may be required to write-down the carrying value of its properties. A write-down constitutes a non-cash impairment charge to earnings. Further declines in commodity prices may adversely affect proved reserve values, which would likely result in a proved property impairment of Magnolia's properties, which could have a material adverse effect on results of operations for the periods in which such charges are taken. During the first quarter of 2020, Magnolia recorded impairments of \$1.9 billion related to proved and unproved properties as a result of a sharp decline in commodity prices. Proved property impairment of \$1.4 billion is included in "Impairment of oil and natural gas properties" and unproved property impairment of \$0.6 billion is included in "Exploration expense" on the Company's consolidated statements of operations. Magnolia could experience additional material write-downs as a result of lower commodity prices or other factors, including low production results or high lease operating expenses, capital expenditures, or transportation fees.

Unless Magnolia replaces its reserves with new reserves and develops those new reserves, its reserves and production will decline, which would adversely affect future cash flows and results of operations.

Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Unless Magnolia conducts successful ongoing exploration and development activities or continually acquires properties containing proved reserves, proved reserves will decline as those reserves are produced. Magnolia's

future reserves and production, and therefore future cash flow and results of operations, are highly dependent on Magnolia's success in efficiently developing current reserves and economically finding or acquiring additional recoverable reserves. Magnolia may not be able to develop, find, or acquire sufficient additional reserves to replace future production. If Magnolia is unable to replace such production, the value of its reserves will decrease, and its business, financial condition, and results of operations would be materially and adversely affected.

Properties that Magnolia decides to drill may not yield oil or natural gas in commercially viable quantities.

Properties that Magnolia decides to drill that do not yield oil or natural gas in commercially viable quantities will adversely affect its results of operations and financial condition. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of seismic data and other technologies and the study of producing fields in the same area will not enable Magnolia to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. Magnolia cannot ensure that the analogies drawn from available data from other wells, more fully explored prospects or producing fields will be applicable to its drilling prospects. Further, Magnolia's drilling operations may be curtailed, delayed, or canceled as a result of numerous factors, including unexpected drilling conditions, title issues, pressure or lost circulation in formations, equipment failures or accidents, adverse weather conditions, compliance with environmental and other governmental or contractual requirements, and increases in the cost of, and shortages or delays in the availability of, electricity, supplies, materials, drilling or workover rigs, equipment, and services.

Magnolia depends upon a small number of significant purchasers for the sale of most of its oil, natural gas, and NGL production. The loss of one or more of such purchasers could, among other factors, limit Magnolia's access to suitable markets for the oil, natural gas, and NGLs it produces.

Magnolia normally sells its production to a relatively small number of customers, as is customary in the oil and natural gas business. In 2020, there were two purchasers who accounted for an aggregate 56.6% of the total revenue attributable to Magnolia's assets. The loss of any significant purchaser could adversely affect Magnolia's revenues in the short term. Magnolia expects to depend upon these or other significant purchasers for the sale of most of its oil and natural gas production. Magnolia cannot ensure that it will continue to have ready access to suitable markets for its future oil and natural gas production.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel, and oilfield services could adversely affect Magnolia's ability to execute its development plans within its budget and on a timely basis.

The demand for drilling rigs, pipe, and other equipment and supplies, as well as for qualified and experienced field personnel to drill wells and conduct field operations, geologists, geophysicists, engineers, and other professionals in the oil and gas industry, can fluctuate significantly, often in correlation with oil, natural gas, and NGL prices, causing periodic shortages of supplies and needed personnel. Magnolia's operations are concentrated in areas in which oilfield activity levels have increased rapidly, and as a result, demand for such drilling rigs, equipment, and personnel, as well as access to transportation, processing, and refining facilities in these areas, have increased, as have the costs for those items. To the extent that commodity prices improve in the future, the demand for and prices of these goods and services are likely to increase, and Magnolia could encounter delays in securing, or an inability to secure, the personnel, equipment, power, services, resources, and facilities access necessary for it to resume or increase Magnolia's development activities, which could result in production volumes being below its forecasted volumes. In addition, any such negative effect on production volumes, or significant increases in costs, could have a material adverse effect on cash flow and profitability. Furthermore, if it is unable to secure a sufficient number of drilling rigs at reasonable costs, Magnolia may not be able to drill all of its acreage before its leases expire.

Competition in the oil and gas industry is intense, making it more difficult for Magnolia to acquire properties, market oil or natural gas, and secure trained personnel.

Magnolia's ability to acquire additional prospects to complement or expand the Company's current business and to find and develop reserves in the future will depend on its ability to evaluate and select suitable properties for acquisitions and to consummate transactions in a highly competitive environment for acquiring properties, marketing oil and natural gas, and securing trained personnel. However, there is no guarantee that Magnolia will be able to identify attractive acquisition opportunities. In the event it is able to identify attractive acquisition opportunities, Magnolia may not be able to complete the acquisition or do so on commercially acceptable terms. Competition for capital available for investment in the oil and gas industry, specifically for acquisitions, may also increase the cost of, or cause Magnolia to refrain from, completing acquisitions. Many other oil and gas companies possess and employ greater financial, technical, and personnel resources than Magnolia. Those companies may be able to pay more for productive properties and exploratory prospects and to evaluate, bid for, and purchase a greater number of properties and prospects than Magnolia's financial or personnel resources permit. Magnolia may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel, and raising additional

capital, which could have a material adverse effect on its business.

The loss of senior management or technical personnel could adversely affect operations.

Magnolia depends on the services of its senior management and technical personnel. Magnolia does not maintain, nor does Magnolia plan to obtain, any insurance against the loss of any of these individuals. The loss of the services of its senior management could have a material adverse effect on its business, financial condition, and results of operations.

Magnolia may not be able to keep pace with technological developments in its industry.

The oil and gas industry is characterized by rapid and significant technological advancement and the introduction of new products and services using new technologies. As others use or develop new technologies, Magnolia may be placed at a competitive disadvantage or may be forced by competitive pressures to implement those new technologies at substantial cost. In addition, other oil and gas companies may have greater financial, technical, and personnel resources that allow them to enjoy technological advantages and that may in the future allow them to implement new technologies before Magnolia can. Magnolia may not be able to respond to these competitive pressures or implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies it expects to use were to become obsolete, Magnolia's business, financial condition, or results of operations could be materially and adversely affected.

Magnolia's business could be adversely affected by security threats, including cyber security threats, and related disruptions.

Magnolia relies heavily on its information systems, and the availability and integrity of these systems is essential to conducting Magnolia's business and operations. Technical system flaws, power loss, cyber security risks, including cyber or phishing-attacks, unauthorized access, malicious software, data privacy breaches by employees or others with authorized access, ransomware, and other cyber security issues could compromise Magnolia's computer and telecommunications systems and result in disruptions to the Company's business operations or the access, disclosure, or loss of Company data and proprietary information. Additionally, as a producer of natural gas and oil, Magnolia faces various security threats that could render its information or systems unusable, and threats to the security of its facilities and infrastructure or third-party facilities and infrastructure, such as gathering and processing and other facilities, refineries and pipelines. If any of these security breaches were to occur, they could lead to losses of, or damage to, sensitive information, facilities, infrastructure, and systems essential to its business and operations, as well as data corruption, communication interruptions, or other disruptions to its operations, which, in turn, could have a material adverse effect on its business, financial position, results of operations, and cash flows.

Magnolia's implementation of various procedures and controls to monitor and mitigate such security threats and to increase security for its information, systems, facilities, and infrastructure may result in increased costs. Moreover, there can be no assurance that such procedures and controls will be sufficient to prevent security breaches from occurring.

Potential future legislation may generally affect the taxation of natural gas and oil exploration and development companies and may adversely affect Magnolia's future cash flows and results of operations.

In past years, federal legislation has been proposed that would, if enacted into law, make significant changes to tax laws, including to certain key U.S. federal and state income tax provisions currently available to natural gas and oil exploration and development companies. For example, the Biden Administration has set forth several tax proposals that would, if enacted into law, make significant changes to U.S. tax laws. Such proposals include, but are not limited to, (i) an increase in the U.S. income tax rate applicable to corporations and (ii) the elimination of tax subsidies for fossil fuels. Congress could consider some or all of these proposals in connection with tax reform to be undertaken by the Biden Administration. It is unclear whether these or similar changes will be enacted and, if enacted, how soon any such changes could take effect. The passage of any legislation as a result of these proposals and other similar changes in U.S. federal income tax laws could adversely affect Magnolia's future cash flows and results of operations.

Risks Related to Environmental and Political Conditions

Magnolia's operations are subject to environmental and occupational health and safety laws and regulations that may expose the Company to significant costs and liabilities.

Magnolia's operations are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment, health and safety aspects of the Company's operations or otherwise relating to environmental protection. These laws and regulations may impose numerous obligations applicable to Magnolia's operations, including the acquisition of a permit or other approval before conducting regulated activities; the restriction of types, quantities, and

concentration of materials that can be released into the environment; the limitation or prohibition of drilling activities on certain lands lying within wilderness, wetlands, and other protected areas; the application of specific health and safety criteria addressing worker protection; and the imposition of substantial liabilities for pollution resulting from the Company's operations. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil or criminal penalties.

Certain environmental laws impose strict joint and several liability for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. Magnolia may be required to remediate contaminated properties currently or formerly operated by the Company or facilities of third parties that received waste generated by the Companies.

Magnolia may incur substantial losses and be subject to substantial liability claims as a result of operations. Additionally, Magnolia may not be insured for, or insurance may be inadequate to protect Magnolia against, these risks.

Magnolia is not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect its business, financial condition, or results of operations.

Magnolia's development activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of environmental hazards, such as uncontrollable releases of oil, natural gas, brine, well fluids, toxic gas, or other pollution into the environment, including groundwater, air, and shoreline contamination, or the presence of endangered or threatened species; abnormally pressured formations; mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapse; fires, explosions, and ruptures of pipelines; personal injuries and death; natural disasters; and terrorist attacks targeting oil and natural gas related facilities and infrastructure.

Events that could adversely affect Magnolia's ability to conduct operations or result in substantial loss as a result of claims include injury or loss of life, damage to and destruction of property, natural resources, and equipment, pollution and other environmental damage, regulatory investigations and penalties, and repair and remediation costs.

Magnolia may elect not to obtain insurance for any or all of these risks if it believes that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on business, financial condition, and results of operations.

Certain of Magnolia's properties are subject to land use restrictions, which could limit the manner in which Magnolia conducts business.

Certain of Magnolia's properties are subject to land use restrictions, including city ordinances, which could limit the manner in which Magnolia conducts business. Such restrictions could affect, among other things, access to and the permissible uses of facilities as well as the manner in which Magnolia produces oil and natural gas and may restrict or prohibit drilling in general. The costs incurred to comply with such restrictions may be significant in nature, and Magnolia may experience delays or curtailment in the pursuit of development activities and perhaps even be precluded from the drilling of wells.

Magnolia's operations are subject to a series of risks arising from climate change.

The threat of climate change continues to attract considerable attention globally. In the United States, no comprehensive climate change legislation has been implemented at the federal level. However, President Biden has highlighted addressing climate change as a priority of his administration, and federal regulators, state and local governments, and private parties have taken (or announced that they plan to take) actions that have or may have a significant influence on the Company's operations. For example, following the determination that emissions of carbon dioxide, methane, and other GHGs present an endangerment to public health and welfare, the EPA has adopted regulations to regulate GHG emissions from certain large stationary sources, require the monitoring and reporting of GHG emissions from certain sources, and (together with the National Highway Traffic Safety Administration), implement GHG emissions limits on vehicles manufactured for operation in the United States, among other things. The regulation of methane from oil and gas facilities has been subject to uncertainty in recent years. In September 2020, the Trump Administration revised prior regulations to rescind certain methane standards and remove the transmission and storage segments from the source category for certain regulations. However, on January 20, 2021, President Biden signed an executive order calling for the suspension, revision, or rescission of the September 2020 rule and the reinstatement or issuance of methane emissions standards for new, modified, and existing oil and gas facilities.

Separately, a number of states have developed programs that are aimed at reducing GHG emissions by means of cap and trade programs, carbon taxes, or encouraging the use of renewable energy or alternative low-carbon fuels. Cap and trade programs typically require major sources of GHG emissions to acquire and surrender emission allowances in return for emitting those GHGs. In

addition, efforts have been made and continue to be made in the international community toward the adoption of international treaties or protocols that would address global climate change issues. For example, in April 2016, the United States signed the Paris Agreement, which includes nonbinding pledges to limit or reduce future emissions. Although the United States had withdrawn from the Paris Agreement, President Biden has signed executive orders recommitting the United States to the agreement and calling for the federal government to begin formulating the United States' nationally determined emissions reduction goals under the agreement. However, the impacts of these orders and the terms of any legislation or regulation to implement the United States' commitment under the Paris Agreement remain unclear at this time.

Concern over climate change has also resulted in political risks in the United States, including climate-related pledges by certain candidates now in public office. On January 27, 2021, President Biden issued an executive order that commits to substantial action on climate change, calling for, among other things, the increased use of zero-emissions vehicles by the federal government, the elimination of subsidies provided to the fossil fuel industry, a suspension on the issuance of new authorizations for oil and gas activities on federal lands, and an increased emphasis on climate-related risk across governmental agencies and economic sectors. Other actions that could be pursued by the Biden Administration may include the imposition of more restrictive requirements for the establishment of pipeline infrastructure or the permitting of LNG export facilities, as well as more restrictive GHG emissions limitations for oil and gas facilities. Litigation risks are also increasing, as a number of cities and other local governments have sought to bring suit against the largest oil and gas companies in state or federal court, alleging, among other things, that such companies created public nuisances by producing fuels that contributed to climate change or alleging that the companies have been aware of the adverse effects of climate change for some time but failed to adequately disclose such impacts to their investors or customers.

Additionally, Magnolia's access to capital may be impacted by climate-related policies. Financial institutions may elect in the future to shift some or all of their investment into non-fossil fuel related sectors. There is also a risk that financial institutions may be required to adopt policies that have the effect of reducing the funding provided to the fossil fuel sector. Ultimately, this could make it more difficult to secure funding for exploration and production activities. Additionally, activist shareholders have introduced proposals that may seek to force companies to adopt aggressive emission reduction targets or to shift away from more carbon-intensive industries. Separately, activists may also pursue other means of curtailing oil and natural gas operations, such as through litigation. The Company continually monitors the global climate change agenda initiatives, including stakeholder concerns, and responds accordingly based on its assessment of such initiatives on its business.

Separately, many scientists have concluded that increasing concentrations of GHG in the earth's atmosphere may produce significant physical effects, such as increased frequency and severity of storms, droughts, and floods, among other climatic phenomena. If any of those effects were to occur in areas where Magnolia's facilities are located, they could have an adverse effect on the Company's assets and operations.

Federal, state, and local legislative and regulatory initiatives relating to hydraulic fracturing as well as governmental reviews of such activities could result in increased costs, additional operating restrictions or delays in the completion of oil and natural gas wells, and adversely affect Magnolia's production.

The hydraulic fracturing process involves the injection of water, proppants, and chemicals under pressure into targeted subsurface formations to fracture the surrounding rock and stimulate production. It is typically done at substantial depths in formations with low permeability. Magnolia routinely uses fracturing techniques in the U.S. and other regions to expand the available space for natural gas and oil to migrate toward the wellbore. Hydraulic fracturing is typically regulated by state oil and natural gas commissions, but certain federal agencies have asserted regulatory authority over certain aspects of the process, including air emissions, fracturing fluid constituents, and wastewater disposal, among others.

From time to time the U.S. Congress has considered proposals to regulate hydraulic fracturing under the U.S. Safe Drinking Water Act. While, to date, those proposals have not been enacted, such proposal may be considered again in the future. Several states have already enacted or are otherwise considering legislation to regulate hydraulic fracturing practices through more stringent permitting, fluid disclosure, and well construction requirements on hydraulic-fracturing operations or otherwise seek to ban fracturing activities altogether. Hydraulic fracturing of wells and subsurface water disposal via injection wells are also under public and governmental scrutiny due to potential environmental and physical impacts, including possible contamination of groundwater and drinking water and possible links to seismic events. In addition, some municipalities have significantly limited or prohibited drilling activities and/or hydraulic fracturing or are considering doing so. Although it is not possible at this time to predict the final outcome of the legislation regarding hydraulic fracturing, any new federal, state, or local restrictions on hydraulic fracturing that may be imposed in areas in which the Company conducts business could result in increased compliance costs or additional operating restrictions in the U.S.

Risks Related to Financing and Liquidity

Magnolia may not be able to generate sufficient cash to service all of its indebtedness and may be forced to take other actions to satisfy debt obligations, which may not be successful.

Magnolia's ability to make scheduled payments on or to refinance its indebtedness obligations, including the RBL Facility and the 6.0% Senior Notes due 2026 (the "2026 Senior Notes"), depends on Magnolia's financial condition and operating performance, which are subject to prevailing economic and competitive conditions, industry cycles and certain financial, business and other factors affecting Magnolia's operations, many of which are beyond Magnolia's control. Magnolia may not be able to maintain a level of cash flow from operating activities sufficient to permit Magnolia to pay the principal, premium, if any, and interest on its indebtedness. Failure to make required payments on its indebtedness will result in an event of default under the agreement governing the applicable indebtedness, entitling the requisite lenders of such indebtedness to accelerate the payment of obligations thereunder and to exercise other remedies, including in respect of collateral (if any) securing such indebtedness. As of December 31, 2020, the Company had \$400.0 million of principal debt related to the 2026 Senior Notes outstanding and no outstanding borrowings related to the RBL Facility and \$450.0 million of borrowing capacity of the RBL Facility.

If Magnolia's cash flow and capital resources are insufficient to fund debt service obligations, Magnolia may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital, or restructure or refinance existing indebtedness. Magnolia's ability to restructure or refinance indebtedness will depend on the condition of the capital markets and its financial condition at such time. Any refinancing of indebtedness may be at higher interest rates and may require Magnolia to comply with more onerous covenants, which could further restrict business operations. The terms of Magnolia's existing or future debt instruments may restrict it from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on outstanding indebtedness on a timely basis would likely harm its ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, Magnolia could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. The RBL Facility and the indenture governing the 2026 Senior Notes limit Magnolia's ability to dispose of assets and use the proceeds from such dispositions. Magnolia may not be able to consummate those dispositions, and the proceeds of any such disposition may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit Magnolia to meet scheduled debt service obligations.

Restrictions in Magnolia's existing and future debt agreements could limit Magnolia's growth and ability to engage in certain activities.

Magnolia's ability to meet its expenses and debt obligations and comply with the covenants and restrictions contained therein will depend on its future performance, which will be affected by financial, business, economic, industry, regulatory, and other factors, many of which are beyond Magnolia's control. If market or other economic conditions deteriorate, Magnolia's ability to comply with these covenants may be impaired. For example, Magnolia's RBL Facility requires Magnolia to maintain quarterly compliance with a leverage and current ratio and the satisfaction of certain conditions, including the absence of defaults and events of default thereunder, to borrow money. Magnolia's debt agreements also restrict the payment of dividends and distributions by certain of its subsidiaries to it, which could affect its access to cash. In addition, Magnolia's ability to comply with the financial and other restrictive covenants in the agreements governing its indebtedness will be affected by the levels of cash flow from operations, future events, and other circumstances beyond Magnolia's control. Breach of these covenants or restrictions will result in a default under Magnolia's debt agreements, which if not cured or waived within the applicable grace period (if any), would permit the acceleration of all indebtedness outstanding thereunder by the requisite holders of such indebtedness. Upon acceleration, the indebtedness would become immediately due and payable, together with accrued and unpaid interest, and any commitments of a lender to make further loans to Magnolia may terminate. Even if new financing were then available, it may not be on terms that are acceptable to Magnolia. In addition to accelerating the indebtedness, the requisite group of affected lenders may exercise remedies upon the incurrence of an event of default, including through foreclosure, in respect of the collateral securing any such secured financing arrangements. Moreover, any subsequent replacement of Magnolia's financing arrangements may require it to comply with more restrictive covenants, which could further restrict business operations.

Any significant reduction in Magnolia's borrowing base under the RBL Facility as a result of the periodic borrowing base redeterminations or otherwise may negatively impact Magnolia's ability to fund its operations.

The RBL Facility limits the amounts Magnolia can borrow up to a borrowing base amount, which the lenders determine, in good faith, in accordance with their respective usual and customary oil and natural gas lending criteria, based upon the loan value of the proved oil and natural gas reserves located within the geographic boundaries of the United States included in the most recent reserve report provided to the lenders. As of December 31, 2020, the Company had \$450.0 million of borrowing base capacity of the RBL Facility and no borrowings.

The RBL Facility requires periodic borrowing base redeterminations based on reserve reports. Additionally, the borrowing base is subject to unscheduled reductions due to certain issuances of new junior lien indebtedness, unsecured indebtedness or subordinated indebtedness, certain sales or acquisitions of borrowing base properties, or early monetizations or terminations of certain hedge or swap positions. An unscheduled redetermination may also be requested by the requisite lenders under the RBL Facility, once within a 12-month period, or by Magnolia, twice within a 12-month period. A reduced borrowing base could render Magnolia unable to access adequate funding under the RBL Facility. The RBL Facility also includes “anti-cash hoarding” provisions, which limit Magnolia Operating’s ability to maintain a consolidated cash balance in excess of \$65 million any time there are borrowings outstanding. Additionally, if the aggregate amount outstanding under the RBL Facility exceeds the borrowing base at any time, Magnolia would be required to repay any indebtedness in excess of the borrowing base or to provide mortgages on additional borrowing base properties to eliminate such excess. As a result of a mandatory prepayment and/or reduced access to funds under the RBL Facility, Magnolia may be unable to implement its drilling and development plan, make acquisitions, or otherwise carry out business plans, which would have a material adverse effect on its financial condition and results of operations.

Magnolia’s development projects and acquisitions require substantial capital expenditures. Magnolia may be unable to obtain required capital or financing on satisfactory terms, which could lead to a decline in its ability to access or grow production and reserves.

The oil and gas industry is capital-intensive. Magnolia makes, and expects to continue to make, substantial capital expenditures related to development and acquisition projects. Magnolia has funded, and expects to continue to fund, its capital budget with cash generated by operations and potentially through borrowings under Magnolia’s secured reserve-based revolving credit facility (the “RBL Facility”). However, Magnolia’s financing needs may require it to alter or increase its capitalization substantially through the issuance of debt or equity securities or the sale of assets. The issuance of additional indebtedness would require that an additional portion of cash flow from operations be used for the payment of interest and principal on its indebtedness, thereby further reducing its ability to use cash flow from operations to fund working capital, capital expenditures, and acquisitions. The issuance of additional equity securities would be dilutive to existing stockholders. The actual amount and timing of future capital expenditures may differ materially from estimates as a result of, among other things: commodity prices; actual drilling results; the availability of drilling rigs and other services and equipment; and regulatory, technological, and competitive developments. A reduction in commodity prices from current levels may result in a decrease in actual capital expenditures, which would negatively impact Magnolia’s ability to grow production.

Magnolia’s cash flow from operations and access to capital is subject to a number of variables, including:

- the prices at which Magnolia’s production is sold;
- proved reserves;
- the amount of hydrocarbons Magnolia is able to produce from its wells;
- Magnolia’s ability to acquire, locate, and produce new reserves;
- the amount of Magnolia’s operating expenses;
- Magnolia’s ability to borrow under the RBL Facility;
- restrictions in the instruments governing Magnolia’s debt, and Magnolia’s ability to incur additional indebtedness; and
- Magnolia’s ability to access the capital markets.

If Magnolia’s revenues or the borrowing base under the RBL Facility decrease as a result of lower oil, natural gas, and NGL prices, operational difficulties, declines in reserves or for any other reason, Magnolia may have limited ability to obtain the capital necessary to sustain operations at current levels. If additional capital is needed, Magnolia may not be able to obtain debt or equity financing on terms acceptable to it, if at all. If cash flow generated by Magnolia’s operations or available borrowings under the RBL Facility are insufficient to meet its capital requirements, the failure to obtain additional financing could result in a curtailment of the development of Magnolia’s properties, which in turn could lead to a decline in reserves and production and could materially and adversely affect Magnolia’s business, financial condition, and results of operations. If Magnolia incurs additional indebtedness, the operational risks that Magnolia faces could intensify, and Magnolia may be unable to service its existing debt service obligations.

A negative shift in investor or shareholder sentiment of the oil and gas industry could adversely affect Magnolia’s business and ability to raise debt and equity capital.

Certain segments of the investor community have developed negative sentiment towards investing in the oil and gas industry. Recent equity returns in the sector versus other industry sectors have led to lower oil and natural gas representation in certain key equity market indices. In addition, some investors, including investment advisors and certain sovereign wealth, pension funds, university endowments, and family foundations, have stated policies to disinvest in the oil and gas sector based on their social and environmental considerations. Certain other stakeholders have also pressured commercial and investment banks to reduce or stop financing oil and natural gas and related infrastructure projects.

In addition, shareholder activism has been recently increasing in the oil and gas industry, and shareholders may attempt to effect changes to Magnolia's business or governance, whether by shareholder proposals, public campaigns, proxy solicitations, or otherwise. Such actions could adversely impact the Company's business by distracting management and other personnel from their primary responsibilities, require the Company to incur increased costs, and/or result in reputational harm.

Such developments, including environmental activism and initiatives aimed at limiting climate change and reducing air pollution, could result in downward pressure on the stock prices of oil and gas companies, including Magnolia's. This may also potentially result in a reduction of available capital funding for potential development projects, impacting the Company's future financial results.

Risks Related to Magnolia's Class A Common Stock and Capital Structure

Magnolia is a holding company. Magnolia's sole material asset is its equity interest in Magnolia LLC, and Magnolia is accordingly dependent upon distributions from Magnolia LLC to pay taxes and cover its corporate and other overhead expenses.

Magnolia is a holding company and has no material assets other than its equity interest in Magnolia LLC. Magnolia has no independent means of generating revenue. To the extent Magnolia LLC has available cash, Magnolia intends to cause Magnolia LLC to make (i) generally pro rata distributions to its unitholders, including Magnolia, in an amount at least sufficient to allow Magnolia to pay its taxes and (ii) non-pro rata payments to Magnolia to reimburse it for its corporate and other overhead expenses. To the extent that Magnolia needs funds and Magnolia LLC or its subsidiaries are restricted from making such distributions or payments under applicable law or regulation or under the terms of any financing arrangements, or are otherwise unable to provide such funds, Magnolia's liquidity and financial condition could be materially adversely affected.

Magnolia's second amended and restated certificate of incorporation and bylaws, as well as Delaware law, contain provisions that could discourage acquisition bids or merger proposals, which may adversely affect the market price of Magnolia's Class A Common Stock.

Magnolia's second amended and restated certificate of incorporation authorizes its board of directors to issue preferred stock without stockholder approval. If Magnolia's board of directors elects to issue preferred stock, it could be more difficult for a third-party to acquire Magnolia. In addition, some provisions of Magnolia's second amended and restated certificate of incorporation and its bylaws could make it more difficult for a third-party to acquire control of Magnolia, even if the change of control would be beneficial to its stockholders, including limitations on the removal of directors, limitations on the ability of Magnolia's stockholders to call special meetings, providing that the board of directors is expressly authorized to adopt, or to alter or repeal Magnolia's bylaws, and establishing advance notice and certain information requirements for nominations for election to its board of directors and for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, certain change of control events may have the effect of accelerating any payments due under Magnolia's RBL Facility, and could, in certain defined circumstances, require Magnolia to make an offer to repurchase its outstanding Senior Notes and/or result in the acceleration of payments required by the indenture governing its outstanding notes, which could be substantial and accordingly serve as a disincentive to a potential acquirer of the Company.

Future sales of Magnolia's Class A Common Stock in the public market, or the perception that such sales may occur, could reduce Magnolia's stock price, and any additional capital raised by Magnolia through the sale of equity or convertible securities may dilute your ownership in the Company.

Magnolia may sell additional shares of Class A Common Stock or securities convertible into shares of its Class A Common Stock in subsequent offerings. Magnolia cannot predict the size of future issuances of its Class A Common Stock or securities convertible into Class A Common Stock or the effect, if any, that such future issuances will have on the market price of its Class A Common Stock. Sales of substantial amounts of Magnolia's Class A Common Stock (including shares issued in connection with an acquisition or in connection with Magnolia's existing or future equity compensation plans), or the perception that such sales could occur, may adversely affect prevailing market prices of its Class A Common Stock.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of Magnolia's income or other tax returns could adversely affect its financial condition and results of operations.

Magnolia is subject to taxes by U.S. federal, state, and local tax authorities. Magnolia's future effective tax rates could be subject to volatility or adversely affected by a number of factors, including changes in the valuation of Magnolia's deferred tax assets and liabilities, expected timing and amount of the release of any tax valuation allowances, tax effects of stock based compensation, or changes in tax laws, regulations, or interpretations thereof.

In addition, Magnolia may be subject to audits of its income, sales, and other transaction taxes by U.S. federal, state, and local taxing authorities. Outcomes from these audits could have an adverse effect on the Company's financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 3. Legal Proceedings

From time to time, the Company is party to certain legal actions and claims arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not currently expect these matters to have a materially adverse effect on the financial position or results of operations of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

Information About Magnolia's Executive Officers and Directors

The following table sets forth, as of February 23, 2021, the names, ages, and positions held by Magnolia's executive officers and directors:

Name	Age	Position
Stephen I. Chazen	74	Chairman, President and Chief Executive Officer
Christopher G. Stavros	57	Executive Vice President and Chief Financial Officer
Timothy D. Yang	49	Executive Vice President, General Counsel, and Corporate Secretary
Steve F. Millican	45	Senior Vice President, Operations
Arcilia C. Acosta	55	Director
Angela M. Busch	54	Director
Edward P. Djerejian	81	Director
James R. Larson	71	Director
Dan F. Smith	74	Director
John B. Walker	75	Director

Stephen "Steve" I. Chazen has served as Magnolia's President and Chief Executive Officer since February 2017 and has served as Chairman of the Board since the completion of the Company's initial public offering in May 2017. Prior to joining Magnolia, Mr. Chazen was Chief Executive Officer of Occidental Petroleum Corporation ("Occidental"), whose principal businesses consist of oil and gas, chemical and midstream, and marketing segments, a position he held from May 2011 until his retirement in April 2016. Mr. Chazen was a member of Occidental's board of directors from 2010 to 2017 and was subsequently appointed Chairman of the Board of Occidental in March 2020.

Christopher G. Stavros serves as Magnolia's Executive Vice President and Chief Financial Officer, a position he has held since the closing of the Business Combination. Prior to joining the Company, Mr. Stavros was Chief Financial Officer of Occidental from 2014 to 2017, having previously served in various investor relations and treasury roles at Occidental since 2005.

Timothy D. Yang joined Magnolia as Executive Vice President, General Counsel, and Corporate Secretary in September 2018. Prior to joining Magnolia, Mr. Yang served as General Counsel and Corporate Secretary of Newfield Exploration Company, an independent exploration and production company, from July 2015 through September 2018, and as General Counsel, Chief Compliance Officer, and Secretary of Sabine Oil & Gas Corporation from February 2013 to July 2015.

Steve F. Millican serves as Senior Vice President, Operations for Magnolia, a position he has held since November 2018. Prior to joining the Company, Mr. Millican was Senior Vice President and General Manager of the South Texas Region for EnerVest Operating Company since July 2016, and he held various reservoir engineering positions at EnerVest from 2008 to 2016.

Arcilia C. Acosta is the President and Chief Executive Officer of CARCON Industries & Construction, specializing in commercial, institutional, and transportation construction, and is also the Chief Executive Officer and controlling principal of STL Engineers.

Angela M. Busch currently serves as the Executive Vice President of Corporate and Business Development for Ecolab Inc., a global leader in water, hygiene, and energy technologies and services, where she is responsible for acquisitions, divestitures, and alliances in support of Ecolab's strategic objectives related to its global portfolio of business and activities.

Edward P. Djerejian served in the U.S. Foreign Service for eight presidents, from John F. Kennedy in 1962 to William J. Clinton in 1994. After his retirement from government service in 1994, he became, and currently serves as, the director of the James A. Baker III Institute for Public Policy at Rice University, a premier nonpartisan public policy think tank.

James R. Larson has served as an independent director of CSI Compressco GP LLC and its predecessor CSI Compressco GP Inc., general partner of CSI Compressco L.P., a provider of compression services and equipment for natural gas and oil production, gathering, transportation, processing, and storage, and as Chairman of its Audit Committee since July 2011, and as a member of its Conflicts Committee from April 2012 until January 2021.

Dan F. Smith is a retired Chief Executive Officer of Lyondell Chemical Company, which operated in the chemicals, polymers and fuels business segments, and its wholly owned subsidiaries Millennium Chemicals Inc. and Equistar Chemicals, LP., a position he held from December 1996 until his retirement in December 2007. Mr. Smith is currently a director of Orion Engineered Carbons, S.A., Kraton Corp., and the general partner of Valerus Compression Services, L.P. (doing business as Azip Energy Services, L.P.).

John B. Walker became Executive Chairman of EnerVest, Ltd. effective December 1, 2020. He had previously served as its Chief Executive Officer since its formation in 1992. Mr. Walker served as Chairman of the Independent Petroleum Association of America from 2003 to 2005 and served on the board of Petrologistics LP from 2012 until 2014. Mr. Walker serves on the Board of Regents of the Texas Tech University System.

PART II

Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Magnolia's Class A Common Stock are currently traded on the NYSE under the ticker symbol "MGY." Through July 30, 2018, Magnolia's Class A Common Stock and warrants were listed under the symbols "TPGE" and "TPGE.W," respectively. On July 31, 2018, the Company delisted the units offered in its initial public offering, each consisting of one share of Class A Common Stock and one-third of a warrant, which were listed under the symbol "TPGE.U," and the units ceased to trade. In July 2019, the Company exchanged all of its public and private warrants, which, in the case of the public warrants, were listed under the symbol "MGY.WS," for Class A Common Stock, and the warrants ceased to trade.

Holder

At February 19, 2021, there were 27 holders of record of Magnolia's separately traded Class A Common Stock, and 5 holders of record of the Company's Class B Common Stock, par value \$0.0001 per share.

Issuer Purchases of Equity Securities

The following table sets forth the Company's share repurchase activities for the year ended December 31, 2020:

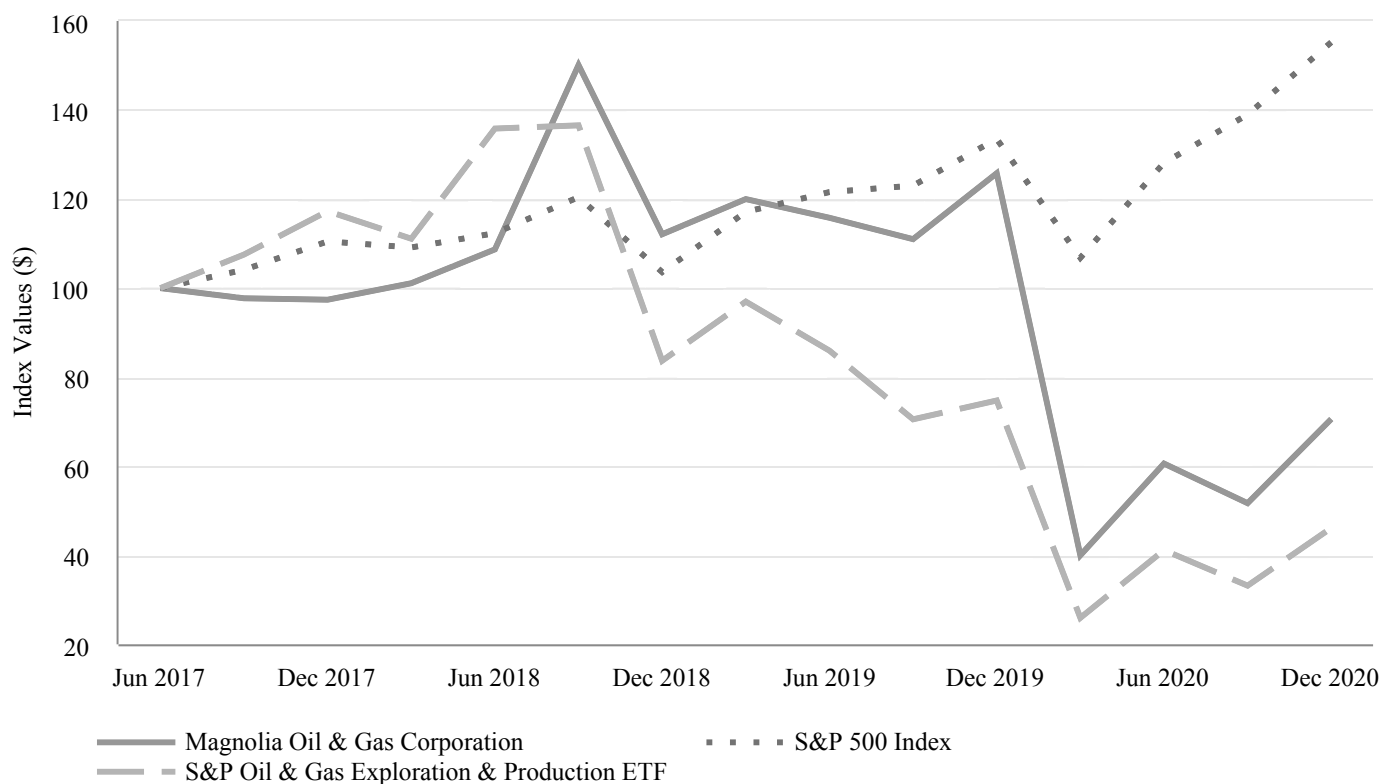
Period	Number of Shares of Class A Common Stock Purchased	Average Price Paid per Share	Total Number of Common Shares Purchased as Part of Publicly Announced Program⁽¹⁾	Maximum Number of Common Shares that May Yet be Purchased Under the Program
January 1, 2020 - September 30, 2020	2,100,000	\$ 6.17	2,100,000	6,900,000
October 1, 2020 - October 31, 2020	98,956	5.34	98,956	6,801,044
November 1, 2020 - November 30, 2020	925,000	5.82	925,000	5,876,044
December 1, 2020 - December 31, 2020	1,351,044	7.26	1,351,044	4,525,000
Total	4,475,000	\$ 6.41	4,475,000	4,525,000

- (1) In August 2019, the Company's board of directors authorized a share repurchase program of up to 10 million shares of Class A Common Stock. The program does not require purchases to be made within a particular time frame. In February 2021, the Company's board of directors increased the share repurchase authorization by an additional 10 million shares of Class A Common Stock.

(d) Comparative Stock Performance

The performance graph below compares the cumulative total stockholder return for the Company’s Class A Common Stock to that of the Standard and Poor’s, (“S&P”), 500 Index and the S&P 500 Oil & Gas Exploration and Production Index for the Successor Periods. “Cumulative total return” means the change in share price of the Company’s Class A Common Stock during the measurement period divided by the share price at the beginning of the measurement period. The graph assumes an investment of \$100 was made in the Company’s Class A Common Stock and in each of the S&P 500 Index and the S&P 500 Oil & Gas Exploration and Production Index on June 26, 2017, which is when the Class A Common Stock and warrants comprising the units offered in Magnolia’s initial public offering began separate trading.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG MAGNOLIA OIL AND GAS, THE S&P 500 INDEX, AND THE S&P 500 OIL & GAS EXPLORATION AND PRODUCTION INDEX



Note: The stock price performance of Magnolia’s Class A Common Stock is not necessarily indicative of future performance.

The above information under the caption “Comparative Stock Performance” shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act except to the extent that Magnolia specifically requests that such information be treated as “soliciting material” or specifically incorporate such information by reference into such a filing.

Item 6. Selected Financial Data

On November 19, 2020 the SEC adopted amendments to Regulation S-K that eliminated the requirement for Selected Financial Data, among other things. The amendments became effective February 10, 2021, and although Magnolia is not required to comply until 210 days after publication, the Company chose to early adopt these amendments and has incorporated these changes in the Company’s Annual Report on this Form 10-K for the year ended December 31, 2020.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company’s consolidated and combined financial statements and the related notes thereto.

This section of this Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. Discussions of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Form 10-K can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Overview

Magnolia Oil & Gas Corporation (the “Company” or “Magnolia”) is an independent oil and natural gas company engaged in the acquisition, development, exploration, and production of oil, natural gas, and natural gas liquid (“NGL”) reserves that operates in one reportable segment located in the United States. The Company’s oil and natural gas properties are located primarily in Karnes County and the Giddings area in South Texas, where the Company primarily targets the Eagle Ford Shale and the Austin Chalk formations.

Magnolia’s objective is to generate stock market value over the long term through consistent organic production growth, high full cycle operating margins, an efficient capital program with short economic paybacks, significant free cash flow after capital expenditures, and effective reinvestment of free cash flow. Magnolia’s business model prioritizes free cash flow, financial stability, and prudent capital allocation, and is designed to withstand challenging environments such as the one the Company is currently experiencing.

COVID-19 Pandemic and Market Conditions Update

In March 2020, the World Health Organization declared the coronavirus disease 2019 (“COVID-19”) outbreak a pandemic. Governments have tried to slow the spread of the virus by imposing social distancing guidelines, travel restrictions, and stay-at-home orders, which have caused a significant decrease in activity in the global economy and the demand for oil and natural gas. The implications of the decrease in global demand for oil, which, if coupled with the general oversupply, may have further negative effects on the Company’s business, such as production curtailment and reductions to its operating plans as a result of decreased prices and reduced storage capacity, similar to the first half of 2020. Demand and pricing may again decline if there is a resurgence of the outbreak across the U.S. and other locations across the world and the related social distancing guidelines, travel restrictions, and stay-at-home orders. The extent of the additional impact on the industry and Magnolia’s business cannot be reasonably predicted at this time.

Magnolia’s business, like many oil and natural gas producers, has been, and is expected to continue to be, negatively affected by the crisis described above, which is ongoing and evolving. Magnolia’s revenues have significantly declined as a result of the sharp decline in commodity prices. The prices ultimately realized for oil, natural gas, and NGLs are based on a number of variables, including prevailing index prices attributable to the Company’s production and certain differentials to those index prices. Magnolia is unable to reasonably predict when, or to what extent, commodity prices and the overall markets and global economy will stabilize, and the pace of any subsequent recovery for the oil and gas industry. Further, the ultimate impact that these events will have on Magnolia’s business, liquidity, financial condition, and results of operations is highly uncertain and dependent on numerous evolving factors that cannot be predicted, including the duration of the pandemic.

Magnolia has taken steps and continues to actively work to mitigate the evolving challenges and growing impact of both the COVID-19 pandemic and the industry downturn on its operations, financial condition, and people. Magnolia’s business model prioritizes free cash flow, financial stability, and prudent capital allocation, and is designed to withstand challenging environments. The Company’s ongoing plan is to spend within cash flow on drilling and completing wells while maintaining low leverage. In the fourth quarter of 2020, Magnolia operated one rig in the Giddings area. The Company is well positioned to reduce or increase operations given the significant flexibility within its capital program, as its operated drilling rig is on a short-term contract and the Company has no long-term service obligations. Moreover, Magnolia does not have any contractual drilling obligations and nearly all of the Company’s acreage is held by production. In response to the COVID-19 pandemic and industry downturn, Magnolia has initiated a corporate-wide cost reduction program to help decrease costs throughout every aspect of the Company. The Company has made reductions in general and administrative expense by reducing corporate salaries, renegotiating the fee under the Services Agreement, and working with many of its other vendors and suppliers to reduce the cost of their services. Magnolia believes these measures, taken together with its significant liquidity and lack of near term debt maturities, will provide additional flexibility in navigating the current volatile environment; however, given the tremendous uncertainty and turmoil, there is no certainty that the measures Magnolia takes will be sufficient.

As a producer of oil and natural gas, Magnolia is recognized as an essential business and has continued to operate while taking steps to protect the health and safety of its workers. Magnolia and its contractors have implemented protocols to reduce the risk of an outbreak within its operations, and these protocols have not reduced production or efficiency in a significant manner. At the beginning of the pandemic, the Company implemented remote working procedures for a significant portion of its workforce for health and safety reasons and/or to comply with applicable national, state, and/or local government requirements. As a result, the Company relied on such persons having sufficient access to its information technology systems, including through telecommunication hardware, software, and networks. Magnolia's board of directors continues to monitor the unfolding COVID-19 pandemic very closely, including the effect on internal controls over financial reporting and information technology security. Magnolia has been able to maintain a consistent level of effectiveness through these arrangements, including maintaining day-to-day operations, financial reporting systems, and internal control over financial reporting. On October 1, 2020, the substantial majority of Magnolia's employees returned to the office.

Business Overview

As of December 31, 2020, Magnolia's assets in South Texas included 42,972 gross (23,513 net) acres in the Karnes area and 634,861 gross (436,885 net) acres in the Giddings area. As of December 31, 2020, Magnolia held an interest in approximately 1,796 gross (1,160 net) wells, with total production of 61.8 thousand barrels of oil equivalent per day ("Mboe/d") for the year ended December 31, 2020. In the fourth quarter of 2020, Magnolia operated one rig in the Giddings area.

Magnolia recognized a net loss attributable to Class A Common Stock of \$1.2 billion, or \$7.27 diluted common share, for the year ended December 31, 2020. Magnolia also recognized a net loss of \$1.9 billion, which includes noncontrolling interest of \$0.7 billion for the year ended December 31, 2020. As a result of the sharp decline in commodity prices during the year ended December 31, 2020, Magnolia recorded impairments of \$1.9 billion related to proved and unproved properties. Proved property impairment of \$1.4 billion is included in "Impairment of oil and natural gas properties" and unproved property impairment of \$0.6 billion is included in "Exploration expense" on the Company's consolidated statements of operations for the year ended December 31, 2020.

In July 2019, the Company exchanged all of its warrants for an aggregate of 9.2 million shares of Class A Common Stock. For more information, see *Note 13 - Stockholders' Equity* in the Company's consolidated financial statements included in this Annual Report on Form 10-K.

On August 5, 2019, the Company's board of directors authorized a share repurchase program of up to 10 million shares, and, in February 2021, the Company's board of directors increased the share repurchase authorization by an additional 10 million shares. The program does not require purchases to be made within a particular timeframe. During the year ended December 31, 2020, the Company repurchased 4.5 million shares at a weighted average price of \$6.41, for a total cost of approximately \$28.7 million.

On December 18, 2019, outside of the share repurchase program, Magnolia LLC repurchased and subsequently canceled 6.0 million Magnolia LLC Units with an equal number of shares of corresponding Class B Common Stock for \$69.1 million of cash consideration (the "Class B Common Stock Repurchase").

On August 1, 2020, the Company provided written notice to EVOC of its intent to terminate the Services Agreement. Pursuant to the Services Agreement, EVOC will continue to provide services during the transition, which Magnolia expects to complete on or before August 1, 2021.

In the third quarter of 2020, the Company entered into costless collars for a portion of its expected natural gas production volumes to reduce the Company's exposure to natural gas price volatility. The Company has elected not to designate any of its derivative instruments as hedging instruments. Accordingly, changes in the fair value of the Company's derivative instruments are recorded immediately to earnings as "Gain (loss) on derivative instruments, net" on the Company's consolidated statements of operations. For the year ended December 31, 2020, the Company recognized a gain of \$0.6 million related to its derivative instruments.

Results of Operations

Factors Affecting the Comparability of the Historical Financial Results

Magnolia's historical financial condition and results of operations for the periods presented may not be comparable, either from period to period or going forward, as a result of the following factors:

- During the first quarter of 2020, the Company incurred impairments of \$1.9 billion related to proved and unproved oil and natural gas properties as a result of the sharp decline in commodity prices;
- On February 21, 2020, the Company completed the acquisition of certain non-operated oil and natural gas assets located in Karnes and DeWitt Counties, Texas, for approximately \$69.7 million in cash;
- On May 31, 2019, the Company completed the acquisition of certain oil and natural gas assets primarily located in Karnes County for approximately \$36.3 million in cash and approximately 3.1 million shares of the Company's Class A Common Stock; and

As a result of the factors listed above, the combined historical results of operations and period-to-period comparisons of these results and certain financial data may not be comparable or indicative of future results.

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

Oil, Natural Gas and NGL Sales Revenues. The following table provides the components of Magnolia's revenues for the periods indicated, as well as each period's respective average prices and production volumes. This table shows production on a boe basis in which natural gas is converted to an equivalent barrel of oil based on a ratio of six Mcf to one barrel. This ratio may not be reflective of the current price ratio between the two products.

	Years Ended	
	December 31, 2020	December 31, 2019
<i>(In thousands, except per unit data)</i>		
Production:		
Oil (MBbls)	11,610	12,867
Natural gas (MMcf)	39,429	41,272
NGLs (MBbls)	4,449	4,643
Total (Mboe)	22,631	24,389
Average daily production:		
Oil (Bbls/d)	31,722	35,252
Natural gas (Mcf/d)	107,728	113,074
NGLs (Bbls/d)	12,156	12,721
Total (boe/d)	61,833	66,819
Revenues:		
Oil revenues	\$ 417,891	\$ 771,981
Natural gas revenues	67,248	93,745
Natural gas liquids revenues	49,367	70,416
Total revenues	\$ 534,506	\$ 936,142
Average Price:		
Oil (per barrel)	\$ 35.99	\$ 60.00
Natural gas (per Mcf)	1.71	2.27
NGLs (per barrel)	11.10	15.17

Oil revenues were 78% and 82% of the Company's total revenues for the years ended December 31, 2020 and 2019, respectively. Oil production was 51% and 53% of total production volume for the years ended December 31, 2020 and 2019, respectively. Oil revenues for the year ended December 31, 2020 were \$354.1 million lower than the year ended December 31, 2019. A 40% decrease in average prices reduced revenues for the year ended December 31, 2020 by \$308.9 million compared to the same period in the prior year, while a 10% decrease in oil production reduced revenue \$45.2 million.

Natural gas revenues were 13% and 10% of the Company's total revenues for the years ended December 31, 2020 and 2019, respectively. Natural gas production was 29% and 28% of total production volume for the years ended December 31, 2020 and 2019, respectively. Natural gas revenues for the year ended December 31, 2020 were \$26.5 million lower than the year ended December 31,

2019. A 25% decrease in average prices reduced revenues for the year ended December 31, 2020 by \$23.4 million compared to the same period in the prior year, while a 4% decrease in natural gas production reduced revenue \$3.1 million

NGL revenues were 9% and 8% of the Company's total revenues for the years ended December 31, 2020 and 2019, respectively. NGL production was 20% and 19% of total production volume for the years ended December 31, 2020 and 2019, respectively. NGL revenues for the year ended December 31, 2020 were \$21.0 million lower than the year ended December 31, 2019. A 27% decrease in average prices reduced revenues for the year ended December 31, 2020 by \$18.9 million compared to the same period in the prior year, while a 4% decrease in NGL production reduced revenue \$2.1 million.

Operating Expenses and Other Income (Expense). The following table summarizes the Company's operating expenses and other income (expense) for the periods indicated.

	Years Ended	
	December 31, 2020	December 31, 2019
<i>(In thousands, except per unit data)</i>		
Operating Expenses:		
Lease operating expenses	\$ 79,192	\$ 93,788
Gathering, transportation, and processing	28,645	34,924
Taxes other than income	31,250	53,728
Exploration expenses	567,333	12,741
Impairment of oil and natural gas properties	1,381,258	—
Asset retirement obligations accretion	5,718	5,512
Depreciation, depletion and amortization	283,353	523,572
Amortization of intangible assets	14,505	14,505
General and administrative expenses	68,918	69,432
Transaction related costs	—	438
Total operating costs and expenses	<u>\$ 2,460,172</u>	<u>\$ 808,640</u>
Other Income (Expense):		
Income from equity method investee	\$ 2,113	\$ 857
Interest expense, net	(28,698)	(28,356)
Gain on derivatives, net	565	—
Other income (expense), net	3,363	(238)
Total other expense	<u>\$ (22,657)</u>	<u>\$ (27,737)</u>
Average Operating Costs per boe:		
Lease operating expenses	\$ 3.50	\$ 3.85
Gathering, transportation, and processing	1.27	1.43
Taxes other than income	1.38	2.20
Exploration costs	25.07	0.52
Impairment of oil and natural gas properties	61.03	—
Asset retirement obligation accretion	0.25	0.23
Depreciation, depletion and amortization	12.52	21.47
Amortization of intangible assets	0.64	0.59
General and administrative expenses	3.05	2.85
Transaction related costs	—	0.02

Lease operating expenses are the costs incurred in the operation of producing properties, including expenses for utilities, direct labor, water disposal, workover rigs, workover expenses, materials, and supplies. Lease operating expenses for the year ended December 31, 2020 were \$14.6 million, or \$0.35 per boe, lower than the year ended December 31, 2019 primarily due to the reduction of operating expenses associated with bringing fewer new wells online.

Gathering, transportation, and processing costs are costs incurred to deliver oil, natural gas, and NGLs to the market. Cost levels of these expenses can vary based on the volume of oil, natural gas, and NGLs produced as well as the cost of commodity

processing. The gathering, transportation, and processing costs for the year ended December 31, 2020 were \$6.3 million, or \$0.16 per boe, lower than the year ended December 31, 2019 primarily due to lower natural gas production and prices.

Taxes other than income include production and ad valorem taxes. These taxes are based on rates primarily established by state and local taxing authorities. Production taxes are based on the market value of production. Ad valorem taxes are based on the fair market value of the mineral interests or business assets. Taxes other than income for the year ended December 31, 2020 were \$22.5 million, or \$0.82 per boe, lower than the year ended December 31, 2019 primarily due to a decrease in revenues following a decline in commodity prices.

Exploration costs are geological and geophysical costs that include seismic surveying costs, costs of unsuccessful exploratory dry wells, costs of expired or abandoned leases, and delay rentals. The exploration costs for the year ended December 31, 2020 were \$554.6 million, or \$24.55 per boe, higher than the year ended December 31, 2019 as a result of an impairment related to Magnolia's unproved oil and natural gas properties due to the sharp decline in commodity prices primarily driven by the COVID-19 pandemic and oversupply by producers relating to oil price and production controls. For more information, please see Note 5—Fair Value Measurements in the Company's consolidated financial statements included in this Annual Report on Form 10-K.

For the year ended December 31, 2020, Magnolia recognized \$1.4 billion of impairment included in "Impairment of oil and natural gas properties" in the consolidated statements of operations related to its proved oil and natural gas properties. The impairment was driven by the sharp decline in commodity prices. For more information, please see Note 5—Fair Value Measurements in the Company's consolidated financial statements included in this Annual Report on Form 10-K.

Depreciation, depletion and amortization ("DD&A") during the year ended December 31, 2020 was \$240.2 million, or \$8.95 per boe, lower than the year ended December 31, 2019 primarily as a result of lower asset property balances associated with proved property impairments recorded in the first quarter of 2020.

General and administrative ("G&A") expenses during the year ended December 31, 2020 were \$0.5 million lower than the year ended December 31, 2019 primarily driven by a decrease in professional service fees and a reduction in the fee under the Services Agreement as a result of corporate-wide cost cutting initiatives offset by costs associated with the termination of the Services Agreement.

Gain (loss) on derivatives, net was a \$0.6 million gain related to the Company's natural gas costless collar entered into during the third quarter of 2020. There was no derivative activity in the corresponding 2019 period.

Other income (expense), net during the year ended December 31, 2020 was \$3.4 million of income compared to \$0.2 million of expense during the year ended December 31, 2019. The income in 2020 was primarily due to a \$5.1 million gain on sale of the Company's 35% membership interest in Ironwood Eagle Ford Midstream, LLC, partially offset by a \$1.4 million inventory write-down.

Liquidity and Capital Resources

Magnolia's primary sources of liquidity and capital have been from cash flows from operations. The Company's primary uses of cash have been for acquisitions of oil and natural gas properties and related assets, development of the Company's oil and natural gas properties, share repurchases, and general working capital needs.

The Company may also utilize borrowings under other various financing sources available to Magnolia, including its RBL Facility and the issuance of equity or debt securities and the timing of these offerings will depend upon various factors, including prevailing market conditions and the Company's financial condition.

Material cash commitments include \$24.0 million in interest payments paid each year through 2026. The Company anticipates its current cash balance, cash flows from operations, and its available sources of liquidity to be sufficient to meet the Company's cash requirements. However, as the impact of recent declines in worldwide crude oil and natural gas prices and the impact of COVID-19 on the economy evolves, the Company will continue to assess its liquidity needs. In the event of a sustained market deterioration, Magnolia may need additional liquidity, which would require the Company to evaluate available alternatives and take appropriate actions.

As of December 31, 2020, the Company had \$400.0 million of principal debt related to the 2026 Senior Notes outstanding and no outstanding borrowings related to the RBL Facility. As of December 31, 2020, the Company has \$642.6 million of liquidity comprised of the \$450.0 million of borrowing base capacity of the RBL Facility, which was reaffirmed on October 15, 2020, and \$192.6 million of cash and cash equivalents. As of December 31, 2020, the Company's Adjusted Consolidated Net Tangible Asset, as calculated in accordance with the Company's Indenture relating to its 2026 Senior Notes, was approximately \$1.5 billion.

On August 1, 2020, the Company provided written notice to EVOC of its intent to terminate the Services Agreement. Pursuant to the Services Agreement, EVOC will continue to provide services during the transition, which Magnolia expects to complete on or before August 1, 2021. The Company is still evaluating the impact to G&A associated with the termination of the Services Agreement.

Cash and Cash Equivalents

At December 31, 2020, Magnolia had \$192.6 million of cash and cash equivalents. The Company's cash and cash equivalents are maintained with various financial institutions in the United States. Deposits with these institutions may exceed the amount of insurance provided on such deposits. However, the Company regularly monitors the financial stability of its financial institutions and believes that the Company is not exposed to any significant default risk.

Sources and Uses of Cash and Cash Equivalents

The following table presents the sources and uses of the Company's cash and cash equivalents for the periods presented:

<i>(In thousands)</i>	Years Ended	
	December 31, 2020	December 31, 2019
Sources of cash and cash equivalents		
Net cash provided by operating activities	\$ 310,121	\$ 647,619
Proceeds from sale of equity method investment	27,074	—
Other	—	11,551
	\$ 337,195	\$ 659,170
Uses of cash and cash equivalents:		
Acquisitions, other	\$ (73,702)	\$ (93,221)
Additions to oil and natural gas properties	(197,858)	(425,124)
Changes in working capital associated with additions to oil and natural gas properties	(24,354)	(9,911)
Class A Common Stock repurchase	(28,681)	(10,277)
Class B Common Stock repurchase	—	(69,093)
Other	(2,672)	(4,669)
	(327,267)	(612,295)
Increase in cash and cash equivalents	\$ 9,928	\$ 46,875

Sources of Cash and Cash Equivalents

Net Cash Provided by Operating Activities

Operating cash flows are the Company's primary source of liquidity and are impacted, in the short term and long term, by oil and natural gas prices. The factors that determine operating cash flows are largely the same as those that affect net earnings or net losses, with the exception of certain non-cash expenses such as DD&A, the non-cash portion of exploration expense, impairment of oil and natural gas properties, asset retirement obligation accretion, and deferred income tax expense.

Net cash provided by operating activities totaled \$310.1 million and \$647.6 million for the years ended December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, cash provided by operating activities was negatively impacted by the sharp decline of oil and natural gas prices partially offset by a decrease in expenses associated with bringing fewer new wells online.

Uses of Cash and Cash Equivalents

Acquisitions

During the year ended December 31, 2020, the Company completed various leasehold and property acquisitions, primarily comprised of a \$69.7 million acquisition of certain non-operated oil and natural gas assets located in Karnes and DeWitt Counties, Texas. During the year ended December 31, 2019 the Company incurred \$93.2 million of acquisition costs, comprised of the

acquisition of a 72% working interest in the Eocene-Tuscaloosa Zone, Ultra Deep Structure natural gas well located in St. Martin Parish, Louisiana and other acquisitions of additional oil and natural gas assets in Karnes County.

Additions to Oil and Natural Gas Properties

The following table sets forth the Company's capital expenditures for the years ended December 31, 2020 and 2019.

<i>(In thousands)</i>	Years Ended	
	December 31, 2020	December 31, 2019
Drilling and completion	\$ 194,891	\$ 416,353
Leasehold acquisition costs	2,966	10,003
Total capital expenditures	\$ 197,857	\$ 426,356

As of December 31, 2020, Magnolia was running a one-rig program for the Giddings Assets. The activity during the year ended December 31, 2020 was largely driven by the number of operated and non-operated drilling rigs. The number of operated drilling rigs is largely dependent on commodity prices and the Company's strategy of maintaining spending to accommodate the Company's business model.

Capital Requirements

Repurchase of Class A Common Stock

On August 5, 2019, the Company's board of directors authorized a share repurchase program of up to 10.0 million shares, and, in February 2021, the Company's board of directors increased the share repurchase authorization by an additional 10 million shares. The program does not require purchases to be made within a particular timeframe and whether the Company undertakes these additional repurchases is ultimately subject to numerous considerations, market conditions, and other factors. During the years ended December 31, 2020 and 2019, the Company repurchased 4.5 million and 1.0 million shares, for a total cost of approximately \$28.7 million and \$10.3 million, respectively.

Repurchase and Cancellation of Magnolia LLC Units and Class B Common Stock

On December 18, 2019, Magnolia LLC repurchased and subsequently canceled 6.0 million Magnolia LLC Units with an equal number of shares of corresponding Class B Common Stock for \$69.1 million of cash consideration.

Critical Accounting Policies and Estimates

Magnolia prepares its financial statements and the accompanying notes in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions about future events that affect the reported amounts in the financial statements and the accompanying notes. Magnolia identifies certain accounting policies as critical based on, among other things, their impact on the portrayal of Magnolia's financial condition, results of operations, or liquidity and the degree of difficulty, subjectivity, and complexity in their deployment. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. Management routinely discusses the development, selection, and disclosure of each of the critical accounting policies. The following is a discussion of Magnolia's most critical accounting policies and estimates.

Reserves Estimates

Proved oil and natural gas reserves are those quantities of oil, natural gas, and natural gas liquids which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain, that it will commence within a reasonable time. Estimated proved developed oil and natural gas reserves can be expected to be recovered through existing wells with existing equipment and operating methods or where the cost of the required equipment is relatively minor compared to the cost of a new well.

Proved undeveloped reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to

those that are directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as undeveloped reserves only if a plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. All of Magnolia's proved undeveloped reserves as of December 31, 2020, that are included in this Annual Report, are planned to be developed within one year.

Despite the inherent imprecision in these engineering estimates, Magnolia's reserves are used throughout the Company's financial statements. For example, since Magnolia uses the unit-of-production method to amortize its oil and natural gas properties, the quantity of reserves could significantly impact Magnolia's DD&A expense. A material adverse change in the estimated volumes of reserves could result in property impairments. Finally, these reserves are the basis for Magnolia's supplemental oil and natural gas disclosures.

Reserves are calculated using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months, held flat for the life of the production, except where prices are defined by contractual arrangements. These historical prices often do not approximate the average price that the Company expects to receive for its oil and natural gas production in the future. Operating costs, production and ad valorem taxes, and future development costs are based on current costs with no escalation. Actual costs may be materially higher or lower than the costs utilized in the estimate.

Magnolia has elected not to disclose probable and possible reserves or reserve estimates in this filing.

Long-lived Asset Impairments

Long-lived assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in future cash flows expected to be generated by an asset group. Individual assets are grouped for impairment purposes based on a judgmental assessment of the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If there is an indication that the carrying amount of an asset may not be recovered, the asset is assessed by management through an established process in which changes to significant assumptions such as prices, volumes, and future development plans are reviewed. If, upon review, the sum of the undiscounted pre-tax cash flows is less than the carrying value of the asset group, the carrying value is written down to estimated fair value. Because there usually is a lack of quoted market prices for long-lived assets, the fair value of impaired assets is assessed by management using the income approach.

Under the income approach, the fair value of each asset group is estimated based on the present value of expected future cash flows. The income approach is dependent on a number of factors including estimates of forecasted revenue and operating costs, proved reserves, the success of future exploration for and development of unproved reserves, discount rates, and other variables. Key assumptions used in developing a discounted cash flow model described above include estimated quantities of crude oil and natural gas reserves; estimates of market prices considering forward commodity price curves as of the measurement date; and estimates of operating, administrative, and capital costs adjusted for inflation. The resulting future cash flows are discounted using a discount rate believed to be consistent with those applied by market participants. Although the fair value estimate of each asset group is based on assumptions the Company believes to be reasonable, those assumptions are inherently unpredictable and uncertain, and actual results could differ from the estimate.

During the first quarter of 2020, Magnolia recorded impairments of \$1.9 billion related to proved and unproved properties as a result of a sharp decline in commodity prices. Proved property impairment of \$1.4 billion is included in "Impairment of oil and natural gas properties" and unproved property impairment of \$0.6 billion is included in "Exploration expense" on the Company's consolidated statements of operations. Proved and unproved properties that were impaired had aggregate fair values of \$0.8 billion and \$0.3 billion, respectively. The fair values of these oil and natural gas properties were measured using the income approach calculated using a discounted future cash flow model. Significant inputs associated with the calculation of discounted future net cash flows include estimates of future commodity prices based on NYMEX strip pricing adjusted for price differentials, estimates of proved oil and natural gas reserves and risk adjusted probable and possible reserves, estimates of future expected operating and capital costs, and a market participant based weighted average cost of capital of 10% for proved property impairments and 12% for unproved property impairments. Negative revisions of estimated reserves quantities, increases in future cost estimates, or sustained decreases in oil or natural gas prices could lead to a reduction in expected future cash flows and possibly an additional impairment of long-lived assets in future periods.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

For variable rate debt, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. The Company is subject to market risk exposure related to changes

in interest rates on borrowings under the RBL Facility. Interest on borrowings under the RBL Facility is based on the LIBOR rate or alternative base rate plus an applicable margin as stated in the agreement. At December 31, 2020, the Company had no borrowings outstanding under the RBL Facility.

Commodity Price Risk

Magnolia's primary market risk exposure is to the prices it receives for its oil, natural gas, and NGL production. The prices the Company ultimately realizes for its oil, natural gas, and NGLs are based on a number of variables, including prevailing index prices attributable to the Company's production and certain differentials to those index prices. Prices for oil, natural gas, and NGLs have historically been volatile and unpredictable, and this volatility is expected to continue in the future. The prices the Company receives for production depend on factors outside of its control, including physical markets, supply and demand, financial markets, and national and international policies. A \$1.00 per barrel increase (decrease) in the weighted average oil price for the year ended December 31, 2020 would have increased (decreased) the Company's revenues by approximately \$11.6 million and a \$0.10 per Mcf increase (decrease) in the weighted average natural gas price for the year ended December 31, 2020 would have increased (decreased) Magnolia's revenues by approximately \$3.9 million.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Magnolia Oil & Gas Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Magnolia Oil & Gas Corporation and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020 and for the period from July 31, 2018 to December 31, 2018 (Successor Period), and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020 and for the period from July 31, 2018 to December 31, 2018 (Successor Period), in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 23, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the impact of estimated oil and natural gas reserves on depreciation, depletion, and amortization expense related to proved oil and natural gas properties

As discussed in Note 2 to the consolidated financial statements, the Company depreciates, depletes, and amortizes its proved oil and natural gas properties using the unit-of-production method. For the year ended December 31, 2020, the Company recorded depreciation, depletion and amortization expense of \$283 million. The estimation of proved oil and natural gas reserves requires the expertise of reservoir engineering specialists, who take into consideration future production, future operating and capital costs, and historical oil and natural gas prices inclusive of price differentials. The Company engages independent reservoir engineering specialists to estimate proved oil and natural gas reserves, which are an input to the calculation of depreciation, depletion, and amortization.

We identified the assessment of the impact of estimated oil and natural gas reserves on depreciation, depletion, and amortization expense related to proved oil and natural gas properties as a critical audit matter. Complex auditor judgment was required in evaluating the Company's estimate of proved oil and natural gas reserves. Specifically, auditor judgment was

required to evaluate the assumptions used by the Company related to future production, future operating and capital costs, and historical oil and natural gas prices inclusive of price differentials.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's depreciation, depletion, and amortization process, including controls over the estimation of proved oil and natural gas reserves. We evaluated (1) the professional qualifications of the independent reservoir engineering specialists engaged by the Company and the external engineering firm, (2) the knowledge, skills, and ability of the independent reservoir engineering specialists, and (3) the relationship of the independent reservoir engineering specialists and external engineering firm to the Company. We analyzed and assessed the determination of depreciation, depletion, and amortization expense for compliance with industry and regulatory standards. We assessed compliance of the methodology used by the Company's independent reservoir engineering specialists to estimate proved oil and natural gas reserves with industry and regulatory standards. We read and considered the report of the Company's independent reservoir engineering specialists in connection with our evaluation of the Company's reserve estimates. We compared future production to historical production rates. We evaluated the future operating and capital costs by comparing them to historical costs. We compared the historical oil and natural gas prices to publicly available prices and tested the relevant price differentials.

Assessment of the fair value of proved and unproved oil and natural gas properties

As discussed in Note 5 to the consolidated financial statements, the Company determined that certain oil and natural gas properties were impaired and recorded impairments related to proved properties of \$1.4 billion and related to unproved properties of \$0.6 billion. The Company estimated the fair value of proved and unproved oil and natural gas properties using a discounted future cash flow model, which required the expertise of internal and independent reservoir engineering specialists. The Company applied judgment in estimating future commodity prices adjusted for price differentials, proved and risk adjusted probable and possible oil and natural gas reserves, future operating and capital costs, and discount rates. The carrying value of proved and unproved oil and natural gas properties as of December 31, 2020 was \$2.1 billion.

We identified the assessment of the fair value of proved and unproved oil and natural gas properties as a critical audit matter. Complex auditor judgment was required in evaluating the Company's estimate of proved and risk adjusted probable and possible oil and natural gas reserves. Specifically, auditor judgement was required to evaluate the assumptions used by the Company related to future commodity prices adjusted for price differentials, future operating and capital costs, and discount rates. In addition, the audit effort involved the use of professionals with specialized skills and knowledge to assist in evaluating the audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's assessment of the fair value of proved and risk adjusted probable and possible oil and natural gas reserves, including controls related to estimation of future commodity prices adjusted for price differentials, future operating and capital costs, and discount rates. We evaluated (1) the professional qualifications of the Company's internal reservoir engineering specialists as well as the independent reservoir engineering specialists engaged by the Company and the external engineering firm, (2) the knowledge, skills, and ability of the Company's internal and independent reservoir engineering specialists, and (3) the relationship of the independent reservoir engineering specialists and external engineering firm to the Company. We assessed compliance of the methodology used by the Company's internal and independent reservoir engineering specialists to estimate oil and natural gas reserves with industry and regulatory standards. We read and considered the report of the Company's independent reservoir engineering specialists in connection with our evaluation of the Company's reserve estimates. We compared future commodity prices to publicly available market information and tested the relevant price differentials. We compared future production to historical production rates. We evaluated the future operating and capital cost assumptions by comparing them to historical costs. In addition, we involved a valuation professional with specialized skills and knowledge who performed the following procedures: (1) assessed the reasonableness of the Company's valuation methodology, (2) compared future commodity prices to publicly available market information, (3) evaluated the Company's discount rates by comparing them to discount rates that were independently developed using publicly available market data for comparable entities, (4) compared the Company's discount rates to the guideline discount rates in published industry surveys, (5) compared the reserve adjustment factors selected by the Company in its determination of risk adjusted probable and possible oil and natural gas reserves to the guideline reserve adjustment factor ranges by reserve class in published industry surveys, and (6) assessed the reasonableness of the Company's estimated fair value of the proved and unproved oil and natural gas properties by comparing them to third-party market data.

/s/ KPMG LLP

We have served as the Company's auditor since 2017.

Houston, Texas
February 23, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Magnolia Oil & Gas Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Magnolia Oil & Gas Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020 and for the period from July 31, 2018 to December 31, 2018 (Successor Period), and the related notes (collectively, the consolidated financial statements), and our report dated February 23, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Houston, Texas
February 23, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Magnolia Oil and Gas Corporation
Houston, Texas

Opinion on the Financial Statements

We have audited the accompanying combined statements of operations, changes in parents' net investment, and cash flows of certain oil and natural gas properties (the "Karnes County Business" or "Predecessor") previously owned by EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-C, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P. and EnerVest Energy Institutional Fund XIV-3A, L.P. (together the "Karnes County Contributors", all of which are under the common management of EnerVest, Ltd., as general partner), which were contributed on July 31, 2018 as part of a contribution and merger agreement between the Karnes County Contributors and Magnolia Oil & Gas Corporation and Magnolia Oil & Gas Parent LLC (formerly TPG Pace Energy Holdings Corp. and TPG Pace Energy Parent LLC), for the period from January 1, 2018 to July 30, 2018, and the related notes to the combined financial statements (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the results of operations and cash flows of the Karnes County Business for the period from January 1, 2018 to July 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of management. Our responsibility is to express an opinion on the Karnes County Business' financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Karnes County Business in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Karnes County Business is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Karnes County Business' internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Karnes County Business includes allocations of certain costs from the Karnes County Contributors. These costs may not be reflective of the actual level of costs which would have been incurred had the Karnes County Business operated as a separate entity apart from the Karnes County Contributors. As a result, historical financial information is not necessarily indicative of what the Karnes County Business' combined results of operations and cash flows will be in the future.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 27, 2019

We have served as the Karnes County Business' auditor since 2014.

Magnolia Oil & Gas Corporation
Consolidated Balance Sheets
(In thousands)

	Successor	
	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 192,561	\$ 182,633
Accounts receivable	81,559	105,775
Drilling advances	3,805	299
Other current assets	3,601	4,511
Total current assets	281,526	293,218
PROPERTY, PLANT AND EQUIPMENT		
Oil and natural gas properties	2,130,125	3,815,221
Other	4,412	3,087
Accumulated depreciation, depletion and amortization	(985,010)	(701,551)
Total property, plant and equipment, net	1,149,527	3,116,757
OTHER ASSETS		
Deferred financing costs, net	6,042	8,390
Equity method investment	—	19,730
Intangible assets, net	9,346	23,851
Other long-term assets	6,979	4,460
Total other assets	22,367	56,431
TOTAL ASSETS	\$ 1,453,420	\$ 3,466,406
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 62,626	\$ 79,428
Other current liabilities (Note 7)	66,323	95,780
Total current liabilities	128,949	175,208
LONG-TERM LIABILITIES		
Long-term debt, net	391,115	389,835
Asset retirement obligations, net of current	88,232	93,524
Deferred taxes, net	—	77,834
Other long-term liabilities	5,702	1,476
Total long-term liabilities	485,049	562,669
COMMITMENTS AND CONTINGENCIES (Note 11)		
EQUITY		
Class A Common Stock, \$0.0001 par value, 1,300,000 shares authorized, 168,755 shares issued and 163,280 shares outstanding in 2020 and 168,318 shares issued and 167,318 shares outstanding in 2019	17	17
Class B Common Stock, \$0.0001 par value, 225,000 shares authorized, 85,790 shares issued and outstanding in 2020 and 2019	9	9
Additional paid-in capital	1,712,544	1,703,362
Treasury Stock, at cost, 5,475 shares and 1,000 shares in 2020 and 2019, respectively	(38,958)	(10,277)
Retained earnings (Accumulated deficit)	(1,125,450)	82,940
Noncontrolling interest	291,260	952,478
Total equity	839,422	2,728,529
TOTAL LIABILITIES AND EQUITY	\$ 1,453,420	\$ 3,466,406

The accompanying notes are an integral part to these consolidated and combined financial statements.

Magnolia Oil & Gas Corporation
Consolidated and Combined Statements of Operations
(In thousands, except per share data)

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
REVENUES				
Oil revenues	\$ 417,891	\$ 771,981	\$ 342,093	\$ 399,124
Natural gas revenues	67,248	93,745	42,979	22,135
Natural gas liquids revenues	49,367	70,416	48,146	27,927
Total revenues	534,506	936,142	433,218	449,186
OPERATING EXPENSES				
Lease operating expenses	79,192	93,788	30,753	23,513
Gathering, transportation, and processing	28,645	34,924	14,445	12,929
Taxes other than income	31,250	53,728	23,170	23,763
Exploration expense	567,333	12,741	11,882	492
Impairment of oil and natural gas properties	1,381,258	—	—	—
Asset retirement obligation accretion	5,718	5,512	1,668	104
Depreciation, depletion and amortization	283,353	523,572	177,890	137,871
Amortization of intangible assets	14,505	14,505	6,044	—
General and administrative expenses	68,918	69,432	28,801	12,710
Transaction related costs	—	438	24,607	—
Total operating costs and expenses	2,460,172	808,640	319,260	211,382
OPERATING INCOME (LOSS)	(1,925,666)	127,502	113,958	237,804
OTHER INCOME (EXPENSE)				
Income from equity method investee	2,113	857	773	711
Interest expense, net	(28,698)	(28,356)	(12,454)	—
Gain (loss) on derivatives, net	565	—	—	(18,127)
Other income (expense), net	3,363	(238)	(8,374)	(50)
Total other expense, net	(22,657)	(27,737)	(20,055)	(17,466)
INCOME (LOSS) BEFORE INCOME TAXES	(1,948,323)	99,765	93,903	220,338
Income tax expense (benefit)	(79,340)	14,760	11,455	1,785
NET INCOME (LOSS)	(1,868,983)	85,005	82,448	\$ 218,553
LESS: Net income (loss) attributable to noncontrolling interest	(660,593)	34,809	43,353	
NET INCOME (LOSS) ATTRIBUTABLE TO MAGNOLIA	(1,208,390)	50,196	39,095	
LESS: Non-cash deemed dividend related to warrant exchange	—	2,763	—	
NET INCOME (LOSS) ATTRIBUTABLE TO CLASS A COMMON STOCK	\$ (1,208,390)	\$ 47,433	\$ 39,095	
NET INCOME (LOSS) PER SHARE OF CLASS A COMMON STOCK				
Basic	\$ (7.27)	\$ 0.29	\$ 0.25	
Diluted	\$ (7.27)	\$ 0.28	\$ 0.25	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	166,270	161,886	154,527	
Diluted	166,270	167,047	158,232	

The accompanying notes are an integral part of these consolidated and combined financial statements.

Magnolia Oil & Gas Corporation
Combined Statement of Changes in Parents' Net Investment
(In thousands)

	<u>Predecessor</u>
Balance – January 1, 2018	\$ 1,597,838
Parents' contribution, net	62,641
Net income	218,553
Balance – July 30, 2018	<u>\$ 1,879,032</u>

The accompanying notes are an integral part of these consolidated and combined financial statements.

Magnolia Oil & Gas Corporation
Consolidated Statements of Changes in Stockholders' Equity
(In thousands)

Successor

	Class A Common Stock		Class B Common Stock		Class F Common Stock		Additional Paid In Capital		Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Value	Shares	Value	Shares	Value	Shares	Value				
Balance, July 30, 2018	3,052	\$ —	—	\$ —	16,250	\$ 2	8,370	\$ (3,588)	\$ 4,784	\$ —	\$ 4,784	
Class A Common Stock released from possible redemption	61,948	6	—	—	—	—	619,473	—	619,479	—	619,479	
Class A Common Stock redeemed	(1)	—	—	—	—	—	(9)	—	(9)	—	(9)	
Conversion of Common Stock from Class F to Class A at closing of Business Combination	16,250	2	—	—	(16,250)	(2)	—	—	—	—	—	
Common stock issued as part of the Business Combination	31,791	3	83,939	9	—	—	391,017	—	391,029	1,032,455	1,423,484	
Common stock issued in private placement	35,500	4	—	—	—	—	354,996	—	355,000	—	355,000	
Earnout consideration issued as part for the Business Combination	—	—	—	—	—	—	41,371	—	41,371	108,329	149,700	
Non-compete consideration	—	—	—	—	—	—	44,400	—	44,400	—	44,400	
Changes in ownership interest adjustment	—	—	—	—	—	—	206,966	—	206,966	(206,966)	—	
Changes in deferred tax liability	—	—	—	—	—	—	(52,787)	—	(52,787)	—	(52,787)	
Balance, July 31, 2018	148,540	\$ 15	83,939	\$ 9	—	\$ —	1,613,797	\$ (3,588)	\$ 1,610,233	\$ 933,818	\$ 2,544,051	
Issuance of earnout share consideration Tranche I	1,244	—	3,256	—	—	—	—	—	—	—	—	
Issuance of earnout share consideration Tranche II	1,244	—	3,256	—	—	—	—	—	—	—	—	
Issuance of earnout share consideration Tranche III	1,105	—	2,895	—	—	—	—	—	—	—	—	
Common stock issued in connection with Harvest Acquisition	4,200	1	—	—	—	—	58,211	—	58,212	—	58,212	
Stock based compensation expense	—	—	—	—	—	—	1,851	—	1,851	—	1,851	
Net income	—	—	—	—	—	—	—	39,095	39,095	43,353	82,448	
Changes in ownership interest adjustment	—	—	—	—	—	—	(54,015)	—	(54,015)	54,015	—	
Changes in deferred tax liability	—	—	—	—	—	—	21,393	—	21,393	—	21,393	
Balance, December 31, 2018	156,333	\$ 16	93,346	\$ 9	—	\$ —	1,641,237	\$ 35,507	\$ 1,676,769	\$ 1,031,186	\$ 2,707,955	

The accompanying notes are an integral part to these consolidated and combined financial statements.

Magnolia Oil & Gas Corporation
Consolidated Statements of Changes in Stockholders' Equity
(In thousands)

Successor

	Class A Common Stock		Class B Common Stock		Additional Paid In Capital		Treasury Stock		Retained Earnings/ Accumulated Deficit		Total Stockholders' Equity		Noncontrolling Interest		Total Equity	
	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value
Balance, December 31, 2018	156,333	\$ 16	93,346	\$ 9	\$ 1,641,237	\$ —	\$ —	—	\$ 35,507	\$ 1,676,769	\$ 1,031,186	\$ 2,707,955	—	—	—	—
Stock based compensation expense, net of forfeitures	—	—	—	—	11,089	—	—	—	—	11,089	—	—	11,089	—	—	—
Changes in ownership interest adjustment and in deferred tax liability	—	—	—	—	23,679	—	—	—	—	23,679	(32,659)	(8,980)	23,679	(32,659)	—	—
Common stock issued in connection with acquisition	3,055	—	—	—	33,693	—	—	—	—	33,693	—	33,693	—	—	—	—
Final settlement adjustment related to Business Combination	(496)	—	(1,556)	—	(6,095)	—	—	—	—	(6,095)	(19,150)	(25,245)	(6,095)	(19,150)	—	—
Common stock issued in connection with warrants exchange	9,179	1	—	—	530	—	—	—	(2,763)	(2,232)	—	(2,232)	(2,232)	—	—	—
Common stock issued related to stock based compensation and other, net	248	—	—	—	(771)	—	—	—	—	(771)	—	(771)	(771)	—	—	—
Class A Common Stock repurchases	—	—	—	—	—	—	1,000	(10,277)	—	(10,277)	—	(10,277)	(10,277)	—	—	—
Class B Common Stock repurchase	—	—	(6,000)	—	—	—	—	—	—	—	—	(69,093)	(69,093)	—	—	—
Contributions from noncontrolling interest owners	—	—	—	—	—	—	—	—	—	—	—	8,809	8,809	8,809	—	—
Distributions to noncontrolling interest owners	—	—	—	—	—	—	—	—	—	—	—	(1,424)	(1,424)	(1,424)	—	—
Net income	—	—	—	—	—	—	—	—	50,196	50,196	34,809	85,005	50,196	34,809	85,005	—
Balance, December 31, 2019	168,319	\$ 17	85,790	\$ 9	\$ 1,703,362	\$ 1,000	\$ (10,277)	\$ 82,940	\$ 1,776,051	\$ 952,478	\$ 2,728,529	—	—	—	—	—
Stock based compensation expense, net of forfeitures	—	—	—	—	10,029	—	—	—	—	10,029	—	10,029	10,029	—	—	—
Changes in ownership interest adjustment	—	—	—	—	(55)	—	—	—	—	(55)	55	—	(55)	55	—	—
Common stock issued related to stock based compensation and other, net	436	—	—	—	(792)	—	—	—	—	(792)	—	(792)	(792)	—	—	—
Class A Common Stock repurchases	—	—	—	—	—	—	4,475	(28,681)	—	(28,681)	—	(28,681)	(28,681)	—	—	—
Distributions to noncontrolling interest owners	—	—	—	—	—	—	—	—	—	—	(680)	(680)	(680)	(680)	—	—
Net loss	—	—	—	—	—	—	—	—	(1,208,390)	(1,208,390)	(660,593)	(1,868,983)	(1,208,390)	(660,593)	(1,868,983)	—
Balance, December 31, 2020	168,755	\$ 17	85,790	\$ 9	\$ 1,712,544	\$ 5,475	\$ (38,958)	\$ (1,125,450)	\$ 548,162	\$ 548,162	\$ 291,260	\$ 839,422	548,162	\$ 291,260	\$ 839,422	—

The accompanying notes are an integral part to these consolidated and combined financial statements.

Magnolia Oil & Gas Corporation
Consolidated and Combined Statements of Cash Flows (In thousands)

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
NET INCOME (LOSS)	\$ (1,868,983)	\$ 85,005	\$ 82,448	\$ 218,553
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	283,353	523,572	177,890	137,871
Amortization of intangible assets	14,505	14,505	6,044	—
Exploration expense, non-cash	563,999	1,154	567	—
Impairment of oil and natural gas properties	1,381,258	—	—	—
Asset retirement obligation accretion	5,718	5,512	1,668	104
Amortization of deferred financing costs	3,628	3,541	1,461	—
Unrealized (gain) on derivatives, net	(277)	—	—	(9,490)
(Gain) on sale of equity method investment	(5,071)	—	—	—
Deferred taxes	(77,834)	14,261	12,128	324
Contingent consideration change in fair value	—	—	6,700	—
Stock based compensation	10,029	11,089	1,851	—
Other	(728)	(668)	(773)	(796)
Changes in operating assets and liabilities:				
Accounts receivable	24,216	7,952	(50,610)	(61,405)
Accounts payable	(16,961)	(6,834)	25,041	(4,522)
Accrued liabilities	(2,457)	(19,181)	53,973	4,558
Drilling advances	(3,506)	11,960	(9,559)	—
Other assets and liabilities, net	(768)	(4,249)	(3,359)	(385)
Net cash provided by operating activities	310,121	647,619	305,470	284,812
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds withdrawn from Trust Account	—	—	656,078	—
Acquisition of EnerVest properties	—	4,250	(1,219,217)	—
Acquisitions, other	(73,702)	(93,221)	(146,532)	(150,139)
Proceeds from sale of equity method investment	27,074	—	—	—
Additions to oil and natural gas properties	(197,858)	(425,124)	(192,252)	(182,068)
Changes in working capital associated with additions to oil and natural gas properties	(24,354)	(9,911)	50,633	(15,246)
Payment of Contingent Consideration	—	—	(26,000)	—
Other investing	(1,148)	(242)	(350)	—
Net cash used in investing activities	(269,988)	(524,248)	(877,640)	(347,453)
CASH FLOW FROM FINANCING ACTIVITIES				
Parents' contribution, net	—	—	—	62,641
Contributions from noncontrolling interest owners	—	7,301	—	—
Distributions to noncontrolling interest owners	(680)	(1,424)	—	—
Issuance of common stock	—	—	355,000	—
Proceeds from issuance of long term debt	—	—	400,000	—
Repayments of deferred underwriting compensation	—	—	(22,750)	—
Cash paid for debt issuance costs	—	—	(23,336)	—
Class A Common Stock repurchase	(28,681)	(10,277)	—	—
Class B Common Stock repurchase	—	(69,093)	—	—
Other financing activities	(844)	(3,003)	(1,009)	—
Net cash provided by (used in) financing activities	(30,205)	(76,496)	707,905	62,641
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,928	46,875	135,735	—
Cash and cash equivalents – Beginning of period	182,633	135,758	23	—
Cash and cash equivalents – End of period	<u>\$ 192,561</u>	<u>\$ 182,633</u>	<u>\$ 135,758</u>	<u>\$ —</u>

The accompanying notes are an integral part of these consolidated and combined financial statements.

Magnolia Oil & Gas Corporation
Notes to Consolidated and Combined Financial Statements

1. Description of Business and Basis of Presentation

Organization and Nature of Operations

Magnolia Oil & Gas Corporation (the “Company” or “Magnolia”) is an independent oil and natural gas company engaged in the acquisition, development, exploration, and production of oil, natural gas, and natural gas liquid (“NGL”) reserves. The Company’s oil and natural gas properties are located primarily in Karnes County and the Giddings area in South Texas, where the Company targets the Eagle Ford Shale and Austin Chalk formations. Magnolia’s objective is to generate stock market value over the long term through consistent organic production growth, high full cycle operating margins, an efficient capital program with short economic paybacks, significant free cash flow after capital expenditures, and effective reinvestment of free cash flow.

Basis of Presentation

On July 31, 2018, Magnolia consummated its initial business combination (the “Business Combination”) through its acquisition of certain oil and natural gas assets in the Karnes County portion of the Eagle Ford Shale in South Texas (the “Karnes County Assets” and, such business, the “Karnes County Business”), certain oil and natural gas assets in the Giddings area of the Austin Chalk (the “Giddings Assets”), and a 35.0% membership interest in Ironwood Eagle Ford Midstream, LLC (the “Ironwood Interests”), which owns an Eagle Ford gathering system, each with certain affiliates of EnerVest, Ltd. (“EnerVest”). As of December 31, 2020, Magnolia owned a 65.6% interest in Magnolia Oil & Gas Parent LLC (“Magnolia LLC”), which owns the assets acquired in the Business Combination.

In accordance with accounting principles generally accepted in the United States of America (“GAAP”), the Company was the acquirer in the Business Combination and the Karnes County Business, the Giddings Assets, and the Ironwood Interests were the acquirees. The Karnes County Business including, as applicable, its ownership of the Ironwood Interests, was deemed the “Predecessor” for periods prior to the Business Combination, and does not include the consolidation of the Company and the Giddings Assets. Although EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-C, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P. and EnerVest Energy Institutional Fund XIV-3A, L.P. (collectively, the “Karnes County Contributors”) are not under common control, each were managed by the same managing general partner, EnerVest, and as such, the Predecessor financial statements have been presented on a combined basis for financial reporting purposes.

For the periods on or after the Business Combination, the Company, including the combination of the Karnes County Business, the Giddings Assets, and the Ironwood Interests, is the accounting successor (“Successor”). The financial statements and certain footnote presentations separate the Company’s presentations into two distinct periods, the period before the consummation of the Business Combination, which includes the period from January 1, 2018 to July 30, 2018 (the “2018 Predecessor Period”); and the period after the Business Combination, which includes the period from July 31, 2018 to December 31, 2018 (the “2018 Successor Period”), the year ended December 31, 2019, and the year ended December 31, 2020. The Business Combination was accounted for using the acquisition method of accounting and the Successor financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed. As a result of the inclusion of the Giddings Assets, the new basis of accounting, and certain other items that affect comparability, the Company’s financial information prior to the Business Combination is not comparable to its financial information subsequent to the Business Combination.

The assets, liabilities, revenues, expenses, and cash flows related to the Karnes County Business were not previously separately accounted for as a standalone legal entity and have been carved out of the overall assets, liabilities, revenues, expenses, and cash flows from the Karnes County Contributors as appropriate. In addition, Parents’ Net Investment represents the Karnes County Contributors’ interest in the recorded net assets of the Karnes County Business and represents the cumulative net investment of the Karnes County Contributors’ in the Karnes County Business through the dates presented, inclusive of cumulative operating results.

The Karnes County Contributors utilized EnerVest’s centralized processes and systems for its treasury services and the Karnes County Business’ cash activity was commingled with other oil and natural gas assets that were not part of the Business Combination. As such, the net results of the cash transactions between the Karnes County Business and the Karnes County Contributors are reflected as Parents’ contributions in the accompanying combined statement of changes in parents’ net investment.

The Predecessor financial statements also include a portion of indirect costs for salaries and benefits, rent, accounting, legal services, and other expenses. In addition to the allocation of indirect costs, the financial statements reflect certain agreements executed by the Karnes County Contributors for the benefit of the Karnes County Business, including price risk management instruments. The allocations methodologies for significant allocated items include:

Corporate G&A - EnerVest, as managing general partner of the Karnes County Contributors, provided management, accounting, and advisory services to the Karnes County Contributors in exchange for a quarterly management fee based on the Karnes County Contributors' investor commitments, which were used, in part, to acquire the Karnes County Business as well as other oil and natural gas properties that were not part of the Business Combination. As such, the management fee was allocated to the Karnes County Business using a ratio of asset acquisitions value to total asset acquisitions completed by the Karnes County Contributors, for the 2018 Predecessor Period.

Derivatives - Certain Karnes County Contributors entered into financial instruments to manage the Karnes County Business' exposure to changes in commodity prices for the Karnes County Business as well as other oil and natural gas properties that were not part of the Business Combination, on a combined basis. The commodity derivative activity was allocated to the Karnes County Business using a ratio of expected crude oil and condensate, NGLs, and natural gas volumes produced, on an equivalents basis, by the Karnes County Business to the Karnes County Contributors' total expected crude oil and condensate, NGLs, and natural gas produced, on an equivalents basis, for the 2018 Predecessor Period.

Indebtedness - The Karnes County Business did not historically have outstanding indebtedness, but its oil and natural gas properties were collateral to various credit facilities held by the Karnes County Contributors and/or EnerVest. Amounts outstanding on these credit facilities have not been allocated to the Karnes County Business as they were not directly attributable to the Karnes County Business.

Management believes the allocation methodologies used are reasonable and result in an allocation of the indirect costs and other items to operate the Karnes County Business as if it were a stand-alone entity. These allocations, however, may not be indicative of the cost of future operations or the amount of future allocations. Direct costs were included at the historical amounts related to each reported period.

The accompanying consolidated and combined financial statements have been prepared in accordance with GAAP and in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC").

2. Summary of Significant Accounting Policies

Principles of Consolidation (Successor)

The consolidated financial statements have been prepared in accordance with GAAP. Certain reclassifications of prior period financial statements have been made to conform to current reporting practices. The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany transactions and balances. The Company's interests in oil and natural gas exploration and production ventures and partnerships are proportionately consolidated. The Company reflects a noncontrolling interest representing the interest owned by the Karnes County Contributors through their ownership of Magnolia LLC Units in the consolidated financial statements. The noncontrolling interest is presented as a component of equity. See *Note 13—Stockholders' Equity* for further discussion of noncontrolling interest.

Variable Interest Entities (Successor)

Magnolia LLC is a variable interest entity ("VIE"). The Company determined that it is the primary beneficiary of Magnolia LLC as the Company is the sole managing member and has the power to direct the activities most significant to Magnolia LLC's economic performance as well as the obligation to absorb losses and receive benefits that are potentially significant. At December 31, 2020, the Company had an approximate 65.6% economic interest in Magnolia LLC and 100% of Magnolia LLC's assets, liabilities, and results of operations are consolidated in the Company's consolidated financial statements contained herein. At December 31, 2020, the Karnes County Contributors had approximately 34.4% economic interest in Magnolia LLC; however, the Karnes County Contributors have disproportionately fewer voting rights, and are shown as noncontrolling interest holders of Magnolia LLC. See *Note 13—Stockholders' Equity* for further discussion of the noncontrolling interest.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and changes in these estimates are recorded when known. Significant estimates with regard to these financial statements include the fair value determination of acquired assets and liabilities, the assessment of asset retirement obligations, the estimate of proved oil and natural gas reserves and related present value estimates of future net cash flows, and the estimates of fair value for long-lived assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to cash. Cash and cash equivalents were approximately \$192.6 million and \$182.6 million at December 31, 2020 and 2019, respectively.

Accounts Receivable and Allowance for Expected Credit Losses (Successor)

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments-Credit Losses (Topic 326): “Measurement of Credit Losses on Financial Instruments.” For public business entities, the new standard became effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Magnolia adopted this standard on January 1, 2020. The standard changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, and requires entities to use a new forward-looking expected loss model that will result in earlier recognition of allowance for losses. The Company’s receivables consist mainly of trade receivables from commodity sales and joint interest billings due from owners on properties the Company operates. The majority of these receivables have payment terms of 30 days or less. For receivables due from joint interest owners, the Company generally has the ability to withhold future revenue disbursements to recover non-payment of joint interest billings. From an evaluation of the Company’s existing credit portfolio, historical credit losses have been de minimis and are expected to remain so in the future assuming no substantial changes to the business or creditworthiness of Magnolia’s business partners. As expected, there was no material impact on the Company’s consolidated financial statements or disclosures upon adoption of this ASU.

Oil and Natural Gas Properties

The Company follows the successful efforts method of accounting for its oil and natural gas properties. Under this method of accounting, exploration costs such as exploratory geological and geophysical costs, delay rentals, and exploration overhead are expensed as incurred. All costs related to production, general corporate overhead, and similar activities are expensed as incurred. If an exploratory well provides evidence to justify potential development of reserves, drilling costs associated with the well are initially capitalized, or suspended, pending a determination as to whether a commercially sufficient quantity of proved reserves can be attributed to the area as a result of drilling. At the end of each quarter, management reviews the status of all suspended exploratory well costs in light of ongoing exploration activities; in particular, whether the Company is making sufficient progress in its ongoing exploration and appraisal efforts. If management determines that future appraisal drilling or development activities are unlikely to occur, associated suspended exploratory well costs are expensed.

Unproved properties are assessed for impairment at least annually and are transferred to proved oil and natural gas properties to the extent the costs are associated with successful exploration activities. Unproved properties are assessed for impairment based on the Company’s current exploration plans. Costs of expired or abandoned leases are charged to exploration expense, while costs of productive leases are transferred to proved oil and natural gas properties. Costs of maintaining and retaining unproved properties, as well as impairment of unsuccessful leases, are included in “Exploration expense” in the consolidated and combined statements of operations.

Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized. Depreciation, depletion and amortization of the cost of proved oil and natural gas properties is calculated using the unit-of-production method. The reserve base used to calculate depletion for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. The reserve base used to calculate the depreciation for capitalized costs for exploratory and development wells is the sum of proved developed reserves only. Estimated future abandonment costs, net of salvage values, are included in the depreciable cost.

Oil and natural gas properties are grouped for depreciation, depletion and amortization in accordance with the Accounting Standards Codification (“ASC”) ASC 932 “Extractive Activities—Oil and Gas” (“ASC 932”). The basis for grouping is a reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a reservoir or field.

When circumstances indicate that proved oil and natural gas properties may be impaired, the Company compares unamortized capitalized costs to the expected undiscounted pre-tax future cash flows for the associated assets grouped at the lowest level for which identifiable cash flows are independent of cash flows of other assets. If the expected undiscounted pre-tax future cash flows, based on the Company’s estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves, and other relevant data, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally estimated using the income approach described in ASC 820, “Fair Value Measurements” (“ASC 820”). If applicable, the Company may utilize prices and other relevant information generated by market transactions involving assets and liabilities that are identical or comparable to the item being measured as the basis for determining fair value. The expected future cash flows used for impairment reviews and related fair value calculations are typically based on judgmental assessments of future

production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review. These assumptions are applied to develop future cash flow projections that are then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. See *Note 5—Fair Value Measurements* for further discussion.

Asset Retirement Obligations

Asset retirement obligations (“ARO”) represent the present value of the estimated cash flows expected to be incurred to plug, abandon, and remediate producing properties, excluding salvage values, at the end of their productive lives in accordance with applicable laws. The significant unobservable inputs to this fair value measurement include estimates of plugging, abandonment, and remediation costs, well life, inflation, and credit-adjusted risk-free rate. The inputs are calculated based on historical data as well as current estimates. When the liability is initially recorded, the carrying amount of the related long-lived asset is increased. Over time, accretion of the liability is recognized each period, and the capitalized cost is amortized over the useful life of the related asset using the unit of production method and is included in “Depreciation, depletion and amortization” in the Company’s consolidated and combined statements of operations. If the ARO is settled for an amount other than the recorded amount, a gain or loss is recognized.

To estimate the fair value of an asset retirement obligation, the Company employs a present value technique, which reflects certain assumptions, including its credit-adjusted risk-free interest rate, inflation rate, the estimated settlement date of the liability, and the estimated cost to settle the liability. Changes in timing or to the original estimate of cash flows will result in changes to the carrying amount of the liability and related long lived asset.

Intangible Assets (Successor)

Concurrent with the closing of the Business Combination, the Company and EnerVest entered into a non-compete agreement (the “Non-Compete”) pursuant to which EnerVest and certain of its affiliates are restricted from competing with the Company in certain counties comprising the Eagle Ford Shale. On the Closing Date, the Company recorded an estimated cost of \$44.4 million for the Non-Compete as intangible assets on the consolidated balance sheet of the Successor. These intangible assets have a definite life and are subject to amortization utilizing the straight-line method over their economic life, currently estimated to be two and one half to four years. Magnolia assesses intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment is recognized in the consolidated statements of operations if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. For the year ended December 31, 2020, no impairment was recorded. For more discussion on the Non-Compete, refer to *Note 6 - Intangible Assets*.

Fair Value Measurements

ASC 820 establishes a fair value hierarchy that prioritizes and ranks the level of observability of inputs used to measure investments at fair value. The observability of inputs is impacted by a number of factors, including the type of investment, characteristics specific to the investment, market conditions, and other factors. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). Investments with readily available quoted prices or for which fair value can be measured from quoted prices in active markets will typically have a higher degree of input observability and a lesser degree of judgment applied in determining fair value.

The three levels of the fair value hierarchy under ASC 820 are as follows:

Level I—Quoted prices (unadjusted) in active markets for identical investments at the measurement date are used.

Level II—Pricing inputs are other than quoted prices included within Level I that are observable for the investment, either directly or indirectly. Level II pricing inputs include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, inputs other than quoted prices that are observable for the investment, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III—Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. The inputs used in determination of fair value require significant judgment and estimation.

In some cases, the inputs used to measure fair value might fall within different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the investment is categorized in its entirety is determined based on the lowest level input that is significant to the investment. Assessing the significance of a particular input to the valuation of an investment in its entirety requires judgment and considers factors specific to the investment. The categorization of an investment within the hierarchy is

based upon the pricing transparency of the investment and does not necessarily correspond to the perceived risk of that investment.

Income Taxes (Predecessor)

The Karnes County Contributors, on behalf of the Predecessor, had elected under the Internal Revenue Code provisions to be treated as individual partnerships for tax purposes. Accordingly, items of income, expense, gains, and losses flowed through to the partners and were taxed at the partner level. Accordingly, no tax provision for federal income taxes was included in the financial statements. The Predecessor was subject to the Texas margin tax, which is considered a state income tax, and was included in “Income Tax Expense” on the combined statements of operations. The Predecessor recorded state income tax (current and deferred) based on taxable income, as defined under the rules for the margin tax.

The Predecessor analyzed each income tax position using a two-step process. A determination was first made as to whether it was more likely than not that the income tax position would be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position was expected to meet the more likely than not criteria, the benefit recorded in the combined financial statements equaled the largest amount that was greater than 50% likely to be realized upon its ultimate settlement.

The Predecessor recorded income tax, related interest, and penalties, if any, as a component of income tax expense. The Predecessor did not incur any interest or penalties on income for the period from January 1, 2018 to July 30, 2018. None of the Karnes County Contributors’ state tax returns are currently under examination by the relevant authorities.

Income Taxes (Successor)

Under ASC 740, “Income Taxes,” deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to net operating losses, tax credits, and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date. Valuation allowances are established when it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company reports a liability or a reduction of deferred tax assets for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. When applicable, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense.

Derivatives (Predecessor)

The Karnes County Contributors, on behalf of the Predecessor, monitored the exposure to various business risks, including commodity price risk, and used derivatives to manage the impact of certain of these risks. The Karnes County Contributors used energy derivatives for mitigating risk resulting from fluctuations in the market price of oil, natural gas, and NGLs, and their policies did not permit the use of derivatives for speculative purposes.

The Predecessor elected not to designate its derivatives as hedging instruments. Changes in the fair value of derivatives were recorded immediately to earnings as “Gain (loss) on derivatives, net” in the combined statements of operations.

Derivatives (Successor)

Magnolia currently utilizes natural gas costless collars to reduce its exposure to price volatility for a portion of its natural gas production volumes. The Company’s policies do not permit the use of derivative instruments for speculative purposes. The Company has elected not to designate any of its derivative instruments as hedging instruments. Accordingly, changes in the fair value of the Company’s derivative instruments are recorded immediately to earnings as “Gain (loss) on derivatives, net” on the Company’s consolidated statements of operations.

Purchase Price Allocation

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business and recording deferred taxes for any differences between the allocated values and tax basis of assets and liabilities. Any excess of the purchase price over the amounts assigned to assets and liabilities is recorded as goodwill.

The purchase price allocation is accomplished by recording each asset and liability at its estimated fair value. Estimated deferred taxes are based on available information concerning the tax basis of the acquired company’s assets, liabilities, and tax-related carryforwards at the merger date, although such estimates may change in the future as additional information becomes known. The

amount of goodwill recorded in any particular business combination can vary significantly depending upon the values attributed to assets acquired and liabilities assumed relative to the total acquisition cost.

When estimating the fair values of assets acquired and liabilities assumed, the Company must apply various assumptions. The most significant assumptions relate to the estimated fair values assigned to proved and unproved crude oil and natural gas properties. To estimate the fair values of these properties, the Company prepares estimates of crude oil and natural gas reserves. Estimated fair values assigned to assets acquired can have a significant effect on results of operations in the future.

Commitments and Contingencies

Accruals for loss contingencies arising from claims, assessments, litigation, environmental, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted as additional information becomes available or circumstances change. Refer to *Note 11 - Commitments and Contingencies* for additional information.

Revenue Recognition (Predecessor)

Oil, natural gas, and NGL revenues were recognized when production was sold to a purchaser at a fixed or determinable price, when delivery had occurred and title had transferred, and collectability of the revenue was reasonably assured. The Predecessor followed the sales method of accounting for revenues. Under this method of accounting, revenues were recognized based on volumes sold, which may have differed from the volumes entitled based on the Karnes County Business' working interest. There were no material natural gas imbalances during the periods presented.

Revenue Recognition (Successor)

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This ASU and the associated subsequent amendments (collectively, "ASC 606"), superseded virtually all of the revenue recognition guidance in GAAP by requiring companies to recognize revenue using a five-step model. The core principle of the five-step model is that an entity will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Magnolia adopted this standard on December 31, 2018 for the Successor Periods using a modified retrospective approach.

There were no significant changes to the timing of revenue recognized for sales of production as a result of ASC 606. However, the new guidance resulted in certain changes to the classification of processing and other fees between revenue and gathering, transportation, and processing expense. The amounts reclassified are immaterial to the financial statements and Predecessor Periods have not been restated and continue to be reported under the accounting standards in effect for those periods.

Magnolia's revenues include the sale of crude oil, natural gas, and NGLs. Oil, natural gas, and NGL sales are recognized as revenue when production is sold to a customer in fulfillment of performance obligations under the terms of agreed contracts. Performance obligations are primarily comprised of delivery of oil, natural gas, or NGLs at a delivery point, as negotiated within each contract. Each barrel of oil, million Btu of natural gas, gallon of NGLs, or other unit of measure is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated.

The Company's oil production is primarily sold under market-sensitive contracts that are typically priced at a differential to the NYMEX price or at purchaser posted prices for the producing area. For oil contracts, the Company generally records sales based on the net amount received.

For natural gas contracts, the Company generally records wet gas sales (which consists of natural gas and NGLs based on end products after processing) at the wellhead or inlet of the natural gas processing plant (i.e., the point of control transfer) as revenues net of gathering, transportation, and processing expenses if the processor is the customer and there is no redelivery of commodities to the Company at the tailgate of the plant. Conversely, the Company generally records residual natural gas and NGL sales at the tailgate of the plant (i.e., the point of control transfer) on a gross basis along with the associated gathering, transportation, and processing expenses if the processor is a service provider and there is redelivery of one or several commodities to the Company at the tailgate of the plant. The facts and circumstances of an arrangement are considered and judgment is often required in making this determination. For processing contracts that require noncash consideration in exchange for processing services, the Company recognizes revenue and an equal gathering, transportation, and processing expense for commodities transferred to the service provider.

Customers are invoiced once the Company's performance obligations have been satisfied. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 days. There are no judgments that significantly

affect the amount or timing of revenue from contracts with customers. Additionally, the Company's product sales contracts do not give rise to material contract assets or contract liabilities.

The Company's receivables consist mainly of receivables from oil and natural gas purchasers and from joint interest owners on properties the Company operates. Receivables from contracts with customers totaled \$72.0 million and \$100.4 million as of December 31, 2020 and 2019, respectively. Accounts receivable are stated at the historical carrying amount net of write-offs and allowance for doubtful accounts. The Company routinely assesses the collectability of all material trade and other receivables. The Company's receivables consist mainly of receivables from oil and natural gas purchasers and from joint interest owners on properties the Company operates. The Company accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated. The Company had no allowance for doubtful accounts as of December 31, 2020 or 2019.

The Company has concluded that disaggregating revenue by product type appropriately depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors and has reflected this disaggregation of revenue on the Company's consolidated and combined statements of operations for all periods presented.

Performance obligations are satisfied at a point in time once control of the product has been transferred to the customer. The Company considers a variety of facts and circumstances in assessing the point of control transfer, including but not limited to: whether the purchaser can direct the use of the hydrocarbons, the transfer of significant risks and rewards, the Company's right to payment, and transfer of legal title.

The Company does not disclose the value of unsatisfied performance obligations for contracts as all contracts have either an original expected length of one year or less, or the entire future consideration is variable and allocated entirely to a wholly unsatisfied performance obligation.

Net Income or Loss Per Share of Common Stock (Successor)

The Company's basic earnings or loss per share ("EPS") is computed based on the weighted average number of shares of Class A Common Stock outstanding for the period. Diluted EPS includes the effect of the Company's outstanding restricted stock units ("RSUs"), performance stock units ("PSUs"), warrants exchanged for Class A Common Stock and exchanges or repurchases of Class B Common Stock if the inclusion of these items is dilutive. Refer to *Note 15 - Earnings (Loss) Per Share* for additional information and the calculation of EPS.

Stock Based Compensation (Successor)

Magnolia has established a long-term incentive plan for certain employees and directors that allows for granting RSUs and PSUs. RSUs granted are valued on the date of the grant using the quoted market price of Magnolia's Class A Common Stock. PSUs granted are valued based on the grant date fair value determined using Monte Carlo simulations, which use a probabilistic approach for estimating the fair value of the awards. Both RSUs and PSUs are expensed on a straight-line basis over the requisite service period. The Company records expense associated with the fair value of stock based compensation under the fair value recognition provisions of ASC Topic 718, "Compensation-Stock Compensation" and that expense is included within "General and administrative expenses" and "Lease operating expenses" in the accompanying consolidated statements of operations. The Company accounts for forfeitures as they occur. These plans and related accounting policies are defined and described more fully in *Note 14 - Stock Based Compensation*.

Leases (Successor)

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize a right-of-use asset and a lease liability on their balance sheet for all leases, including operating leases, with a term of greater than 12 months. In July 2018, the FASB issued ASU 2018-11, which adds a transition option permitting entities to apply the provisions of the new standard at its adoption date instead of the earliest comparative period presented in the consolidated financial statements. Under this transition option, comparative reporting would not be required, and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. The Company elected the package of transition practical expedients provided by the new standard that allow the Company to not reassess under the new standard its prior conclusions about lease identification, classification related to contracts that commenced prior to adoption, and to apply the standard prospectively to all new or modified land easements and rights-of-way. The Company has also elected a policy to not recognize right of use assets and lease liabilities related to short-term leases. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component.

Magnolia adopted this standard on January 1, 2019 and recognized right of use assets and lease liabilities for certain commitments primarily related to real estate, vehicles, and field equipment, while prior reporting periods are presented in accordance with historical accounting treatment under ASC Topic 840, Leases (“ASC 840”). The Company determines if an arrangement is a lease at inception. Operating leases are included in other long-term assets, other current liabilities, and other long-term liabilities in Magnolia’s consolidated balance sheet as of December 31, 2020. Operating lease right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Magnolia’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expenses for lease payments are recognized on a straight-line basis over the lease term. For more information, refer to *Note 10 - Leases*.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): “Simplifying the Accounting for Income Taxes,” which reduces the complexity of accounting for income taxes by removing certain exceptions to the general principles and also simplifying areas such as separate entity financial statements and interim recognition of enactment of tax laws or rate changes. This standard is effective for interim and annual periods beginning after December 15, 2020 and shall be applied on either a prospective basis, a retrospective basis for all periods presented, or a modified retrospective basis through a cumulative-effect adjustment to retained earnings depending on which aspects of the new standard are applicable to an entity. The Company is currently evaluating the effect of this standard, but does not expect the adoption of this guidance to have a material impact on its financial position, cash flows, or result of operations.

3. Acquisitions and Divestitures

Acquisitions (Successor)

On February 21, 2020, the Company completed the acquisition of certain non-operated oil and natural gas assets located in Karnes and DeWitt Counties, Texas, for approximately \$69.7 million in cash. The transaction was accounted for as an asset acquisition.

On May 31, 2019, the Company completed the acquisition of certain oil and natural gas assets primarily located in Gonzales and Karnes Counties for approximately \$36.3 million in cash and approximately 3.1 million shares of the Company’s Class A Common Stock. The transaction was accounted for as an asset acquisition.

On February 5, 2019, Magnolia Operating formed a joint venture, Highlander Oil & Gas Holdings LLC (“Highlander”), to complete the acquisition of a 72% working interest in the Eocene-Tuscaloosa Zone, Ultra Deep Structure natural gas well located in St. Martin Parish, Louisiana and 31.1 million royalty trust units in the Gulf Coast Ultra Deep Royalty Trust from McMoRan Oil & Gas, LLC. Highlander paid cash consideration of \$50.9 million, for such interests. MGY Louisiana LLC, a wholly owned subsidiary of Magnolia Operating, holds approximately 85% of the units in Highlander. The transaction was accounted for as an asset acquisition.

Harvest Acquisition

On August 31, 2018, the Company completed the acquisition of substantially all of Harvest Oil & Gas Corporation’s South Texas assets for approximately \$133.3 million in cash and 4.2 million shares of Class A Common Stock for a total consideration of \$191.5 million. The acquisition added an undivided working interest across a portion of Magnolia’s existing Karnes County Assets and all of the Company’s existing Giddings Assets. On March 14, 2019, Magnolia consummated the final settlement with Harvest receiving a cash payment of \$1.4 million. The transaction was accounted for as a business combination.

The following table summarizes the allocation of the purchase consideration to the assets acquired and liabilities assumed:

(In thousands)

Fair value of assets acquired

Other current assets	\$ 1,290
Oil and natural gas properties ⁽¹⁾	201,337
Total fair value of assets acquired	202,627

Fair value of liabilities assumed

Asset retirement obligations and other current liabilities	(9,666)
Fair value of net assets acquired	\$ 192,961

- (1) The fair value measurements of oil and natural gas properties and asset retirement obligations are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair values of oil and natural gas properties and asset retirement obligations were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of oil and natural gas properties included estimates of: (i) recoverable reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity prices; and (v) a market-based weighted average cost of capital rate. These inputs required significant judgments and estimates by management at the time of the valuation.

EnerVest Business Combination

On July 31, 2018, the Company consummated the Business Combination which was approved by the Company's stockholders on July 17, 2018. At the closing of the Business Combination, the Karnes County Contributors received 83.9 million shares of the Company's Class B Common Stock and an equivalent number of Magnolia LLC Units, which, together, are exchangeable on a one-for-one basis for shares of the Company's Class A Common Stock, subject to certain conditions; 31.8 million shares of Class A Common Stock; and approximately \$911.5 million in cash. The Giddings Sellers received approximately \$282.7 million in cash. The Ironwood Sellers received \$25.0 million in cash in exchange for the Ironwood Interests. On March 29, 2019, Magnolia and EnerVest consummated the final settlement pursuant to the Karnes County Contribution Agreement and as otherwise agreed to by the parties, with Magnolia receiving a net cash payment of \$4.3 million and the Karnes County Contributors forfeiting to Magnolia 0.5 million shares of Class A Common Stock and 1.6 million shares of Class B Common Stock (and forfeiting a corresponding number of Magnolia LLC Units to Magnolia LLC).

The Business Combination has been accounted for using the acquisition method. The acquisition method of accounting is based on ASC 805 "Business Combinations," and uses the fair value concepts defined in ASC 820. ASC 805 requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date by the Company.

Contingent Consideration

Pursuant to the Karnes County Contribution Agreement, for a period of five years following the Closing Date, the Karnes County Contributors were entitled to receive an aggregate of up to 13.0 million additional shares of Class A Common Stock or shares of Class B Common Stock (and a corresponding number of Magnolia LLC Units) based on certain EBITDA and free cash flow or stock price thresholds. As of December 31, 2018, the Company had met the defined stock price thresholds and, as a result, the Company had issued an aggregate of 3.6 million additional shares of Class A Common Stock and 9.4 million additional shares of Class B Common Stock (and a corresponding number of Magnolia LLC Units) to the Karnes County Contributors.

Pursuant to the Giddings Purchase Agreement, until December 31, 2021, the Giddings Sellers were entitled to receive an aggregate of up to \$47.0 million in cash earnout payments based on certain net revenue thresholds. On September 28, 2018, the Company paid the Giddings Sellers a cash payment of \$26.0 million to fully settle the earnout obligation.

The purchase consideration for the Business Combination was as follows:

(In thousands)

Purchase Consideration:

Cash consideration	\$ 1,214,966
Stock consideration ⁽¹⁾	1,398,238
Fair value of contingent earnout purchase consideration ⁽²⁾	169,000
Total purchase price consideration	<u>\$ 2,782,204</u>

- (1) At closing of the Business Combination, the Karnes County Contributors received 83.9 million shares of Class B Common Stock (and a corresponding number of Magnolia LLC Units) and 31.8 million shares of Class A Common Stock. On March 29, 2019, Magnolia and EnerVest consummated the final settlement pursuant to the Karnes County Contribution Agreement as agreed to by the parties, with the Karnes County Contributors forfeiting an aggregate of 2.1 million shares of Class A and Class B Common Stock to Magnolia (and a corresponding number of Magnolia LLC Units).
- (2) Pursuant to ASC 805, ASC 480, "Distinguishing Liabilities from Equity," and ASC 815, "Derivatives and Hedging," the Karnes County earnout consideration was valued at fair value as of the Closing Date and was classified in stockholders' equity. The Giddings earnout was valued at fair value as of the Closing Date and was classified as a liability. The fair value of the earnouts was determined using the Monte Carlo simulation valuation method based on Level 3 inputs in the fair value hierarchy.

The following table summarizes the allocation of the purchase consideration to the assets acquired and liabilities assumed on the acquisition date:

(In thousands)

Fair value of assets acquired

Accounts receivable	\$ 61,790
Other current assets	2,853
Oil and natural gas properties ⁽¹⁾	2,813,140
Ironwood equity investment	18,100
Total fair value of assets acquired	<u>2,895,883</u>

Fair value of liabilities assumed

Accounts payable and other current liabilities	(65,908)
Asset retirement obligations	(34,132)
Deferred tax liability	(13,639)
Fair value of net assets acquired	<u>\$ 2,782,204</u>

- (1) The fair value measurements of oil and natural gas properties and asset retirement obligations are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair values of oil and natural gas properties and asset retirement obligations were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of oil and natural gas properties included estimates of: (i) recoverable reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity prices; and (v) a market-based weighted average cost of capital rate.

The Company incurred \$24.8 million in transaction costs associated with the Business Combination. The Company also incurred a total of \$23.5 million of debt issuance costs in connection with the consummation of the Business Combination related to the establishment of the RBL Facility and the issuance of the 2026 Senior Notes.

Unaudited Pro Forma Operating Results

The following unaudited pro forma combined financial information has been prepared as if the Business Combination and other related transactions had taken place on January 1, 2017.

The information reflects pro forma adjustments based on available information and certain assumptions that the Company believes are reasonable, including depletion of the Company's fair-valued proved oil and natural gas properties, and the estimated tax impacts of the pro forma adjustments. Additionally, pro forma net income attributable to Class A Common Stock excludes \$34.3 million of transaction related costs, \$11.0 million related to a one-time purchase of a seismic license continuation, and a \$6.7 million loss related to the settlement of the Giddings earnout obligation.

The pro forma combined financial information has been included for comparative purposes and is not necessarily indicative of the results that might have actually occurred had the Business Combination taken place on January 1, 2017; furthermore, the financial information is not intended to be a projection of future results.

	(Unaudited Pro Forma)	
	Year Ended December 31, 2018	
<i>(In thousands, except per share data)</i>		
Total revenues	\$	978,431
Net income attributable to Class A Common Stock		188,934
Net income per share - basic		1.22
Net income per share - diluted		1.19

Non-Compete

On July 31, 2018, the Company and EnerVest, separate and apart from the Business Combination, entered into the Non-Compete, which prohibits EnerVest and certain of its affiliates from competing with the Company in the Eagle Ford Shale (the “Market Area”) until July 31, 2022. In January 2021, the Company amended the Non-Compete such that, rather than delivering an aggregate of 4.0 million shares of Class A Common Stock upon the two and one-half year and the four year anniversaries of the Closing Date, the Company would deliver (i) the cash value of approximately 2.0 million shares of Class A Common Stock and approximately 0.4 million shares of Class A Common Stock on the two and one-half year anniversary of the Closing Date and (ii) an aggregate of 1.6 million shares of Class A Common Stock on the four year anniversary of the Closing Date, in each case subject to the terms and conditions of the Non-Compete. On February 1, 2021, as consideration for compliance with the Non-Compete, the Company paid \$17.2 million in cash and issued 0.4 million shares of Class A Common Stock. For more discussion on the Non-Compete, refer to *Note 6 - Intangible Assets*.

Divestitures (Successor)

On October 23, 2020, the Company sold its 35% membership interest in Ironwood Eagle Ford Midstream, LLC for approximately \$27.1 million in cash and recognized a gain on sale of the equity method investment of \$5.1 million included within “Other income (expense), net” on the Company’s consolidated statements of operations.

Acquisitions (Predecessor)

GulfTex Acquisition

On March 1, 2018, the Predecessor acquired certain oil and natural gas properties located in the Eagle Ford Shale from GulfTex Energy III, L.P. and GulfTex Energy IV, L.P. for an adjusted purchase price of approximately \$150.1 million, net of customary closing adjustments (the “GulfTex Acquisition”).

The recognized fair value of identifiable assets and acquired liabilities assumed in connection with the GulfTex Acquisition, is as follows:

(In thousands)

Purchase price allocation:

Accounts receivable	\$	10,501
Proved oil and natural gas properties		118,572
Unproved oil and natural gas properties		22,802
Accounts payable and accrued liabilities		(1,679)
Asset retirement obligations		(57)
	<u>\$</u>	<u>150,139</u>

4. Derivative Instruments

Magnolia currently utilizes natural gas costless collars to reduce its exposure to price volatility for a portion of its natural gas production volumes. The Company’s policies do not permit the use of derivative instruments for speculative purposes. The Company’s natural gas costless collar derivative contracts are indexed to the Houston Ship Channel. Under the Company’s costless

collar contracts, each collar has an established floor price and ceiling price. When the settlement price is below the floor price, the counterparty is required to make a payment to the Company and when the settlement price is above the ceiling price, the Company is required to make a payment to the counterparty. When the settlement price is between the floor and the ceiling, there is no payment required.

The Company has elected not to designate any of its derivative instruments as hedging instruments. Accordingly, changes in the fair value of the Company's derivative instruments are recorded immediately to earnings as "Gain (loss) on derivatives, net" on the Company's consolidated and combined statements of operations.

The following table summarizes the effect of derivative instruments on the Company's consolidated and combined statements of operations:

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
<i>(In thousands)</i>				
Derivative settlements, realized gain (loss)	\$ 288	\$ —	\$ —	\$ (27,617)
Unrealized gain on derivatives	277	—	—	9,490
Gain (loss) on derivatives, net	\$ 565	\$ —	\$ —	\$ (18,127)

The Company had the following outstanding derivative contracts in place as of December 31, 2020:

	2021
Natural gas costless collars:	
Notional volume (MMBtu)	12,150,000
Weighted average floor price (\$/MMBtu)	\$ 2.31
Weighted average ceiling price (\$/MMBtu)	\$ 3.00

See Note 5—*Fair Value Measurements* for the fair value hierarchy of the Company's derivative contracts.

5. Fair Value Measurements

Certain of the Company's assets and liabilities are carried at fair value and measured either on a recurring or nonrecurring basis. The Company's fair value measurements are based either on actual market data or assumptions that other market participants would use in pricing an asset or liability in an orderly transaction, using the valuation hierarchy prescribed by GAAP under ASC 820.

The three levels of the fair value hierarchy under ASC 820 are as follows:

Level I - Quoted prices (unadjusted) in active markets for identical investments at the measurement date are used.

Level II - Pricing inputs are other than quoted prices included within Level I that are observable for the investment, either directly or indirectly. Level II pricing inputs include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, inputs other than quoted prices that are observable for the investment, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. The inputs used in determination of fair value require significant judgment and estimation.

Recurring Fair Value Measurements

Debt Obligations

The carrying value and fair value of the financial instrument that is not carried at fair value in the accompanying consolidated balance sheet as of December 31, 2020 and 2019 is as follows:

(In thousands)	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 391,115	\$ 407,500	\$ 389,835	\$ 412,000

The fair value of the 2026 Senior Notes as of December 31, 2020 and 2019 is based on unadjusted quoted prices in an active market, which are considered a Level 1 input in the fair value hierarchy.

The Company has other financial instruments consisting primarily of receivables, payables, and other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities. Non-financial assets and liabilities initially measured at fair value include assets acquired and liabilities assumed in business combinations and asset retirement obligations.

Derivative Instruments

The fair value of the Company's natural gas costless collar derivative instruments are measured using an industry-standard pricing model and are provided by a third party. The inputs used in the third-party pricing model include quoted forward prices for natural gas, the contracted volumes, volatility factors, and time to maturity, which are considered Level 2 inputs. The Company's derivative instruments are recorded at fair value within "Other current assets" on the Company's consolidated balance sheet as of December 31, 2020. These fair values are recorded by netting asset and liability positions with the same counterparty and are subject to contractual terms, which provide for net settlement. There are no long-term derivative assets or liabilities as of December 31, 2020 and there were no outstanding derivative instruments as of December 31, 2019.

The following table presents the classification of the outstanding derivative instruments and the fair value hierarchy table for the Company's derivative assets and liabilities that are required to be measured at fair value on a recurring basis:

(In thousands)	Fair Value Measurements Using			Total Fair Value	Netting	Carrying Amount
	Level 1	Level 2	Level 3			
December 31, 2020						
Current assets:						
Natural gas derivative instruments	\$ —	\$ 1,375	\$ —	\$ 1,375	\$ (1,098)	\$ 277
Current liabilities:						
Natural gas derivative instruments	\$ —	\$ 1,098	\$ —	\$ 1,098	\$ (1,098)	\$ —

See Note 4—Derivative Instruments for notional volumes and terms with the Company's derivative contracts.

Nonrecurring Fair Value Measurements

The Company applies the provisions of the fair value measurement standard on a nonrecurring basis to its non-financial assets and liabilities, including oil and natural gas properties. These assets and liabilities are not measured at fair value on a recurring basis but are subject to fair value adjustments when facts and circumstances arise that indicate a need for remeasurement.

The fair value measurements of assets acquired and liabilities assumed in a business combination are measured on a nonrecurring basis on the acquisition date using an income valuation technique based on inputs that are not observable in the market, and therefore, represent Level 3 inputs. Significant inputs to the valuation of acquired oil and natural gas properties includes estimates of: (i) reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity prices, including price differentials; (v) future cash flows; and (vi) a market participant-based weighted average cost of capital rate. These inputs require

significant judgments and estimates by the Company's management at the time of the valuation. Refer to *Note 3 - Acquisitions* for additional information.

During the first quarter of 2020, Magnolia recorded impairments of \$1.9 billion related to proved and unproved properties as a result of a sharp decline in commodity prices. Proved property impairment of \$1.4 billion is included in "Impairment of oil and natural gas properties" and unproved property impairment of \$0.6 billion is included in "Exploration expense" on the Company's consolidated statements of operations. Proved and unproved properties that were impaired had aggregate fair values of \$0.8 billion and \$0.3 billion, respectively. The fair values of these oil and natural gas properties were measured using the income approach based on inputs that are not observable in the market, and therefore, represent Level 3 inputs. The Company calculated the estimated fair values of its oil and natural gas properties using a discounted future cash flow model. Significant inputs associated with the calculation of discounted future net cash flows include estimates of future commodity prices based on NYMEX strip pricing adjusted for price differentials, estimates of proved oil and natural gas reserves and risk adjusted probable and possible reserves, estimates of future expected operating and capital costs, and a market participant based weighted average cost of capital of 10% for proved property impairments and 12% for unproved property impairments.

Deemed Dividend

In July 2019, the Company issued an aggregate of 9.2 million shares of Class A Common Stock in exchange for all of its warrants. The difference in fair value between the Class A Common Stock issued and the warrants exchanged was recorded as a non-cash deemed dividend for the incremental value provided to the holders of the warrants. The fair value of the non-cash deemed dividend related to the warrant exchange was determined based on unadjusted quoted prices in an active market, which are considered a Level 1 input in the fair value hierarchy. Refer to *Note 13 - Stockholders' Equity* for additional information.

6. Intangible Assets

Non-Compete Agreement

On the Closing Date, the Company recorded an estimated cost of \$44.4 million for the Non-Compete as intangible assets on the consolidated balance sheet of the Successor. These intangible assets have a definite life and are subject to amortization utilizing the straight-line method over their economic life, currently estimated to be two and one half to four years. The Company includes the amortization in "Amortization of intangible assets" on the Company's consolidated statements of operations.

(In thousands)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Non-competite intangible assets	\$ 44,400	\$ 44,400
Accumulated amortization	(35,054)	(20,549)
Intangible assets, net	\$ 9,346	\$ 23,851
Weighted average amortization period (in years)	<u>3.25</u>	<u>3.25</u>

7. Other Current Liabilities

The following table provides detail of the Company's other current liabilities for the periods presented:

(In thousands)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Accrued capital expenditures	\$ 16,368	\$ 40,722
Accrued general and administrative expenditures	11,243	9,753
Accrued interest	10,000	10,000
Accrued ad valorem taxes	8,145	8,741
Other	20,567	26,564
Total other current liabilities	<u>\$ 66,323</u>	<u>\$ 95,780</u>

8. Asset Retirement Obligations

The following table summarizes the changes in the Company's asset retirement obligations for the periods presented:

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
<i>(In thousands)</i>				
Asset retirement obligations, beginning of period	\$ 95,542	\$ 85,983	\$ —	\$ 3,929
Revisions to estimates	(14,883)	69	39,584	—
Liabilities incurred and assumed	3,484	7,082	44,897	553
Liabilities settled	(1,457)	(3,104)	(166)	(85)
Accretion expense	5,718	5,512	1,668	104
Asset retirement obligations, end of period	\$ 88,404	\$ 95,542	\$ 85,983	\$ 4,501

Asset retirement obligations reflect the present value of the estimated future costs associated with the plugging and abandonment of oil and natural gas wells, removal of equipment and facilities from leased acreage, and land restoration in accordance with applicable local, state, and federal laws. Inherent in the fair value calculation of ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, and timing of settlement. To the extent future revisions to these assumptions impact the value of the existing ARO liability, a corresponding offsetting adjustment is made to the oil and natural gas property balance.

9. Long-term Debt

The Company's debt is comprised of the following:

<i>(In thousands)</i>	December 31, 2020	December 31, 2019
RBL Facility	\$ —	\$ —
2026 Senior Notes	400,000	400,000
Total long-term debt	400,000	400,000
Less: Unamortized deferred financing cost	(8,885)	(10,165)
Total debt, net	\$ 391,115	\$ 389,835

Credit Facility

In connection with the consummation of the Business Combination, Magnolia Operating entered into the RBL Facility among Magnolia Operating, as borrower, Magnolia Intermediate, as its holding company, the banks, financial institutions, and other lending institutions from time to time party thereto, as lenders, the other parties from time to time party thereto and Citibank, N.A., as administrative agent, collateral agent, issuing bank, and swingline lender, providing for maximum commitments in an aggregate principal amount of \$1.0 billion with a letter of credit facility with a \$100.0 million sublimit. The borrowing base as of December 31, 2020 was \$450.0 million. The RBL Facility is guaranteed by certain parent companies and subsidiaries of Magnolia LLC and is collateralized by certain of Magnolia Operating's oil and natural gas properties and has a borrowing base subject to semi-annual redetermination.

Borrowings under the RBL Facility bear interest, at Magnolia Operating's option, at a rate per annum equal to either the LIBOR rate or the alternative base rate plus the applicable margin. Additionally, Magnolia Operating is required to pay a commitment fee quarterly in arrears in respect of unused commitments under the RBL Facility. The applicable margin and the commitment fee rate are calculated based upon the utilization levels of the RBL Facility as a percentage of the borrowing base then in effect.

The RBL Facility contains certain affirmative and negative covenants customary for financings of this type, including compliance with a leverage ratio of less than 4.00 to 1.00 and, if the leverage ratio is in excess of 3.00 to 1.00, a current ratio of greater than 1.00 to 1.00. As of December 31, 2020, the Company was in compliance with all covenants under the RBL Facility.

Deferred financing costs incurred in connection with securing the RBL Facility were \$11.7 million, which are amortized on a straight-line basis over a period of five years and included in "Interest expense, net" in the Company's consolidated statements of

operations. The Company recognized interest expense related to the RBL Facility of \$4.2 million, \$4.5 million, and \$1.9 million during the years ended December 31, 2020, 2019, and the 2018 Successor Period, respectively. The unamortized portion of the deferred financing costs are included in “Deferred financing costs, net” on the accompanying consolidated balance sheet as of December 31, 2020.

The Company did not have any outstanding borrowings under its RBL Facility as of December 31, 2020.

2026 Senior Notes

On July 31, 2018, the Issuers issued and sold \$400.0 million aggregate principal amount of 2026 Senior Notes in a private placement under Rule 144A and Regulation S under the Securities Act of 1933. The 2026 Senior Notes were issued under the Indenture, dated as of July 31, 2018 (the “Indenture”), by and among the Issuers and Deutsche Bank Trust Company Americas, as trustee. The 2026 Senior Notes are guaranteed on a senior unsecured basis by the Company, Magnolia Operating, and Magnolia Intermediate and may be guaranteed by certain future subsidiaries of the Company. The 2026 Senior Notes will mature on August 1, 2026 and bear interest at the rate of 6.0% per annum.

At any time prior to August 1, 2021, the Issuers may, on any one or more occasions, redeem all or a part of the 2026 Senior Notes at a redemption price equal to 100% of the principal amount of the 2026 Senior Notes redeemed, plus a “make whole” premium on accrued and unpaid interest, if any, to, but excluding, the date of redemption. After August 1, 2021, the Issuers may redeem all or a part of the 2026 Senior Notes based on principal plus a set premium, as set forth in the Indenture, including any accrued and unpaid interest.

The Company incurred \$11.8 million of deferred financing costs related to the issuance of the 2026 Senior Notes, which were capitalized. These costs are amortized using the effective interest method over the term of the 2026 Senior Notes and are included in “Interest expense, net” in the Company’s consolidated statements of operations. The unamortized portion of the deferred financing costs is included as a reduction to the carrying value of the 2026 Senior Notes, which have been recorded as “Long-term debt, net” on the consolidated balance sheet as of December 31, 2020. The Company recognized interest expense related to the 2026 Senior Notes of \$25.3 million, \$25.2 million, and \$10.5 million for the years ended December 31, 2020 and 2019, and the 2018 Successor Period, respectively.

10. Leases

Magnolia’s leases primarily consist of real estate, vehicles, and field equipment. The Company’s leases have remaining lease terms of up to 7 years, some of which include options to renew or terminate the lease. The exercise of lease renewal options is at the Company’s sole discretion. Magnolia’s lease agreements do not contain any restrictive covenants or material residual value guarantees.

As most of Magnolia’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company used the incremental borrowing rate on January 1, 2019, for operating leases that commenced prior to that date.

(In thousands)

	December 31, 2020	December 31, 2019
Operating Leases		
Operating lease assets	\$ 6,470	\$ 4,035
Operating lease liabilities - current	\$ 1,801	\$ 2,550
Operating lease liabilities - long-term	5,703	1,476
Total operating lease liabilities	\$ 7,504	\$ 4,026
Weighted average remaining lease term (in years)	4.2	1.9
Weighted average discount rate	4.0 %	3.8 %

For the years ended December 31, 2020 and 2019, the Company incurred \$3.4 million and \$2.8 million, respectively, of lease costs for operating leases included on the Company’s consolidated balance sheet, \$21.4 million and \$26.9 million, respectively, for short-term lease costs, and \$1.7 million and \$3.2 million, respectively, for variable lease costs. Cash paid for amounts included in the measurement of lease liabilities in operating cash flows from operating leases for the years ended December 31, 2020 and 2019 are \$3.0 million and \$2.8 million, respectively.

Maturities of lease liabilities as of December 31, 2020 under the scope of ASC 842 are as follows:

(In thousands)

Maturity of Lease Liabilities	Operating Leases	
2021	\$	2,054
2022		1,843
2023		1,391
2024		1,139
2025		1,135
After 2025		600
Total lease payments	\$	8,162
Less: Interest		(658)
Present value of lease liabilities	\$	7,504

11. Commitments and Contingencies

Legal Matters

The Company is involved in disputes or legal actions in the ordinary course of business. For example, certain of the Karnes County Contributors and the Company have been named as defendants in a lawsuit where the plaintiffs claim to be entitled to a minority working interest in certain Karnes County Assets. The litigation is in the pre-trial stage. The exposure related to this litigation is currently not reasonably estimable. The Karnes County Contributors retained all such liability in connection with the Business Combination. At December 31, 2020, the Company does not believe the outcome of any such disputes or legal actions will have a material effect on its consolidated statements of operations, balance sheet, or cash flows. No amounts were accrued with respect to outstanding litigation at December 31, 2020 or December 31, 2019.

Environmental Matters

The Company, as an owner or lessee and operator of oil and natural gas properties, is subject to various federal, state, local laws, and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and natural gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company maintains insurance coverage, which it believes is customary in the industry, although the Company is not fully insured against all environmental risks.

Commitments

At December 31, 2020, contractual obligations for long-term operating leases and purchase obligations are as follows:

Net Minimum Commitments (In thousands)	Total	2021	2022-2023	2024-2025	2026 & Beyond
Purchase obligations ⁽¹⁾	\$ 2,198	\$ 674	\$ 1,140	\$ 384	\$ —
Operating lease obligations ⁽²⁾	8,162	2,054	3,234	2,274	600
Total net minimum commitments	\$ 10,360	\$ 2,728	\$ 4,374	\$ 2,658	\$ 600

(1) Amounts represent any agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms. These include minimum commitments associated with firm transportation contracts and IT-related service commitments. The costs incurred under these obligations were \$1.2 million, \$1.5 million, and \$0.7 million for the years ended December 31, 2020 and 2019, and the combined 2018 Successor Period and Predecessor Period, respectively.

(2) Amounts include long-term lease payments for office space, vehicles, and equipment related to exploration, development, and production activities.

Risks and Uncertainties

The Company's revenue, profitability, and future growth are substantially dependent upon the prevailing and future prices for oil and natural gas, which depend on numerous factors beyond the Company's control such as overall oil and natural gas production

and inventories in relevant markets, economic conditions, the global political environment, regulatory developments, and competition from other energy sources. Oil and natural gas prices historically have been volatile and may be subject to significant fluctuations in the future.

The coronavirus disease 2019 (“COVID-19”) pandemic and related economic repercussions have created significant volatility, uncertainty, and turmoil in the oil and gas industry. Oil demand has significantly deteriorated as a result of the virus outbreak and corresponding preventative measures taken around the world to mitigate the spread of the virus. The implications of the decrease in global demand for oil, coupled with the general oversupply, may have further negative effects on the Company’s business, such as production curtailment and reductions to its operating plans as a result of decreased prices and reduced storage capacity. Demand and pricing may again decline if there is a resurgence of the outbreak across the U.S. and other locations across the world and the related social distancing guidelines, travel restrictions, and stay-at-home orders. The extent of the additional impact on the Company’s industry and its business cannot be reasonably predicted at this time.

12. Income Taxes

The Company’s income tax provision consists of the following components:

<i>(In thousands)</i>	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
Current:				
Federal	\$ (1,167)	\$ —	\$ (1,054)	\$ —
State	(339)	499	381	1,461
Total current	(1,506)	499	(673)	1,461
Deferred:				
Federal	(71,792)	13,817	11,431	—
State	(6,042)	444	697	324
Total deferred	(77,834)	14,261	12,128	324
Income tax expense (benefit)	\$ (79,340)	\$ 14,760	\$ 11,455	\$ 1,785

The Company is subject to U.S. federal income tax, the margin tax in the state of Texas, and Louisiana corporate income tax. As of December 31, 2020, the Company did not have an accrued liability for uncertain tax positions and does not anticipate recognition of any significant liabilities for uncertain tax positions during the next 12 months. For the year ended December 31, 2020, no amounts were incurred for income tax uncertainties or interest and penalties. The Company is currently not aware of any issues under review that could result in significant payments, accruals, or material deviation from its position. The Company’s tax years since its formation remain subject to possible income tax examinations by its major taxing authorities for all periods. The Company’s annual effective tax rate as of December 31, 2020, 2019, and 2018, were 4.1%, 14.8%, and 12.2%, respectively. The primary differences between the annual effective tax rate and the statutory rate of 21.0% are income attributable to noncontrolling interest and state taxes. As a result of impairments in the first quarter of 2020, the Company recognized a benefit related to the reversal of the entire deferred tax liability positions and established full valuation allowances on the federal and state deferred tax assets which resulted in additional differences between the effective tax rate and the statutory rate as of December 31, 2020.

The Karnes County Contributors, on behalf of the Predecessor, had elected under the Internal Revenue Code provisions to be treated as individual partnerships for tax purposes. Accordingly, items of income, expense, gains, and losses flowed through to the partners were taxed at the partner level, and no tax provision for federal income taxes was included in the financial statements. The Predecessor recorded current and deferred state income taxes based on taxable income, as defined under the rules for the margin tax.

A reconciliation of the statutory federal income tax expense to the income tax expense (benefit) from continuing operations is as follows:

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
<i>(In thousands)</i>				
Income tax expense at the federal statutory rate	\$ (409,148)	\$ 20,966	\$ 19,706	\$ —
State income tax expense, net of federal income tax benefits	(12,759)	847	1,028	1,785
Noncontrolling interest in partnerships	141,027	(7,309)	(9,103)	—
Valuation allowances	201,786	—	—	—
Other	(246)	256	(176)	—
Income tax expense (benefit)	<u>\$ (79,340)</u>	<u>\$ 14,760</u>	<u>\$ 11,455</u>	<u>\$ 1,785</u>

The tax effects of temporary differences that give rise to significant positions of the deferred income tax assets and liabilities are presented below:

<i>(In thousands)</i>	Successor	
	December 31, 2020	December 31, 2019
Deferred tax assets:		
Investment in partnership	\$ 162,437	\$ —
Net operating loss carryforwards	28,461	1,274
Capital loss carryforward	1,727	—
Oil and natural gas properties	6,224	—
Capitalized transaction costs	2,937	3,185
Total deferred tax assets	201,786	4,459
Deferred tax liabilities:		
Investment in partnership	—	(76,260)
Oil and natural gas properties	—	(6,033)
Total deferred tax liabilities	—	(82,293)
Net deferred tax assets (liabilities)	201,786	(77,834)
Valuation allowances	(201,786)	—
Net deferred tax assets (liabilities), net of valuation allowances	<u>\$ —</u>	<u>\$ (77,834)</u>

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Applying the net operating loss (“NOL”) carryback provision resulted in an income tax benefit of \$1.2 million during the year ended December 31, 2020. As of December 31, 2020, the Company had \$135.5 million of U.S. federal net operating loss, which has an indefinite carryforward, and an \$8.2 million capital loss carryforward which expires in 5 years.

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets, including NOL carryforwards. Valuation allowances for deferred tax assets are recognized when it is more likely than not that some or all of the benefit from the deferred tax assets will not be realized. During 2020, the Company moved from a net deferred tax liability position to a net deferred tax asset position resulting primarily from oil and natural gas impairments. As of December 31, 2020, the Company’s deferred tax asset was \$201.8 million. In making this determination, the Company considered all available positive and negative evidence and made certain assumptions. The Company considered, among other things, the overall business environment, its historical earnings and losses, current industry trends, and its outlook for future years. As of December 31, 2020, the Company assessed the realizability of the deferred tax assets and recorded full valuation allowances of \$201.8 million.

13. Stockholders' Equity

Class A Common Stock

At December 31, 2020, there were 168.8 million shares issued and 163.3 million shares outstanding of Class A Common Stock. The holders of Class A Common Stock and Class B Common Stock vote together as a single class on all matters and are entitled one vote for each share held.

There is no cumulative voting with respect to the election of directors, which results in the holders of more than 50% of the shares being able to elect all of the directors, subject to voting obligations under the Stockholder Agreement. In the event of a liquidation, dissolution, or winding up of Magnolia Oil & Gas Corporation, the holders of the Class A Common Stock are entitled to share ratably in all assets remaining available for distribution to them after payment of liabilities and after provision is made for each class of stock, if any, having preference over the common stock. The holders of the Class A Common Stock have no preemptive or other subscription rights, and there are no sinking fund provisions applicable to such shares.

Class B Common Stock

At December 31, 2020, there were 85.8 million shares issued and outstanding of Class B Common Stock. Holders of Class B Common Stock vote together as a single class with holders of Class A Common Stock on all matters properly submitted to a vote of the stockholders. The holders of Class B Common Stock generally have the right to exchange all or a portion of their Class B Common Stock, together with an equal number of Magnolia LLC Units, for the same number of shares of Class A Common Stock or, at Magnolia LLC's option, an equivalent amount of cash. Upon the future redemption or exchange of Magnolia LLC Units held by any holder of Class B Common Stock, a corresponding number of shares of Class B Common Stock held by such holder of Class B Common Stock will be canceled. In the event of a liquidation, dissolution, or winding up of Magnolia LLC, the holders of the Class B Common Stock, through their ownership of Magnolia LLC Units, are entitled to share ratably in all assets remaining available for distribution to them after payment of liabilities and after provision is made for each class of units of Magnolia LLC, if any, having preference over the common units. The holders of the Class B Common Stock have no preemptive or other subscription rights, and there are no sinking fund provisions applicable to such shares.

Warrants

On June 7, 2019, the Company commenced an exchange offer (the "Offer") and consent solicitation (the "Consent Solicitation"), pursuant to which the Company (1) offered to holders of its warrants the opportunity to receive 0.29 shares of Class A Common Stock in exchange for each warrant validly tendered and (2) solicited the consent from the holders of its warrants to approve an amendment to the Company's existing warrant agreement, by and between the Company and Continental Stock Transfer & Trust Company, to amend the agreement to provide the Company with the right to require any holder of the Company's warrants to exchange their warrants for Class A Common Stock at an exchange ratio of 0.261 shares of Class A Common Stock for each whole warrant (the "Warrant Amendment"). Pursuant to the Offer, certain of the Company's warrant holders, including directors and executive officers, agreed to tender their warrants and provide the corresponding consent to the Warrants Amendment in the Consent Solicitation by entering into a tender and support agreement with the Company on June 7, 2019.

The Offer and Consent Solicitation expired on July 5, 2019. In connection with the closing of the Offer on July 10, 2019 and the subsequent exercise of the Company's right to exchange all remaining warrants on July 25, 2019, the Company issued an aggregate of 9.2 million shares of Class A Common Stock in exchange for all of its 31.7 million warrants outstanding, which consisted of 21.7 million public warrants and 10.0 million private placement warrants.

As the fair value of the warrants exchanged in the Offer was less than the fair value of the Class A Common Stock issued, the Company recorded a non-cash deemed dividend of \$2.8 million for the incremental value provided to the warrant holders. The fair value of warrants and the Class A Common Stock was determined using unadjusted quoted prices in an active market, a Level 1 fair value input. The Company capitalized \$2.2 million of expenses related to the Offer within "Additional paid-in capital" on the Company's consolidated balance sheet.

Share Repurchase Program

On August 5, 2019, the Company's board of directors authorized a share repurchase program of up to 10 million shares of Class A Common Stock, and, in February 2021, the Company's board of directors increased the share repurchase authorization by an additional 10 million shares of Class A Common Stock. In addition, the Company may repurchase shares pursuant to a trading plan meeting the requirements of Rule 10b5-1 under the Securities Act of 1934, which would permit the Company to repurchase shares at times that may otherwise be prohibited under the Company's insider trading policy. The share repurchase program does not require

purchases to be made within a particular timeframe. As of December 31, 2020, the Company had repurchased 5.5 million shares under the plan at a total cost of \$39.0 million.

Noncontrolling Interest

Noncontrolling interest in Magnolia’s consolidated subsidiaries includes amounts attributable to Magnolia LLC Units that were issued to the Karnes County Contributors in connection with the Business Combination. The noncontrolling interest percentage is affected by various equity transactions such as issuances of Class A Common Stock, the exchange of Class B Common Stock (and corresponding Magnolia LLC Units) for Class A Common Stock, or the cancellation of Class B Common Stock (and corresponding Magnolia LLC Units). As of December 31, 2020, Magnolia owned approximately 65.6% of the interest in Magnolia LLC and the noncontrolling interest was 34.4%.

On December 18, 2019, Magnolia LLC repurchased and subsequently canceled 6.0 million Magnolia LLC Units with an equal number of shares of corresponding Class B Common Stock for \$69.1 million of cash consideration (the “Class B Common Stock Repurchase”). In the first quarter of 2019, Magnolia Operating formed Highlander as a joint venture, where MGY Louisiana LLC, a wholly owned subsidiary of Magnolia Operating, holds approximately 84.7% of the units in Highlander, with the remaining 15.3% attributable to noncontrolling interest.

14. Stock Based Compensation

The Company’s board of directors adopted the “Magnolia Oil & Gas Corporation Long Term Incentive Plan” (the “Plan”), effective as of July 17, 2018. A total of 11.8 million shares of Class A Common Stock have been authorized for issuance under the Plan. The Company grants stock based compensation awards in the form of RSUs and PSUs to eligible employees and directors to enhance the Company and its affiliates’ ability to attract, retain, and motivate persons who make important contributions to the Company and its affiliates by providing these individuals with equity ownership opportunities. Shares issued as a result of awards granted under the Plan are generally new shares of Class A Common Stock.

Stock based compensation expense is recognized net of forfeitures within “General and administrative expenses” on the consolidated statements of operations and was \$10.0 million, \$11.1 million, and \$1.9 million for the years ended December 31, 2020 and 2019, and the 2018 Successor Period. The Company has elected to account for forfeitures of awards granted under the Plan as they occur in determining compensation expense.

Restricted Stock Units

The Company grants service-based RSU awards to employees and non-employee directors, which generally vest ratably over a three-year service period, in the case of awards to employees, and vest in full after one year, in the case of awards to directors. RSUs represent the right to receive shares of Class A Common Stock at the end of the vesting period equal to the number of RSUs that vest. RSUs are subject to restrictions on transfer and are generally subject to a risk of forfeiture if the award recipient ceases to be an employee or director of the Company prior to vesting of the award. Compensation expense for the service-based RSU awards is based upon the grant date market value of the award and such costs are recorded on a straight-line basis over the requisite service period for each separately vesting portion of the award, as if the award was, in-substance, multiple awards. Unrecognized compensation expense related to unvested RSUs as of December 31, 2020 was \$9.5 million, which the Company expects to recognize over a weighted average period of 1.8 years.

The table below summarizes RSU activity for the year ended December 31, 2020:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested RSUs, beginning of period	1,099,901	\$ 12.97
Granted	1,219,288	6.53
Vested	(505,124)	13.03
Forfeited	(127,428)	10.20
Unvested RSUs, end of period	<u>1,686,637</u>	<u>\$ 8.51</u>

Performance Stock Units

During the year ended December 31, 2020, the Company granted PSUs to certain employees. Each PSU, to the extent earned, represents the contingent right to receive one share of Class A Common Stock and the awardee may earn between zero and 150% of the target number of PSUs granted based on the total shareholder return (“TSR”) of the Class A Common Stock relative to the TSR

achieved by a specific industry peer group over a three-year performance period. In addition to the TSR conditions, vesting of the PSUs is subject to the awardee's continued employment through the date of settlement of the PSUs, which will occur within 60 days following the end of the performance period. Unrecognized compensation expense related to unvested PSUs as of December 31, 2020 was \$3.4 million, which the Company expects to recognize over a weighted average period of 1.4 years.

The table below summarizes PSU activity for the year ended December 31, 2020:

	Performance Stock Units	Weighted Average Grant Date Fair Value
Unvested PSUs, beginning of period	701,128	\$ 14.31
Granted	401,958	6.14
Vested	(50,261)	14.58
Forfeited	(211,400)	12.07
Unvested PSUs, end of period	<u>841,425</u>	<u>\$ 10.95</u>

The grant date fair values of the PSUs granted were \$2.5 million and \$3.7 million during the years ended December 31, 2020 and 2019, respectively, calculated using a Monte Carlo simulation. There were no PSUs vested during the 2018 Successor Period. The following table summarizes the assumptions used to calculate the grant date fair value of these PSUs.

	Years Ended	
	December 31, 2020	December 31, 2019
Expected term (in years)	2.85	2.67 - 2.85
Expected volatility	33.50%	31.58% - 33.61%
Risk-free interest rate	1.16%	2.29% - 2.48%

15. Earnings (Loss) Per Share

A reconciliation of the numerators and denominators of the basic and diluted per share computations follows. No such computation is necessary for the 2018 Predecessor Period as the Predecessor was not previously accounted for as a standalone legal entity and did not have publicly traded securities.

<i>(In thousands, except per share data)</i>	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018
Basic:			
Net income (loss) attributable to Class A Common Stock	\$ (1,208,390)	\$ 47,433	\$ 39,095
Weighted average number of common shares outstanding during the period - basic	166,270	161,886	154,527
Net income (loss) per share of Class A Common Stock - basic	\$ (7.27)	\$ 0.29	\$ 0.25
Diluted:			
Net income (loss) attributable to Class A Common Stock	\$ (1,208,390)	\$ 47,433	\$ 39,095
Weighted average number of common shares outstanding during the period - basic	166,270	161,886	154,527
Add: Dilutive effect warrants, stock based compensation, and other	—	5,161	3,705
Weighted average number of common shares outstanding during the period - diluted	166,270	167,047	158,232
Net income (loss) per share of Class A Common Stock - diluted	\$ (7.27)	\$ 0.28	\$ 0.25

The Company excluded 85.8 million, 92.0 million, and 90.9 million of weighted average shares of Class A Common Stock issuable upon the exchange of the Class B Common Stock (and the corresponding Magnolia LLC Units) for the years ended December 31, 2020 and 2019, and the 2018 Successor Period, respectively, as the effect was anti-dilutive. In addition, the Company excluded 4.0 million contingent shares of Class A Common Stock issuable to an affiliate of EnerVest, provided EnerVest does not compete in the Market Area, and 0.3 million RSUs and PSUs because the effect was anti-dilutive for the year ended December 31, 2020.

16. Related Party Transactions

As of December 31, 2020, EnerVest Energy Institutional Fund XIV-A, L.P., a Delaware limited partnership, and EnerVest Energy Institutional Fund XIV-C, L.P., a Delaware limited partnership, both of which are part of the Karnes County Contributors, each held more than 10% of the Company's common stock and qualified as principal owners of the Company, as defined in ASC 850, "Related Party Disclosures."

Amended and Restated Limited Liability Company Agreement of Magnolia LLC

On July 31, 2018, the Company, Magnolia LLC, and certain of the Karnes County Contributors entered into Magnolia LLC's amended and restated limited liability company agreement, which sets forth, among other things, the rights and obligations of the holders of units in Magnolia LLC. Under the Magnolia LLC Agreement, the Company is the sole managing member of Magnolia LLC.

Registration Rights Agreement

At the closing of the Business Combination, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with TPG Pace Energy Sponsor LLC, a Delaware limited liability company ("TPG Pace"), the Karnes County Contributors, and the Company's four independent directors prior to the Business Combination (collectively, the "Holders"), pursuant to which the Company is obligated, subject to the terms thereof and in the manner contemplated thereby, to register for resale under the Securities Act of 1933 all or any portion of the shares of Class A Common Stock that the Holders held as of July 31, 2018 and that they may have acquired or might acquire thereafter, including upon conversion, exchange, or redemption of any other security therefor. Under the Registration Rights Agreement, Holders also have "piggyback" registration rights exercisable at any time that allow them to include the shares of Class A Common Stock that they own in certain registrations initiated by the Company.

Pursuant to the Registration Rights Agreement, the Company has filed and taken effective two registration statements on Form S-3, each of which registered, among others, the offering by the Holders of the shares of Class A Common Stock included therein.

Stockholder Agreement

On the Closing Date, the Company, TPG Pace, and the Karnes County Contributors entered into the Stockholder Agreement, under which the Karnes County Contributors are entitled to nominate two directors, one of whom shall be independent under the listing rules of the New York Stock Exchange, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Sarbanes-Oxley Act of 2002, for appointment to the board of directors of the Company (the "Board") so long as they collectively own at least 15% of the outstanding shares of Class A Common Stock and Class B Common Stock, (on a fully diluted basis, including equity securities exercisable into common stock, and on a combined basis), and one director so long as they collectively own at least 2% of the outstanding shares of Class A Common Stock and Class B Common Stock (on a fully diluted basis, including equity securities exercisable into common stock, and on a combined basis). The Karnes County Contributors are collectively entitled to appoint one director to each committee of the Board (subject to applicable laws and stock exchange rules). Furthermore, TPG Pace was entitled to certain director nomination rights under the Stockholder Agreement, but those rights ceased following a distribution by TPG Pace of its shares in August 2019.

Class B Common Stock Repurchase

As part of the Class B Common Stock Repurchase in 2019, EnerVest Energy Institutional Fund XIV-A, L.P. received \$45.7 million in cash and surrendered 4.0 million Magnolia LLC Units with an equal number of shares of corresponding Class B Common Stock. Subsequently, Magnolia LLC canceled the surrendered Magnolia LLC Units and a corresponding number of shares of Class B Common Stock.

Contingent Consideration

Pursuant to the Karnes County Contribution Agreement, for a period of five years following the Closing Date, the Company agreed to issue or cause to be issued to the Karnes County Contributors additional equity in the Company and Magnolia LLC upon satisfaction of certain EBITDA and free cash flow or stock price thresholds in three tranches. As of December 31, 2018, the Company had met the defined stock price thresholds and had issued an aggregate of 3.6 million additional shares of Class A Common Stock and 9.4 million additional shares of Class B Common Stock to the Karnes County Contributors and had caused Magnolia LLC to issue 9.4 million additional Magnolia LLC Units to the Karnes County Contributors.

Tender and Support Agreement

Pursuant to the Offer, certain of the Company's warrant holders, including directors and executive officers, agreed to tender their warrants by entering into the tender and support agreement, dated as of June 7, 2019, by and between the Company and such holders (the "Tender and Support Agreement"). See *Note 13 - Stockholders' Equity* for more information.

Predecessor Transactions

EnerVest, as managing general partner of the Karnes County Contributors, provided management, accounting, and advisory services to the Karnes County Contributors in exchange for a quarterly management fee based on the Karnes County Contributors' investor commitments. The management fees incurred were allocated to the Predecessor using a ratio of asset acquisitions value to total asset acquisitions completed by the Karnes County Contributors. The management fees and other costs allocated to the Predecessor and included in "General and administrative expenses" in the combined statements of operations were \$11.0 million for the 2018 Predecessor Period.

The Karnes County Contributors also entered into operating agreements with EVOC to act as contract operator of the Predecessor's oil and natural gas wells. The Predecessor reimbursed EVOC for direct expenses incurred. A majority of such expenses were charged on an actual basis (i.e., no mark-up or subsidy to EVOC). These costs are included in "Lease operating expenses" in the combined statements of operations in the 2018 Predecessor Period. Additionally, in its role as contract operator, EVOC collected proceeds from oil, natural gas, and NGL sales and distributed them to the Predecessor and other working interest owners.

17. Major Customers

Successor

For the year ended December 31, 2020, Phillips 66 Company and EOG Resources, Inc. accounted for 39.9% and 16.7%, respectively, of the combined oil, natural gas, and natural gas liquids revenue. For the year ended December 31, 2019, Phillips 66 Company and EOG Resources, Inc. accounted for 43.3% and 18.5%, respectively, of the combined oil, natural gas, and natural gas liquids revenue. For the 2018 Successor Period, Phillips 66 Company and EOG Resources, Inc. accounted for 42.2% and 19.1%, respectively, of the combined oil, natural gas, and natural gas liquids revenues. The Company is exposed to credit risk in the event of nonpayment by counterparties. The creditworthiness of customers and other counterparties is subject to continuing review, including the use of master netting agreements, where appropriate.

Predecessor

For the 2018 Predecessor Period, Phillips 66 Company, EOG Resources, Inc., and Shell Trading (U.S.) Company accounted for 47.6%, 14.5%, and 12.2%, respectively, of the combined oil, natural gas, and natural gas liquids revenues.

18. Supplemental Cash Flow Information

Supplemental cash flow disclosures are presented below:

<i>(In thousands)</i>	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
Supplemental non-cash operating activity:				
Cash paid (received) for income taxes	\$ (724)	\$ 390	\$ —	\$ 336
Cash paid for interest	25,895	26,226	889	—
Supplemental non-cash investing and financing activity:				
Accruals or liabilities for capital expenditures	\$ 16,368	\$ 40,722	\$ 50,633	\$ 38,028
Contingent Consideration issued in Business Combination	—	—	149,700	—
Non-Compete agreement entered into in Business Combination	—	—	44,400	—
Equity issuances in connection with acquisitions	—	33,693	1,481,692	—
Non-cash deemed dividend related to warrant exchange	—	2,763	—	—
Supplemental non-cash lease operating activity:				
Right-of-use assets obtained in exchange for operating lease obligations	\$ 5,923	\$ 6,720	\$ —	\$ —

Supplemental Information About Oil & Natural Gas Producing Activities (Unaudited)

The Company operates in one reportable segment engaged in the acquisition, development, exploration, and production of oil and natural gas properties located in the United States.

Capitalized Costs

The aggregate amounts of costs capitalized for oil and natural gas exploration and development activities and the related amounts of accumulated depreciation, depletion and amortization are shown below:

<i>(In thousands)</i>	Successor	
	December 31, 2020	December 31, 2019
Proved properties	\$ 1,790,492	\$ 2,863,666
Unproved properties	339,633	951,555
Total proved and unproved properties	2,130,125	3,815,221
Accumulated depreciation, depletion and amortization	(983,647)	(701,155)
Net capitalized costs	\$ 1,146,478	\$ 3,114,066

Costs Incurred For Oil and Natural Gas Producing Activities

The following table sets forth the costs incurred in the Company's oil and natural gas production, exploration, and development activities:

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
<i>(In thousands)</i>				
Acquisition costs:				
Proved properties	\$ 49,246	\$ 106,489	\$ 1,617,131	\$ 118,572
Unproved properties	25,966	29,208	1,400,302	22,802
Exploration and development costs	188,352	441,482	245,017	183,130
Total	\$ 263,564	\$ 577,179	\$ 3,262,450	\$ 324,504

Oil and Natural Gas Reserve Quantities

The majority of the Company's proved reserves volumes as of December 31, 2020, approximately 97%, are based on evaluations prepared by the independent petroleum engineering firm of Miller and Lents, in accordance with Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers and definitions and guidelines established by the SEC. Miller and Lents employed all methods, procedures and assumptions considered necessary in utilizing the data provided to prepare the December 31, 2020 reserve report, which was completed on January 15, 2021. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves. Oil and natural gas reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be precisely measured and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing, and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered.

The following table summarizes the average price during the 12-month period, determined as the unweighted arithmetic average of the first-day-of-the-month price for the years ended December 31, 2020 and 2019, the 2018 Successor Period, and the 2018 Predecessor Period. The following prices, as adjusted for transportation, quality, and basis differentials, were used in the calculation of the standardized measure of discounted future net cash flows ("Standardized Measure"):

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
Oil (per Bbl)	\$ 38.55	\$ 59.99	\$ 67.61	\$ 63.37
Natural gas (per Mcf)	1.64	2.25	2.78	2.84
NGLs (per Bbl)	11.62	15.73	26.25	23.74

The table below presents a summary of changes in the Company's proved reserves. The Predecessor's reserves are based on a five year development plan, whereas the Successor's proved undeveloped reserves are planned to be developed within one year. As a result of different development plan approaches between the Successor and the Predecessor, the ending balance of the Predecessor's proved undeveloped reserves will not agree to the beginning balance of the Successor's proved undeveloped reserves. In addition, the ending balance of the Predecessor's proved developed reserves will not agree to the beginning balance of the Successor's proved developed reserves due to the exclusion of the Giddings Assets in the 2018 Predecessor Period.

	Successor							
	Year Ended December 31, 2020				Year Ended December 31, 2019			
	Crude Oil (MMBbls)	Natural Gas (Bcf)	Natural Gas Liquids (MMBbls)	Total (MMboe)	Crude Oil (MMBbls)	Natural Gas (Bcf)	Natural Gas Liquids (MMBbls)	Total (MMboe)
Total proved reserves:								
Beginning of period	52.6	197.2	23.9	109.3	50.6	176.1	20.6	100.5
Extensions	10.7	39.6	8.8	26.1	12.6	40.4	6.9	26.3
Revisions of previous estimates	(3.8)	7.8	(0.2)	(2.7)	(1.9)	(0.3)	0.3	(1.7)
Purchases of reserves in place	1.4	2.4	0.4	2.2	4.2	22.3	0.7	8.6
Production	(11.6)	(39.4)	(4.4)	(22.6)	(12.9)	(41.3)	(4.6)	(24.4)
End of period	<u>49.3</u>	<u>207.6</u>	<u>28.5</u>	<u>112.3</u>	<u>52.6</u>	<u>197.2</u>	<u>23.9</u>	<u>109.3</u>
Proved developed reserves:								
Beginning of period	40.3	165.8	18.9	86.8	35.2	149.0	16.5	76.5
End of period	38.1	165.5	20.2	85.8	40.3	165.8	18.9	86.8
Proved undeveloped reserves:								
Beginning of period	12.3	31.4	5.0	22.5	15.4	27.1	4.1	24.0
End of period	11.2	42.1	8.3	26.5	12.3	31.4	5.0	22.5

	Successor				Predecessor			
	July 31, 2018 Through December 31, 2018				January 1, 2018 Through July 30, 2018			
	Crude Oil (MMBbls)	Natural Gas (Bcf)	Natural Gas Liquids (MMBbls)	Total (MMboe)	Crude Oil (MMBbls)	Natural Gas (Bcf)	Natural Gas Liquids (MMBbls)	Total (MMboe)
Total proved reserves:								
Beginning of period	44.2	136.8	17.4	84.3	91.7	148.2	21.4	137.8
Extensions	12.9	25.6	3.8	21.0	3.9	8.7	1.3	6.7
Revisions of previous estimates	(4.9)	2.6	(1.4)	(5.9)	(14.5)	(22.2)	(2.7)	(20.9)
Purchases of reserves in place	3.5	25.2	2.7	10.4	6.1	7.9	1.2	8.6
Production	(5.1)	(14.1)	(1.9)	(9.3)	(5.8)	(7.6)	(1.1)	(8.2)
End of period	<u>50.6</u>	<u>176.1</u>	<u>20.6</u>	<u>100.5</u>	<u>81.4</u>	<u>135.0</u>	<u>20.1</u>	<u>124.0</u>
Proved developed reserves:								
Beginning of period	34.3	117.8	14.4	68.3	28.0	52.3	7.5	44.2
End of period	35.2	149.0	16.5	76.5	29.5	57.1	8.5	47.5
Proved undeveloped reserves:								
Beginning of period	9.9	19.0	3.0	16.1	63.7	95.9	13.9	93.6
End of period	15.4	27.1	4.1	24.0	51.9	77.9	11.6	76.5

For the year ended December 31, 2020, extensions contributed approximately 26.1 MMboe to proved reserves. This was primarily related to developing new well locations at the Company's Karnes and Giddings operations that extended the proved areas. This comprised of 17.7 MMboe from adding new proved undeveloped reserves and 8.4 MMboe resulting from adding new proved developed reserves attributed to drilling wells in areas that did not meet the requirements for proved reserves prior to evaluating the drilling results. Additionally, the Company had downward revisions of 2.7 MMboe. Revisions were comprised of downward adjustments of 11.0 MMboe due to the impact of lower year-end 2020 SEC-based prices and 3.4 MMboe related to optimizing

development activity. These were partially offset by upward revisions of approximately 7.4 MMboe for cost updates, 3.8 MMboe for performance improvements in the Giddings area and the addition of 0.5 MMboe related to infill drilling in the Karnes area. Acquisitions of approximately 2.2 MMboe during 2020 were related to acquisitions in the Karnes and Giddings areas.

For the year ended December 31, 2019, extensions contributed approximately 26.3 MMboe to proved reserves. This was primarily driven by the addition 15.7 MMboe resulting from adding new proved undeveloped reserves and the addition of 10.6 MMBoe resulting from adding new proved developed reserves attributed to drilling wells in areas that did not meet the requirements for proved reserves prior to evaluating the drilling results. These extensions were primarily related to developing new well locations at the Company's Karnes and Giddings operations that extended the proved areas. Additionally, the Company had downward revisions of 1.7 MMboe. The impact of lower year-end 2019 SEC-based prices, compared to year-end 2018, resulted in approximately a 5.5 MMboe downward revision. This was partially offset by an upward technical revision of approximately 0.7 MMboe due to improved well performance for the Giddings and Highlander areas and the addition of 3.1 MMboe related to infill drilling in the Karnes areas. Acquisitions of approximately 8.6 MMboe during 2019 were related to the purchase of the Highlander asset and other purchases in the Karnes area.

During the 2018 Successor Period, extensions contributed 21.0 MMboe to proved reserves primarily due to additions from successful drilling and completion activity and continual refinement of the development program. Additionally, the 2018 Successor Period had net negative revisions of 5.9 MMboe primarily due to performance based revisions. The 2018 Successor Period added 10.4 MMboe of proved reserves primarily related to the Harvest Acquisition.

The 2018 Predecessor Period had net negative revisions of 20.9 MMboe, which were primarily due to 15.0 MMboe of negative revisions attributable to a reduced development forecast in line with anticipated operated and non-operated drilling activity that caused a number of proved undeveloped locations to be reclassified to unproved by falling outside the five year SEC window and 6.0 MMboe of negative revisions related to higher workover activity from offset development. Additionally, extensions contributed 6.7 MMboe due to the addition of replacement reserves within the five year SEC window and added 8.6 MMboe related to the acquisition of the GulfTex Assets.

Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows does not purport to be, nor should it be interpreted to present, the fair value of the oil and natural gas reserves of the property. An estimate of fair value would take into account, among other things, the recovery of reserves not presently classified as proved, the value of unproved properties, and consideration of expected future economic and operating conditions. Estimated future production of proved reserves, estimated future production costs of proved reserves, and estimated future development costs of proved reserves, which include estimated future abandonment costs, are based on current costs and economic conditions. The estimated future net cash flows are then discounted at a rate of 10%.

It is not intended that the FASB's standardized measure of discounted future net cash flows represent the fair market value of the proved reserves. The Company cautions that the disclosures shown are based on estimates of proved reserve quantities and future production schedules which are inherently imprecise and subject to revision, and the 10% discount rate is arbitrary. Proved undeveloped reserves volumes in the Successor Periods are expected to be converted to proved developed reserves within one year, which may not be comparable to other oil and gas companies. In addition, costs and prices as of the measurement date are used in the determinations and no value may be assigned to probable or possible reserves.

The following table presents the Company's standardized measure of discounted future net cash flows:

<i>(In thousands)</i>	Successor			Predecessor
	December 31, 2020	December 31, 2019	December 31, 2018	July 30, 2018
Future cash inflows	\$ 2,576,789	\$ 3,983,118	\$ 4,451,628	\$ 6,020,768
Future production costs	(961,116)	(1,365,745)	(1,463,023)	(1,773,608)
Future development costs	(148,740)	(254,211)	(260,057)	(835,632)
Future income tax expenses	(31,310)	(88,566)	(96,311)	(31,609)
Future net cash flows	1,435,623	2,274,596	2,632,237	3,379,919
10% discount to reflect timing of cash flows	(430,671)	(649,128)	(754,709)	(1,122,055)
Standardized measure of discounted future net cash flows	<u>\$ 1,004,952</u>	<u>\$ 1,625,468</u>	<u>\$ 1,877,528</u>	<u>\$ 2,257,864</u>

The following table summarizes the principal sources of change in the standardized measure of discounted future net cash flows:

	Successor			Predecessor
	Year Ended December 31, 2020	Year Ended December 31, 2019	July 31, 2018 Through December 31, 2018	January 1, 2018 Through July 30, 2018
<i>(In thousands)</i>				
Standardized measure of discounted future net cash flows, beginning of period	\$ 1,625,468	\$ 1,877,528	\$ 1,457,656	\$ 1,764,162
Sales of oil, natural gas, and NGLs produced during the period, net of production costs	(395,416)	(753,740)	(364,850)	(388,982)
Purchases of minerals in place	26,110	145,076	141,585	150,622
Extensions	285,591	463,101	429,295	125,067
Changes in estimated future development costs	22,838	14,749	1,372	(39,154)
Net change in prices and production costs	(727,125)	(356,055)	223,177	552,761
Previously estimated development costs incurred during the period	92,913	162,350	98,407	144,273
Revisions in quantity estimates	(66,059)	(21,157)	(87,852)	(201,417)
Accretion of discount	169,659	195,457	61,237	103,931
Net change in income taxes	48,837	21,547	(65,004)	(2,817)
Net change in timing of production and other	(77,864)	(123,388)	(17,495)	49,418
Standardized measure of discounted future net cash flows, end of period	<u>\$ 1,004,952</u>	<u>\$ 1,625,468</u>	<u>\$ 1,877,528</u>	<u>\$ 2,257,864</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, Magnolia has evaluated, under the supervision and with the participation of the Company's management, including Magnolia's principal executive officer and principal financial officer, the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year covered by this Annual Report on Form 10-K. Based on such evaluation, Magnolia's principal executive officer and principal financial officer have concluded that as of such date, its disclosure controls and procedures were effective. The Company's disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by it in reports that it files under the Exchange Act is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, using the criteria in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management believes that the Company's internal control over financial reporting was effective as of December 31, 2020.

This Annual Report on Form 10-K includes an attestation report of KPMG LLP, the Company's independent registered public accounting firm, on the Company's internal control over financial reporting as of December 31, 2020, which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in the system of internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

On February 18, 2021, the Compensation Committee of the Company's board of directors (the "Compensation Committee") adopted the First Amendment ("Amendment") to the Magnolia Oil & Gas Corporation Long Term Incentive Plan (the "Plan"), which Amendment provides that dividend equivalents granted under the Plan may be paid or distributed when accrued or at a later specified date. The Compensation Committee also approved on February 18, 2021 awards of restricted stock units ("RSUs") and performance restricted stock units ("PRSUs") to the Company's employees and officers, which, among other things, provide for the payment of dividend equivalents at the same time dividends are paid to stockholders generally, although Magnolia does not currently pay dividends. This description does not purport to be a complete description of the Amendment and the RSU and PSU awards and is qualified in its entirety by reference to the full text of the Amendment and RSU and PRSU award agreement forms, which are set forth in Exhibits 10.25, 10.26, 10.27, and 10.28 attached hereto. The RSU and PRSU grants made to Magnolia's named executive officers were disclosed on Form 4s filed with the SEC on February 22, 2021.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required in response to this item will be set forth in Magnolia's Definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

Item 11. Executive Compensation

The information required in response to this item will be set forth in Magnolia's Definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required in response to this item will be set forth in Magnolia's Definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required in response to this item will be set forth in Magnolia's Definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required in response to this item will be set forth in Magnolia's Definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statements Schedules

(a)(1) The following financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K:	<u>Page</u>
Consolidated Balance Sheets as of December 31, 2020 and 2019	46
Consolidated and Combined Statements of Operations for the year ended December 31, 2020, the year ended December 31, 2019, and the periods July 31, 2018 through December 31, 2018 and January 1, 2018 through July 30, 2018.	47
Combined Statement of Changes in Parents' Net Investment for the period January 1, 2018 through July 30, 2018.	48
Consolidated Statements of Changes in Stockholders' Equity for the period July 30, 2018 through December 31, 2018, the year ended December 31, 2019, and the year ended December 31, 2020.	49
Consolidated and Combined Statements of Cash Flows for the year ended December 31, 2020, the year ended December 31, 2019, and the periods July 31, 2018 through December 31, 2018 and January 1, 2018 through July 30, 2018.	51
Notes to Consolidated and Combined Financial Statements for the year ended December 31, 2020, the year ended December 31, 2019, and the periods July 31, 2018 through December 31, 2018 and January 1, 2018 through July 30, 2018.	52

(2) Financial Statement Schedules

Financial statement schedules have been omitted because they either are not required, not applicable, or the information required to be presented is including in the Company's financial statements and related notes.

(3) Exhibits

Exhibit Number	Description
2.1*†	Contribution and Merger Agreement, dated as of March 20, 2018, by and among TPG Pace Energy Holdings Corp., TPG Pace Energy Parent LLC, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P., and EnerVest Energy Institutional Fund XIV-3A, L.P. and EnerVest Energy Institutional Fund XIV-C, L.P. (incorporated herein by reference to Exhibit 2.1 filed with the Current Report on Form 8-K, as amended, filed on March 20, 2018 (File No. 001-38083)).
2.2*†	Amendment No. 1 to the Contribution and Merger Agreement, dated May 10, 2018, by and among TPG Pace Energy Holdings Corp., TPG Pace Energy Parent, LLC, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P., EnerVest Energy Institutional Fund XIV-3A, L.P. and EnerVest Energy Institutional Fund XIV-C, L.P. (incorporated herein by reference to Exhibit 2.2 filed with the Quarterly Report on Form 10-Q filed on May 14, 2018 (File No. 001-38083)).
2.3*†	Amendment No. 2 to the Contribution and Merger Agreement, dated June 27, 2018, by and among TPG Pace Energy Holdings Corp., TPG Pace Energy Parent, LLC, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P., EnerVest Energy Institutional Fund XIV-3A, L.P. and EnerVest Energy Institutional Fund XIV-C, L.P. (incorporated by reference to Exhibit 2.3 filed with the Quarterly Report on Form 10-Q filed on August 14, 2018 (File No. 001-38083)).
2.4*†	Purchase and Sale Agreement, dated as of March 20, 2018, by and among TPG Pace Energy Parent LLC, EnerVest Energy Institutional Fund XI-A, L.P., EnerVest Energy Institutional Fund XI-WI, L.P., EnerVest Holding, L.P., and EnerVest Wachovia Co-Investment Partnership, L.P. (incorporated herein by reference to Exhibit 2.2 filed with the Current Report on Form 8-K, as amended, filed on March 20, 2018 (File No. 001-38083)).
2.5*†	Membership Interest Purchase Agreement, dated as of March 20, 2018, by and among TPG Pace Energy Parent LLC, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P. and EnerVest Energy Institutional Fund XIV-C, L.P. (incorporated herein by reference to Exhibit 2.3 filed with the Current Report on Form 8-K, as amended, filed on March 20, 2018 (File No. 001-38083)).
2.6*†	Amendment No. 1 to the Purchase and Sale Agreement, dated September 28, 2018, by and among EnerVest Energy Institutional Fund XI-A, L.P., EnerVest Energy Institutional Fund XI-WI, LP., EnerVest Holding, L.P., EnerVest Wachovia Co-Investment Partnership, L.P. (incorporated herein by reference to Exhibit 2.6 filed with the Quarterly Report on Form 10-Q filed on November 13, 2018 (File No. 001-38083)).
3.1*	Second Amended and Restated Certificate of Incorporation of the Company, dated as of July 31, 2018 (incorporated herein by reference to Exhibit 3.1 filed with the Current Report on Form 8-K filed on August 6, 2018 (File No. 001-38083)).
3.2*	Bylaws of the Company (incorporated herein by reference to Exhibit 3.3 filed with the Registration Statement on Form S-1 filed on April 17, 2017 (File No. 333-217338)).

Exhibit Number	Description
4.1*	Specimen Class A Common Stock Certificate (incorporated herein by reference to Exhibit 4.2 filed with the Registration Statement on Form S-1 filed on April 17, 2017 (File No. 333-217338)).
4.2*	Indenture, dated as of July 31, 2018, by and among Magnolia Oil & Gas Operating LLC, Magnolia Oil & Gas Finance Corp. and Deutsche Bank Trust Company Americas, as trustee (incorporated herein by reference to Exhibit 4.1 filed with the Current Report on Form 8-K, filed on August 6, 2018 (File No. 001-38083)).
4.3*	Registration Rights Agreement, dated as of July 31, 2018, by and among Magnolia Oil & Gas Corporation, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P., EnerVest Energy Institutional Fund XIV-3A, L.P., EnerVest Energy Institutional Fund XIV-C, L.P., TPG Pace Energy Sponsor, LLC, Arcilia Acosta, Edward Djerejian, Chad Leat and Dan F. Smith (incorporated herein by reference to Exhibit 4.2 filed with the Current Report on Form 8-K, filed on August 6, 2018 (File No. 001-38083)).
4.4*	First Amendment to Registration Rights Agreement, dated as of February 25, 2019, by and among Magnolia Oil & Gas Corporation, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P., EnerVest Energy Institutional Fund XIV-3A, L.P., EnerVest Energy Institutional Fund XIV-C, L.P., EnerVest Energy Institutional Fund XIV-C-AIV, L.P. TPG Pace Energy Sponsor Successor, LLC, Peterson Capital Partners, L.P., Miller Creek Investments, LLC and Stephen Chazen (incorporated herein by reference to Exhibit 4.6 filed with the Annual Report on Form 10-K, filed on February 27, 2019 (File No. 001-38083)).
4.5*	Stockholder Agreement, dated as of July 31, 2018, by and among Magnolia Oil & Gas Corporation, EnerVest Energy Institutional Fund XIV-A, L.P., EnerVest Energy Institutional Fund XIV-WIC, L.P., EnerVest Energy Institutional Fund XIV-2A, L.P., EnerVest Energy Institutional Fund XIV-3A, L.P., EnerVest Energy Institutional Fund XIV-C, L.P. and TPG Pace Energy Sponsor, LLC (incorporated herein by reference to Exhibit 4.3 filed with the Current Report on Form 8-K, filed on August 6, 2018 (File No. 001-38083)).
4.6*	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934, as amended (incorporated herein by reference to Exhibit 4.6 filed with the Annual Report on Form 10-K, filed on February 26, 2020 (File No. 001-38083)).
10.1*	Credit Agreement, dated as of July 31, 2018, by and among Magnolia Oil & Gas Intermediate LLC (f/k/a TPG Pace Energy Intermediate LLC), Magnolia Oil & Gas Operating LLC, the lenders from time to time party thereto, Citibank, N.A., as administrative agent and collateral agent, as the swingline lender and an issuing bank and each other issuing bank from time to time party thereto (incorporated herein by reference to Exhibit 10.1 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).
10.2**	Borrowing Base Redetermination Agreement and Amendment No. 1 to Credit Agreement, dated as of November 30, 2018, by and among Magnolia Oil & Gas Operating LLC, Magnolia Oil & Gas Intermediate LLC, the lenders from time to time party thereto, Citibank, N.A., as administrative agent and collateral agent as the swingline lender and an issuing bank and each other issuing bank from time to time party thereto.
10.3*	Borrowing Base Redetermination Agreement and Amendment No. 2 to Credit Agreement, dated as of October 15, 2020, by and among Magnolia Oil & Gas Operating LLC, Magnolia Oil & Gas Intermediate LLC, the lenders from time to time party thereto, Citibank, N.A., as administrative agent and collateral agent as the swingline lender and an issuing bank and each other issuing bank from time to time party thereto (incorporated herein by reference to Exhibit 10.1 filed with the Quarterly Report on Form 10-Q, filed on November 6, 2020 (File No. 001-38083)).
10.4*	Amended and Restated Limited Liability Company Agreement of Magnolia Oil & Gas Parent LLC, dated as of July 31, 2018 (incorporated herein by reference to Exhibit 10.2 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).
10.5*	Services Agreement, by and between Magnolia Oil & Gas Corporation and EnerVest Operating L.L.C., dated as of July 31, 2018 (incorporated herein by reference to Exhibit 10.5 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).
10.6*	First Amendment to Services Agreement, by and between Magnolia Oil & Gas Corporation and EnerVest Operating LLC, dated as of May 1, 2020 (incorporated herein by reference to Exhibit 10.3 filed with the Quarterly Report on Form 10-Q, filed on May 11, 2020 (File No. 001-38083)).
10.7*	Non-Competition Agreement, by and between Magnolia Oil & Gas Corporation and EnerVest, Ltd., dated as of July 31, 2018 (incorporated herein by reference to Exhibit 10.3 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).
10.8**	Amendment No. 1 to Non-Competition Agreement, by and between Magnolia Oil & Gas Corporation and EnerVest, Ltd., dated as of January 29, 2021.
10.9*††	Form of Indemnity Agreement (incorporated herein by reference to Exhibit 10.4 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).

Exhibit Number	Description
10.10*††	Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.6 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).
10.11*††	Form of Standard Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 4.8 filed with the Registration Statement on Form S-8, filed on October 5, 2018 (File No. 333-227722)).
10.12*††	Form of Non-Standard Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 4.9 filed with the Registration Statement on Form S-8, filed on October 5, 2018 (File No. 333-227722)).
10.13*††	Form of Non-Employee Director Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 4.10 filed with the Registration Statement on Form S-8, filed on October 5, 2018 (File No. 333-227722)).
10.14*††	Form of Standard Performance Share Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 4.11 filed with the Registration Statement on Form S-8, filed on October 5, 2018 (File No. 333-227722)).
10.15*††	Form of Non-Standard Performance Share Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 4.12 filed with the Registration Statement on Form S-8, filed on October 5, 2018 (File No. 333-227722)).
10.16*††	Director Compensation Program (incorporated herein by reference to Exhibit 10.10 filed with the Current Report on Form 8-K/A, filed on August 6, 2018 (File No. 001-38083)).
10.17*††	Form of 2019 Restricted Stock Unit Grant Notice and attached Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan, Standard Employee (incorporated herein by reference to Exhibit 4.2 filed with the Quarterly Report on Form 10-Q, filed on May 7, 2019 (File No. 001-38083)).
10.18*††	Form of Restricted Stock Unit Grant Notice and attached Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan, Annual Bonus (incorporated herein by reference to Exhibit 4.3 filed with the Quarterly Report on Form 10-Q, filed on May 7, 2019 (File No. 001-38083)).
10.19*††	Form of Performance Share Unit Grant Notice and attached Performance Share Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 4.4 filed with the Quarterly Report on Form 10-Q, filed on May 7, 2019 (File No. 001-38083)).
10.20*††	Form of 2019 Non-Employee Director Restricted Stock Unit Grant Notice and attached Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 filed with the Quarterly Report on Form 10-Q, filed on August 7, 2019 (File No. 001-38083)).
10.21*††	Form of 2020 Restricted Stock Unit Grant Notice and attached Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.17 filed with the Annual Report on Form 10-K, filed on February 26, 2020 (File No. 001-38083)).
10.22*††	Form of 2020 Performance Share Unit Grant Notice and attached Performance Share Unit Agreement under Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.18 filed with the Annual Report on Form 10-K, filed on February 26, 2020 (File No. 001-38083)).
10.23*††	Form of 2020 Non-Employee Director Restricted Stock Unit Grant Notice and attached Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 filed with the Quarterly Report on Form 10-Q, filed on May 11, 2020 (File No. 001-38083)).
10.24*††	Magnolia Oil & Gas Corporation Stock Purchase Program (incorporated herein by reference to Exhibit 10.2 filed with the Quarterly Report on Form 10-Q, filed on May 11, 2020 (File No. 001-38083)).
10.25**††	First Amendment to Magnolia Oil & Gas Corporation Long Term Incentive Plan.
10.26**††	Form of 2021 Restricted Stock Unit Grant Notice and attached Restricted Stock Unit Agreement under the Magnolia Oil & Gas Corporation Long Term Incentive Plan.
10.27**††	Form of 2021 Performance Share Unit Grant Notice and attached Performance Share Unit Agreement under Magnolia Oil & Gas Corporation Long Term Incentive Plan.
10.28**††	Form of 2021 Performance Share Unit (Cliff Vesting) Grant Notice and attached Performance Share Unit Agreement under Magnolia Oil & Gas Corporation Long Term Incentive Plan.
21.1**	Subsidiaries of Magnolia Oil and Gas Corporation.
23.1**	Consent of KPMG LLP.

Exhibit Number	Description
23.2**	Consent of Deloitte & Touche LLP.
23.3**	Consent of Miller and Lents, Ltd.
24.1**	Power of Attorney.
31.1**	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1**	Summary Report of Miller and Lents, Ltd., dated as of January 15, 2021, for proved reserves as of December 31, 2020.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.
104**	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Incorporated herein by reference as indicated.

** Filed herewith.

*** Furnished herewith.

† Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplemental to the SEC upon request.

†† Management contract of compensatory plan or agreement.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGNOLIA OIL & GAS CORPORATION

Date: February 23, 2021

By: /s/ Stephen Chazen

Stephen Chazen

Chief Executive Officer (Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1934, this registration statement has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Stephen Chazen</u> Stephen Chazen	President, Chief Executive Officer and Chairman (Principal Executive Officer)	February 23, 2021
<u>/s/ Christopher Stavros</u> Christopher Stavros	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 23, 2021
<u>/s/ Arcilia C. Acosta*</u> Arcilia C. Acosta	Director	February 23, 2021
<u>/s/ Angela M. Busch*</u> Angela M. Busch	Director	February 23, 2021
<u>/s/ Edward P. Djerejian*</u> Edward P. Djerejian	Director	February 23, 2021
<u>/s/ James R. Larson*</u> James R. Larson	Director	February 23, 2021
<u>/s/ Dan F. Smith*</u> Dan F. Smith	Director	February 23, 2021
<u>/s/ John B. Walker*</u> John B. Walker	Director	February 23, 2021
<u>By* /s/ Valerie Chase</u> Valerie Chase as Attorney-in-fact		

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