

Evolution Petroleum Posts Record Recurring Results for Fiscal 2013

Written by Australian Business

HOUSTON, Sept. 11, 2013 /PRNewswire/ -- Evolution Petroleum Corporation (NYSE MKT: EPM) today reported operating highlights for the fiscal year ("FY13") and quarter ("Q4-13") ended June 30, 2013.

Highlights include:

- Earned \$6.0 million, or \$0.19 per diluted share, a 32% increase in total and a 36% increase in earnings per share for the year
- Increased annual revenues in FY13 by 19% to record \$21.3 million
- Delhi sales volumes increased 33% for the year to 495 net barrels of oil ("BO") per day (6,684 gross), while fourth quarter Delhi volumes declined 6% from the prior quarter to 532 net BO per day (7,188 gross)

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- Q4-13 earnings declined sequentially to \$0.9 million, or \$0.03 per diluted share, on 10% lower revenues of \$5.4 million
- Proved Reserves increased 2.4% overall to 13.8 million barrels of oil equivalent ("BOE"), with Delhi reserves increasing 23% to 13.5 million BOE, more than offsetting a reduction of 2.3 million BOE from the sale of noncore assets in other fields
- Successfully installed GARP® technology on two additional wells with substantial production gains in both wells

Delhi production continued to perform well during the year and into Q4-13, and its contribution to revenue more than offset the sale of our Giddings Field production. Fourth quarter Delhi production, however, was reduced by scheduled plant work, infill drilling and the previously disclosed June release of fluids and subsequent remediation work. The reduction in sales volumes at

Delhi

that is due to the ongoing remediation of the fluid release is expected to continue into the second quarter of fiscal 2014, which is the fourth calendar quarter of 2013, when CO

² injection is expected to be restored in the area of the Delhi Field affected by the fluids release. Oil production in the affected area is expected to return to pre-spill rates following renewal of CO

² injection. We anticipate that our 24% back-in working interest should begin contributing significantly to financial results by the third quarter of fiscal 2014, which is the first calendar quarter of 2014.

The GARP® business continued to move forward during the quarter with the installation of the technology in two wells, including one that had been previously abandoned. Both wells have responded positively as expected in re-establishing material commercial production, and we are moving forward in other commercialization efforts.

Subsequent to fiscal yearend, the operator plugged back one well in our Mississippian Lime project to perforate and hydraulically fracture high in the formation. Production testing is underway, but previous results that did not meet our expectations led us to reduce our interest in April.

Robert Herlin, President and CEO, stated "With these overall results, we are evaluating methods for rewarding our shareholders in ways that efficiently transfer the value that we have

created. As part of that process, during fiscal 2013 we concentrated staff and capital on core assets and projects that offer substantial near term potential impact on share value and cash flow."

Financial Results for the Quarter Ended June 30, 2013

Revenues for Q4-13 were \$5.4 million, a 10% sequential decrease from Q3-13. Quarterly net income to common shareholders was \$0.9 million, or \$0.

03

per share diluted, a 58% decrease from Q3-13's

\$2.2 million

, or

\$0.07

per share diluted. The decline in revenue is primarily due to a 5% decrease in

Delhi

volumes due to scheduled maintenance, infill drilling, remediation of the June fluids release and a 6% decline in

Delhi

oil price. Total quarterly sales volumes were 583 BOE per day, a 7% decrease that included the

Delhi

decline and reduced volumes in

Giddings

due to property divestments.

Lease operating expense during Q4-13 declined 14% from the previous quarter due to reduced workovers in Giddings and Lopez Fields and the sale of the remaining nonGARP® producing properties in the Giddings Field.

Earnings were further impacted by higher, generally nonrecurring general and administrative costs including significant legal expenses related to updating and renewing our shelf registration and ongoing litigation, and costs related to an engineering study commissioned to evaluate recovery of natural gas liquids at Delhi that led to recognition of substantial added proved, probable and possible reserves there. Also very significant was the recognition during the quarter of a much higher income tax rate resulting primarily from property divestments that effectively unwound statutory depletion that was applied in the prior three quarters.

Financial Results for the Year Ended June 30, 2013

For fiscal 2013, net income to common shareholders increased 32% to \$6.0 million, or \$0.19 per diluted share, compared to \$4.5 million, or \$0.14 per diluted share, in fiscal 2012. Revenues increased 19% to \$21.3 million compared to fiscal 2012 due to a 9% increase in volumes to 621 BOE per day and a 9% increase in blended product price to \$94 per BOE from \$86 per BOE in fiscal 2012. The increase in volumes over 2012 was due primarily to a 33% increase in Delhi volumes, primarily offset by a 43% decrease in Giddings volumes due to normal production declines and the sale of all of our noncore, nonGARP® assets during the year.

For the full year, lease operating expense decreased 8% to \$7.56 per BOE due primarily to the sale of Giddings producing wells. Depreciation and depletion expense increased 14% to \$1.3 million, or \$5.53 per BOE, due to higher volumes and elimination of projected future capital expenditures for proved drilling locations in divested Giddings properties, partly offset by higher projected future capital expenditures at Delhi associated with installation of an NGL recovery plant. General and administrative costs increased 22% over fiscal 2012 to \$7.5 million due primarily to higher legal costs, compensation expense, divestment transaction costs that are required to be charged to operating expense instead of being netted against sale proceeds and fees associated with the NGL engineering study.

Reserves as of June 30, 2013

As previously reported, our independent reservoir engineers assigned the following reserves as of June 30, 2013:

Reserves as of 6/30/2013

Oil

NGL

Gas

Equiv

PV-10

MBO

MBL

MMCF

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MBOE

(MM)

Proved Developed

10,078

9

23

10,090

\$382.1

Proved Undeveloped

2,705

971

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3,676

76.8

Total Proved

12,783

980

23

13,766

\$459.0*

Probable Developed

3,561

3,561

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75.2

Probable Undeveloped

4,394

1,035

13,407

7,663

59.8

Total Probable

7,955

1,035

13,407

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11,224

\$135.0

Possible Developed

2,671

2,671

22.8

Possible Undeveloped

730

193

566

1,017

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9.7

Total Possible

3,401

193

566

3,688

\$ 32.5

(1) Numbers in tables may not sum due to rounding.

FY 2014 Capital Budget

The board of directors has approved a FY-14 capital budget of at least \$18 million that includes \$17 million for Delhi and \$1 million to \$3 million for additional GARP® installations. The Delhi

capital commitment is contingent upon the actual timing of our working interest reversion. Capital expenditures in our Mississippian Lime project are dependent on a successful test of the upper zone in one of our previously drilled wells.

Funding of FY-14 capital expenditures will be provided by working capital on hand as of June 30, 2013

Conference Call

As previously announced, Evolution Petroleum will host a conference call on Thursday, September 12th at 11:00 a.m. Eastern (10:00 a.m. Central) to discuss results. To access the call, please dial 1-800-860-2442 (U.S.), 1-412-858-4600 (International) or 1-866-605-3582 (Canada).

About Evolution Petroleum

Evolution Petroleum Corporation develops incremental petroleum reserves and shareholder value by applying conventional and specialized technology to known oil and gas resources, onshore in the United States. Principal assets as of June 30, 2013 include 13.8 MMBOE of proved, 11.2 MMBOE of probable reserves, 3.7 MMBOE of possible reserves, and no debt. Assets include a CO₂-EOR project with growing production in Louisiana's Delhi Field and producing wells and proved drilling locations in the Lopez Field in Texas. Other assets include an interest in a joint venture in the Mississippian Lime play in Kay County, OK with probable reserves and a patented artificial lift technology designed to extend the life and ultimate recoveries of wells with oil or associated water production. Additional information, including the Company's annual report on Form 10-K and its quarterly reports on Form 10-Q, is available on its website at (

www.evolutionpetroleum.com

).

Cautionary Statement

All statements contained in this press release regarding potential results and future plans and objectives of the Company are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update or review any forward-looking statement, whether as a result of new information, future events, or otherwise. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, those factors that are disclosed under the heading "Risk Factors" and elsewhere in our documents filed from time to time with the United States Securities and Exchange Commission and other regulatory authorities. Statements regarding our ability to complete transactions, successfully apply technology applications in the re-development of oil and gas fields, realize future production volumes, realize success in our drilling and development activity and forecasts of legal claims, prices, future revenues and income and cash flows and other statements that are not historical facts contain predictions, estimates and other forward-looking statements. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved and these statements will prove to be accurate. Important factors could cause actual results to differ materially from those included in the forward-looking state statements.

* PV-10 of proved reserves is a pre-tax non-GAAP measure reconciled to the after-tax Standardized Measure of Future Net Cash Flows below. We believe that the presentation of the non-GAAP financial measure of PV-10 provides useful and relevant information to investors because of its wide use by analysts and investors in evaluating the relative monetary significance of oil and natural gas properties, and as a basis for comparison of the relative size and value of our reserves to other companies' reserves. We also use this pre-tax measure when assessing the potential return on investment related to oil and natural gas properties and in evaluating acquisition opportunities. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating our Company. PV-10 is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of our estimated oil and natural gas reserves. PV-10 should not be considered in isolation or as a substitute for the Standardized Measure as defined under GAAP, and reconciled below. Probable reserves are not recognized by GAAP, and therefore the PV-10 of probable reserves cannot be reconciled to a GAAP measure.

The following table provides a reconciliation of PV-10 of each of our proved properties to the Standardized Measure.

For the Years Ended June 30

2013

2012

Estimated future net revenues

\$

865,335,587

\$

858,510,526

10% annual discount for estimated timing of future cash flows

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(406,373,713)

(412,995,901)

Estimated future net revenues discounted at 10% (PV-10)

458,961,874

445,514,625

Estimated future income tax expenses discounted at 10%

(151,741,175)

(161,917,132)

Standardized Measure

\$

307,220,699

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\$

283,597,493

- Financial Tables to Follow -

Evolution Petroleum Consolidated Statement of Operations

Three Months Ended

Year Ended

June 30,

June 30,

2013

2012

2013

2012

Revenues

Crude oil

\$

5,354,565

\$

4,334,677

\$

20,686,401

\$

16,547,415

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Natural gas liquids

19,933

120,442

253,167

620,187

Natural gas

25,251

126,827

410,352

794,436

Total revenues

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5,399,749

4,581,946

21,349,920

17,962,038

Operating Costs

Lease operating expense

452,911

430,387

1,713,833

1,708,235

Production taxes

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10,774

18,839

66,905

66,764

Depreciation, depletion and amortization

371,865

302,623

1,300,207

1,136,974

Accretion of discount on asset retirement obligations

16,222

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20,793

72,312

77,505

General and administrative expenses *

2,196,431

1,689,195

7,495,309

6,143,286

Total operating costs

3,048,203

2,461,837

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10,648,566

9,132,764

Income from operations

2,351,546

2,120,109

10,701,354

8,829,274

Other

Interest income

5,855

5,565

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22,580

25,728

Interest (expense)

(16,445)

(16,373)

(65,745)

(21,950)

Income before income taxes

2,340,956

2,109,301

10,658,189

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8,833,052

Income tax provision

1,228,368

1,014,144

4,029,761

3,700,922

Net Income

\$

1,112,588

\$

1,095,157

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\$

6,628,428

\$

5,132,130

Dividends on Preferred Stock

168,576

168,576

674,302

630,391

Net income available to common shareholders

\$

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944,012

\$

926,581

\$

5,954,126

\$

4,501,739

Basic

\$

0.03

\$

0.03

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\$

0.21

\$

0.16

Diluted

\$

0.03

\$

0.03

\$

0.19

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\$

0.14

Weighted average number of common shares

Basic

28,615,511

27,858,815

28,205,467

27,784,298

Diluted

32,141,288

31,766,049

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31,975,131

31,609,929

*General and administrative expenses for the three months ended June 30, 2013 and 2012 included non-

Evolution Petroleum Consolidated Subsidiaries ()

June 30,

June 30,

2013

2012

Assets

Current assets

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Cash and cash equivalents

\$

24,928,585

\$

14,428,548

Certificates of deposit

250,000

250,000

Receivables

Oil and natural gas sales

1,632,853

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1,343,347

Joint interest partner

49,063

96,151

Income taxes

281,970

92,885

Other

918

190

Deferred tax asset

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26,133

325,235

Prepaid expenses and other current assets

266,554

233,433

Total current assets

27,436,076

16,769,789

Property and equipment, net of depreciation, depletion, and amortization

Oil and natural gas properties, net of depletion, at the end of 2012 and 2011, respectively, were excluded from assets

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38,789,032

40,476,172

Other property and equipment

52,217

92,271

Total property and equipment

38,841,249

40,568,443

Advances to joint interest operating partner

26,059

1,366,921

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Other assets

252,912

250,333

Total assets

\$

66,556,296

\$

58,955,486

Liabilities and Stockholders' Equity

Current liabilities

Accounts payable

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\$

642,018

\$

407,570

Due to joint interest partner

127,081

3,217,975

Accrued payroll

1,385,494

1,005,624

Royalties payable

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91,427

294,013

State and federal taxes payable

233,548

91,967

Other current liabilities

153,182

71,768

Total current liabilities

2,632,750

5,088,917

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Long term liabilities

Deferred income taxes

8,418,969

6,205,093

Asset retirement obligations

615,551

968,677

Deferred rent

52,865

70,011

Total liabilities

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11,720,135

12,332,698

Commitments and contingencies (Note 14)

Stockholders' equity

Preferred stock, par value \$0.001; 1,000,000 shares authorized; issued 291,319 shares, with

317

317

Common stock; par value \$0.001; 100,000,000 shares authorized; issued 29,410,858 shares at June 30, 2013

29,410

28,670

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Additional paid-in capital

31,813,239

29,416,914

Retained earnings

24,013,035

18,058,909

55,856,001

47,504,810

Treasury stock, at cost, 801,889 shares and 788,200 shares as of June 30, 2013 and 2012, respectively

(1,019,840)

(882,022)

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Total stockholders' equity

54,836,161

46,622,788

Total liabilities and stockholders' equity

\$

66,556,296

\$

58,955,486

Evolution Petroleum Corporation and Subsidiaries

Consolidated Condensed Statements of Cash Flows

(Unaudited)

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Year Ended June 30,

2013

2012

Cash Flows From Operating Activities

Net income (loss) attributable to the Company

\$

6,628,428

\$

5,132,130

Adjustments to reconcile net income (loss) to net cash

provided by operating activities:

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Depreciation, depletion and amortization

1,341,055

1,150,454

Stock-based compensation

1,531,745

1,475,995

Accretion of asset retirement obligations

72,312

77,505

Settlement of asset retirement obligations

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(90,531)

(61,936)

Deferred income taxes

2,512,978

2,549,592

Deferred rent

(17,146)

(15,401)

Changes in operating assets and liabilities:

Receivables from oil and natural gas sales

(289,506)

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216,057

Receivables from income taxes and other

(189,813)

(64,194)

Due to/from joint interest partners

(9,947)

139,705

Prepaid expenses and other current assets

(33,121)

(165,581)

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Accounts payable and accrued expenses

538,057

379,873

Royalties payable

(202,586)

(448,638)

Income taxes payable

141,581

9,845

Net cash provided by operating activities

11,933,506

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10,375,406

Cash Flows from Investing Activities

Proceeds from asset sales

3,479,976

799,610

Development of oil and natural gas properties

(4,163,080)

(3,291,921)

Acquisitions of oil and natural gas properties

(755,194)

(3,768,162)

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Capital expenditures for other equipment

—

(61,176)

Advances to joint venture operating partner

—

(224,206)

Maturities of certificates of deposit

—

—

Other assets

(32,160)

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(35,056)

Net cash used in investing activities

(1,470,458)

(6,580,911)

Cash Flows from Financing Activities

Proceeds from issuance of preferred stock, net

—

6,930,535

Proceeds from issuance of restricted stock

32

—

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Proceeds from the exercise of stock options

70,719

—

Purchases of treasury stock

(137,818)

—

Preferred stock dividends paid

(674,302)

(630,391)

Deferred loan costs

(16,211)

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(163,257)

Windfall tax benefit

794,569

249,728

Net cash provided by financing activities

36,989

6,386,615

Net increase in cash and cash equivalents

10,500,037

10,181,110

Cash and cash equivalents, beginning of period

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14,428,548

4,247,438

Cash and cash equivalents, end of period

\$

24,928,585

\$

14,428,548

Our supplemental disclosures of cash flow information for the years ended June 30, 2013 and 2012 are as follows:

Year Ended June 30,

2013

2012

Income taxes paid

\$

699,874

\$

895,000

Income tax refunds and net operating loss carry-back received

\$

—

\$

—

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Non-cash transactions:

Change in accounts payable used to acquire oil and natural gas leasehold interests and develop oil and

\$

157,675

\$

(196,396)

Change in due to joint venture partner used to acquire oil and

natural gas leasehold interests and develop oil and natural gas properties

\$

(1,692,997)

\$

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1,958,029

Oil and natural gas property costs attributable to the recognition of asset retirement obligations

\$

65,575

\$

93,522

Information on Oil and Natural Gas Operations

Year Ended

June 30

%

2013

2012

Variance

change

Sales Volumes, net to the Company:

Delhi — crude oil Royalty (Bbl)

180,658

136,074

44,584

32.8%

Other properties

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Crude oil (Bbl)

15,721

15,006

715

4.8%

NGLs (Bbl)

7,272

12,611

(5,339)

(42.3)%

Natural gas (Mcf)

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139,006

266,787

(127,781)

(47.9)%

Crude oil, NGLs and natural gas (BOE)

226,819

208,156

18,663

9.0%

Revenue data:

Delhi — crude oil

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\$

19,219,036

\$

15,143,770

\$

4,075,266

26.9%

Other properties

Crude oil

1,467,365

1,403,645

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63,720

4.5%

NGLs

253,167

620,187

(367,020)

(59.2)%

Natural gas

410,352

794,436

(384,084)

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(48.3)%

Total revenues

\$

21,349,920

\$

17,962,038

\$

3,387,882

18.9%

Average price:

Delhi — crude oil

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\$

106.38

\$

111.29

\$

(4.91)

(4.4)%

Other properties

Crude oil (per Bbl)

\$

93.34

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\$

93.54

\$

(0.20)

(0.2)%

NGLs (per Bbl)

34.81

49.18

(14.37)

(29.2)%

Natural gas (per Mcf)

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2.95

2.98

(0.03)

(1.0)%

Crude oil, NGLs and natural gas (per BOE)

\$

94.13

\$

86.29

\$

7.84

9.1%

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2013

Expenses (per BOE)

Lease operating expense

\$

7.56

\$

8.21

\$

(0.65)

(7.9)%

Production taxes

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\$

0.29

\$

0.32

\$

(0.03)

(9.4)%

Depletion expense on oil and natural gas properties (a)

\$

5.53

\$

5.22

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\$

0.31

6.0%

(a)

Excludes depreciation of office equipment, furniture and fixtures, and other assets of \$44,998 and \$49,9

Company Contact: Sterling McDonald, VP & CFO (713) 935-0122 smcdonald@evolutionpetroleum.com

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