CEOCFO Interviews & News!



# Evolution Petroleum's partnership with Denbury Resources, an experienced CO2 developer, has enabled them to cash in on their 2003 acquisition of the Delhi Field property and pursue additional projects

**Basic Materials**
**Independent Oil & Gas**
**(EPM-AMEX)**

**Evolution Petroleum Corporation**

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**Robert S. Herlin**
**President, CEO and Director**

**BIO:**
Mr. Herlin co-founded the Company and has served as President, CEO and Director since the inception in 2003. He has 26 years of experience in development, mergers and acquisitions, operations and finance and has served both private and public companies as CFO and CEO. Previously, Mr. Herlin helped lead a turn-around of Kelley Oil and Gas and served as Vice President, Strategic Initiatives of Enron Liquids prior to 1997 and Director of Acquisitions for several independent oil and gas companies. He also led a consulting group focused on acquisitions and strategy. Mr. Herlin earned his B.S. and M.E. degrees from Rice University and his MBA from Harvard.

During his career, Mr. Herlin has been involved in numerous transactions totaling more than $800 million. In the course of his oil and gas acquisition work, he has evaluated properties along the Gulf Coast, mid-continent, Rocky Mountains and Los Angeles basins and led numerous evaluation teams of professionals. Mr. Herlin created and led an operating group that initiated and successfully completed a conventional horizontal drilling program with 28 wells in the early stages of horizontal drilling by industry. He was the lead consultant and manager for a $65 million manufacturing company leveraged buy-out and turn-around. In addition, Mr. Herlin currently serves on the Board of Directors of Boots and Coots Group and is a partner with Tatum LLC.

**Company Profile:**
Evolution Petroleum Corporation acquires mature oil and gas resources and applies conventional and specialized technology to accelerate production and develop incremental reserves and value. The Company currently owns 7.4% in royalty interests and a 25% reversionary working interest in the 13,636 acre Delhi Field Holt Bryant Unit, a 25% working interest in certain other depths in the Delhi Field and 100% working interests in smaller fields, all located onshore in Louisiana. Having already produced 190 million barrels of oil through primary and secondary recovery methods, the Delhi Holt Bryant Unit is being redeveloped using CO2 enhanced oil recovery technology. The Company is actively engaged in other development projects within its three strategic initiatives of EOR, By-passed Resources and Unconventional Gas Resources.

**Interview conducted by:**
**Lynn Fosse, Senior Editor**
**CEOCFOinterviews.com**

**CEOCFO:** Mr. Herlin, what was your vision when you founded the company and where are you today?
**Mr. Herlin:** "We started the company in 2003 with the idea that we would focus on opportunities in existing or known resource areas. We would not be an exploration company, but a development company focused on applying technology and our specific expertise and capital to redevelop oil & gas fields that were found and developed decades ago and matured prior to the run-up in oil and gas prices over the last four or five years."

**CEOCFO:** How has your strategy been working out for you?
**Mr. Herlin:** "It has been working very well for us. We bought our first property in 2003 in an old oil field called the Delhi Holt Bryant Unit, in northeast Louisiana. The field was discovered in 1945, had more than 400 wells drilled within a three-year period and matured in the 1950's and 1960's. In the 1950's, the operator installed reservoir pressure maintenance through unitization of all of the leases and water injection. By the 1980's, the field was down to a low level

of production. The primary operator sold the working interest to the first of several increasingly smaller companies. By the time we purchased the Delhi Holt Bryant Unit property in 2003, there were only 6 wells producing about 20 barrels of oil per day. Aside from the purchase price, we invested additional capital and were able to increase production to about 145 barrels of oil equivalent per day. During the process of engineering review, we found that the field was tested for $CO_2$ injection in 1985 with success; however, oil prices collapsed in 1986, so any further development would have been uneconomic at that time. With oil prices beginning to increase in 2003, we saw a great opportunity for redevelopment of the field using the $CO_2$ enhanced oil recovery technology and we elected to partner with Denbury Resources Inc. (NYSE:DNR) in 2006. Denbury is an experienced $CO_2$ developer in Mississippi and has numerous projects in progress there. They liked the potential of the Delhi Holt Bryant Unit and further believed it was a great opportunity for them to move their $CO_2$ further west. As a result, they were willing to dedicate a portion of their crude $CO_2$ reserves to the Delhi project. Denbury is now in the process of building a $CO_2$ pipeline to the field with an initial focus on acquiring rights-of-way. They paid us $50 million for the privilege of installing the $CO_2$ flood at Delhi. In addition to the $50 million, we kept a 7.4% royalty interest in the Holt Bryant Unit and retained a 25% working interest in the project after a deemed payout amount, which we think will occur fairly early in the life of the $CO_2$ flood. We are very pleased with this transaction. We also have a number of other development projects that we are working on as well."

**CEOCFO:** How do you decide on a project?

**Mr. Herlin:** "We first determine if there is a known resource in the ground as we do not want to take exploratory risk. Second, we leverage the specific expertise of our team. Everyone on our team has been in the business for 20+ years and has built up personal inventories of ignored or bypassed opportunities. We decide what makes sense in the three areas of our focus: enhanced oil recovery; redevelopment of by-passed reserves through horizontal drilling, and unconventional gas resource development. We have active projects in all three areas and have a number of brokerage teams working in the field that are building inventories of projects. In fact, many of these projects have been reviewed by our outside reservoir engineers and have been determined to be proved undeveloped reserves."

**CEOCFO:** What is the geographic footprint and does it matter?

**Mr. Herlin:** "We want to stick to our areas of expertise for the most part. That includes the traditional oil patch, which is Gulf Coast, Texas/Louisiana area and then going north into the central United States, where we seem to have more comfort level in terms of the expertise in applying the tools we have, such as horizontal drilling. We want to be innovative, which is a defining characteristic of our opportunities. We will look at things in the Rockies, but those projects have to overcome a higher level threshold for our entry."

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**- Robert S. Herlin**

**CEOCFO:** You are open to working with intermediaries; is that different than what typically is happening?

**Mr. Herlin:** "We are open to deals that are brought to us by other parties. We had many opportunities last year following the sale of the Delhi farm-out to redeploy our capital immediately into producing properties. Such a Like-Kind-Exchange would have given us the advantage of a long-term deferral of income tax due on ~$45 million gain on sale. However, we could not find an attractively priced producing property, even with the benefits from tax deferral, compared to the projects that we were developing internally. We continue to be very interested in all opportunities. We are looking at deals brought to us and we are looking at current production. Primarily, we are looking at fields that fit within the parameters of our business, which is to develop, exploit and add value. Our expertise is in development of projects and value creation through redevelopment."

**CEOCFO:** What is the financial picture of the company?

**Mr. Herlin:** "We are in great financial shape. We have a little over $32 million of cash and no funded debt. We do have normal trade payables, and the rest of our income tax payable of about $4.8 million. Our net cash after all taxes are paid is close to $28 million, and we have $31 million of book equity. More importantly, we have the financial flexibility to make all of our projects happen. We have the ability to fund development on one or more of our projects. My preference is to use our cash to seed the development of a number of projects. That means acquiring acreage to do initial drilling in order to reduce the risk of these projects as low as possible, so that we can then bring in low-cost project financing and leverage our expertise and capital as far as possible without putting our shareholders at risk of dilution."

**CEOCFO:** What is your take on the energy industry today?

**Mr. Herlin:** "Consumers in Europe and South America generally pay much more for energy than United States citizens. There are plenty of energy sources; it just depends on how much you want to pay for it. Industry has demonstrated that if natural gas prices remain stable at a level of $5.00 - $7.00 and oil prices at or above $50 per barrel, we can generate substantial incremental reserves. When prices drop below these levels, those new resource opportunities drift away. It is a matter of how much you are willing to pay to get those resources out of the ground. The price is not just the cash cost, but also an environmental cost as well. Most everything can be done, but at what price? At certain prices, the market will entice alternative sources of energy. I think we will see more of that over time. I am not sure the general population understands that the domestic natural gas industry loses 20 to 30% of its production every year and the oil industry loses something closer to single digit decline rates, just through normal depletion. We have to work hard to maintain our current production level, and that is difficult in an environment where service costs keep going up higher and the cost of replacing production keeps going higher. Therefore, reasonable oil and gas prices are necessary to pay for the high cost of finding and developing new reserves."

**CEOCFO:** Is the investment community paying attention to Evolution?

**Mr. Herlin:** "They are starting to hear our message. We hit the road beginning last fall. We have made several presentations at industry events and I think we are beginning to get greater attention. I think our stock price is starting to reflect that increased attention. However, we are still a long way away from our estimated intrinsic value."

**CEOCFO:** Why should potential investors be interested in the company and what might people miss when they first look at the company?

**Mr. Herlin:** "Many people first looking at our company question our limited volume of proved reserves and low level of current revenues. We agree that our stock price does not make sense compared to our proved reserves and revenues, except that our intrinsic value also includes 11 – 16 million barrels of high quality, probable reserves associated with a $CO_2$ flood at Delhi. That value, we believe, could be worth over $200 million; a large portion of that being overriding royalties that bears no operating costs. The potential value can be much higher as we believe that our numbers are conservative in the recovery rate, original oil-in-place, and future oil prices. We have a number of development projects underway that we cannot talk about yet, but we are excited about their potential. We have the funds in hand to make these projects happen. We have a great growth story and solid intrinsic value in excess of our market capitalization."

**CEOCFO:** What should people remember most about Evolution Petroleum?

**Mr. Herlin:** "We are a growth story, an opportunity for somebody that is looking for a long-term investment. We have value supporting our stock, especially factoring in the cash we will be redeploying. We are an exciting story that is going to continue to emerge over the next one to three years."

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