CEO CFO

EVOLUTION Petroleum Corporation

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Evolution Petroleum Corporation is Using Existing Technology and a Technical Engineering Approach to Develop Oil and Gas Reserve in Existing Known Fields in The U.S. Onshore

Basic Materials
Independent Oil & Gas
(EPM-AMEX)

Evolution Petroleum Corporation

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Robert S. Herlin
Co-Founder, Chairman, President and CEO

BIO:
Mr. Herlin is a co-founder, serving as President & CEO since EPM's inception in September 2003. He has 28 years of experience in development, mergers and acquisitions, operations and finance. Previously, Mr. Herlin served as CEO, following his tenure as CFO, for an oil and gas exploration company focused on 3 D seismic exploration. He also served as Vice President of Strategic Initiatives for Enron Liquids prior to 1997 and Director of Acquisitions for several independent oil and gas companies, including leading 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.

Company Profile:
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, 2010 include 12.4 MMBOE of proved and 7.2 MMBOE of probable reserves with a PV10 of $266 million and $64 million, respectively. Producing assets include a CO_2-EOR project with growing production in Louisiana's Delhi Field, horizontal wells in the naturally fractured Giddings Field of Central Texas and initial test wells in south Texas and eastern Oklahoma. Other assets include approximately 14,900 net acres in an emerging Woodford shale gas project in Eastern Oklahoma and a proprietary artificial lift technology designed to extend the life of horizontal wells with oil or associated water production.

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

CEOCFO: Mr. Herlin, what was your vision and philosophy when you started Evolution Petroleum, and where are you today?

Mr. Herlin: I co-founded Evolution Petroleum in 2003 with the idea of using a technical engineering approach to develop oil and gas reserves in existing known fields in the U.S. onshore. In general, we do not explore for oil and gas, we use existing technology, capital and expertise to generate opportunities to develop reserves. Our business model is to generate development ideas, capture the opportunities as cheaply as possible through leasing, test and de-risk those ideas, and then we then bring in third party capital to roll out full development.

CEOCFO: What is a concrete example of what Evolution Petroleum is able to test for technologically that perhaps others do not?

Mr. Herlin: The best example would be the very first project that we did, the Delhi Field in northeast Louisiana. Delhi is an old oil field discovered back in the 1940's. It was developed in a fairly short period of time, about three or four years, and has produced about 200 million barrels of oil in its history. It matured, declined, and by the time we bought the property, the field was down to about 20 barrels of oil production per day. We identified the opportunity, purchased the field at a very small price, about $2.8 million, invested another $2.5 million to drill additional wells and put other wells back on production. In this, we increased production seven fold. More importantly, while going through the well files, we discovered that the field was successfully field tested during 1985 for CO_2 enhanced oil recovery potential. We took that information and negotiated an agreement with a major CO_2 EOR operator to joint venture with us. That company agreed to provide the capital to develop the project and the necessary reserves of CO_2. They also paid us $50 million cash upfront. The project is now un-

derway and our partner has invested over $300 million in the project to date. Our independent reservoir engineer has assigned 68 million barrels of gross proved and probable reserves to the project, and our interests in the project have net proved and probable reserves of about 15 million barrels. The pretax present value discounted at 10% as of June 30, 2010 as assigned by the independent reservoir engineer is about $265 million for our total reserves. That is an example of the kind of projects that we like.

CEOCFO: How do you know what is going to improve through technologically?

Mr. Herlin: The opportunity that we recognized before purchasing Delhi was the intrinsic value of the existing, fully unitized field. This means that all of the approximately 250 leases covering the field already had been combined by previous operators into one giant lease, or unit; that is a very expensive, time-consuming process, but it is very valuable. I looked at Delhi as an opportunity to acquire a field that had already produced significant amount of oil and still had even more oil left in the ground. Therefore, if we could just increase recovery by an additional 1%, we would add millions of barrels of oil reserves. The field had not had any new techniques or technology applied to it since the 1980's, as much as two decades out of date.

CEOCFO: Would you tell us about your new Giddings wells?

Mr. Herlin: Giddings is another opportunity that we originated, captured and de-risked through drilling. Giddings is a field in central Texas that has produced over 1 billion barrels of oil equivalent in its history, and our operating team has tremendous experience there. I created and led a development group in the late 1980's and early 1990's active in drilling horizontal wells during the infancy of horizontal drilling. Our VP of Operations has twenty-five years of engineering and operations experience working primarily for Anadarko and its predecessor, much of which in the Giddings field, and he is responsible for certain developments in horizontal drilling practices. Our director of drilling has 29 years of engineering experience with Anadarko and its predecessors. He has drilled hundreds of horizontal wells. Our team thoroughly evaluated key areas in the Giddings Field by applying their experience and identified undrained and unleased areas. These targeted areas had sufficient separation from other wells to minimize the risk of depletion, and we were able to lease the minimum amount of acreage in order to drill an economic well. To date, we have drilled eleven wells and re-established production in two more wells, and we have another ten locations left to drill. As of our June 30, 2010 reserve report, we had generated about $10 million of cash flow from our Giddings properties and we had remaining proved reserves with pretax cash flow present value of about $41 million, all a result of our investment of $27 million through that date. We believe that Giddings has been an attractive project for us to date.

The key thing to understand about Evolution is the intrinsic value of our biggest asset, the Delhi Field. That project is unique in that we project our future cash flow present value there to increase every year through 2016 while generating substantial current cash flows to us, subject to oil price.

- Robert S. Herlin

CEOCFO: Does Evolution Petroleum have other projects?

Mr. Herlin: We have Woodford shale project in east Oklahoma where we are developing unconventional gas at a moderate depth of about 4,000-6,000 feet. If you follow the Woodford shale trend to the northeast, the formation gets shallower and, therefore, less expensive to drill and frac. We put together a position totaling more than 8000 net acres in 30 sections, and we are currently conducting our first test that should lead us into the next phase of full-scale development. The potential in this project approaches several hundred BCF of natural gas. We expect drilling and completion costs to be in the range of $1-1.25 per MCF. In addition, we have developed an artificial lift technology to target the recovery of an incremental 10% to 15% reserves in certain horizontal wells. We have tested it in several of our horizontal wells in Giddings, and we now are in the process of commercializing it with other parties to demonstrate the technology.

CEOCFO: Would you explain your artificial lift technology?

Mr. Herlin: A typical horizontal well begins with a long vertical section that extends to just above the targeted reservoir, followed by a curve section that results in a horizontal wellbore typically several hundred feet or more below the bottom of the vertical section. Such wells begin flowing naturally, and when reservoir pressure declines sufficiently to require artificial lift, the operator must install a pump. Mechanical pumps must be located in the near vertical section of the well to avoid excessive wear. Continued reservoir depletion eventually leads to either the fluid level dropping below the pump intake and causing the well to quit producing or, in the case of a gas well, reservoir pressure depletion results in fluid dropping out of the gas stream and building up to a level that prevents gas flow. In either case, the well quits producing while there remain considerable reserves. We believe that our artificial lift technology allows recovery of an additional portion of the remaining reserves, potentially up to an incremental 10%-15% and at a nominal cost.

CEOCFO: Evolution has projects in a number of places; is it strictly opportunistic, and is there any particular mix you are looking for either geographically or by type?

Mr. Herlin: We prefer to operate in areas that we can get to easily and that we are comfortable in due to our background. Therefore, we will stick to areas in Texas, Oklahoma, Louisi-

ana, and perhaps Kansas and New Mexico. It takes a lot of experience to operate effectively in places like North Dakota, where you have very cold winter conditions. We are in areas in which we are comfortable, have considerable expertise, can easily access for hands-on operation, and have opportunities in which we can add value.

CEOCFO: What is your two-minute take on oil and gas, and the economy?

Mr. Herlin: The world is highly uncertain right now. We have tremendous volatility at this point in the worldwide economy. Are we in a recession, stagflation, inflation, or deflation? We are concerned about the capital markets and access to capital. We are concerned about potential inflation and the current U.S. deficit. Consequently, we are conservative in our financing and operations. We generally avoid use of debt in our drilling operations, focusing more on internal cash flow and, potentially, additional equity. To date, we have funded Evolution solely through about $8.5 million of cash equity and generated cash flows, yet our market capitalization is about $200 million. We are more comfortable with oil prices generally staying above $80 in the longer term, and if oil prices do decline from there, it should be a temporary move. We believe that a natural gas price of $4.50 or less is below the long-term replacement cost. Therefore, we do not expect to see gas prices significantly decline from the current level for an extended period. Over the long-term, we should see some natural gas price improvement. The key for gas projects is to keep development cost low. We plan our projects on the assumption that another downturn can occur and that commodity prices will continue to be volatile.

CEOCFO: What is the market opportunity for the artificial lift technology?

Mr. Herlin: There is a lot left to do in terms of commercialization. We still have to show that it works in other people's wells. We have to show that it works out side of the Giddings field. We have to show that it works in different types of horizontal wells. There is a much more development work before we can begin to quantify the opportunity. It could potentially be very big. However, we have to prove that and we not done that yet.

CEOCFO: Do you do much outreach to investors?

Mr. Herlin: We do a fair amount of presentations and nondeal road shows; we go out with the groups that cover us and trade our stock. We present both to retail brokers as well as institutional investors. We also have quarterly earnings conference calls that anybody can listen to and participate. We issue press releases from time to time; however, we prefer to limit our releases to substantial information. You are not going to see us issue a press release and say that we have drilled so far on a certain well, for example. Generally, we give quarterly operating updates that are that touch on things that materially impact the company.

CEOCFO: What should people expect over the next year or so from Evolution Petroleum?

Mr. Herlin: This last fiscal year has been low key. We have not spent much money, about $4 million of capital expenditures, and we focused on testing and derisking projects. We are now planning our fiscal 2012 program since our year end is June 30. We expect to be far more active drilling in the Giddings Field, in eastern Oklahoma and in the commercialization of our artificial lift technology. Therefore, investors can look for much more activity from us.

CEOCFO: Is there anything investors might miss when they look at Evolution Petroleum that they should understand?

Mr. Herlin: The key thing to understand about Evolution is the intrinsic value of our biggest asset, the Delhi Field. That project is unique in that we project our future cash flow present value there to increase every year through 2016 while generating substantial current cash flows to us, subject to oil price. The production is increasing substantially during those years, which drives up our present value. At the peak value in 2016, the present value of future cash flows are projected to be 40%-50% higher than today, all without any effort or investment on our part. Our proved reserves there are essentially all prepaid. If you look at our total reserves, one thing you will notice is that we have very little capital requirement to convert our nonproducing reserves into production. Other companies have substantial undeveloped reserves that require large amounts of capital investment and funding. In addition, the Delhi future pretax cash flow present value as of June 30, 2010 by itself far exceeds our current market cap, before factoring in the current higher oil price. The June 30, 2010 calculation utilized a $76 oil price, compared to the much higher current oil price. There is much value that is not reflected in our stock price today, and shareholders own the optional value of our other projects.

CEOCFO: Final thoughts, what should people remember most about Evolution Petroleum?

Mr. Herlin: We are a very financially conservative company. Employees own about 20% of the company, so shareholders can be confident that we evaluate our projects and make our decisions based on what will improve stock value, not what will increase bonuses or salaries. Therefore, shareholders and potential shareholders can be very comfortable and confident that their interests are being managed well.

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