

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2019

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 001-32942



EVOLUTION PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

Nevada

41-1781991

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

1155 Dairy Ashford Road, Suite 425, Houston, Texas 77079

(Address of principal executive offices and zip code)

(713) 935-0122

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
Common Stock, \$0.001 par value	EPM	NYSE American

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes: No:

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

33,101,154 shares outstanding of common stock, par value \$0.001, as of February 5, 2020.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

<u>Forward-Looking Statements</u>	<u>ii</u>
<u>Part I. Financial Information</u>	<u>1</u>
Item 1. <u>Financial Statements (Unaudited)</u>	<u>1</u>
<u>Unaudited Consolidated Condensed Balance Sheets as of December 31, 2019 and June 30, 2019</u>	<u>1</u>
<u>Unaudited Consolidated Condensed Statements of Operations for the three and six months ended December 31, 2019 and 2018</u>	<u>2</u>
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the six months ended December 31, 2019 and 2018</u>	<u>3</u>
<u>Unaudited Consolidated Condensed Statements of Changes in Stockholders' Equity for the three and six months ended December 31, 2019 and 2018</u>	<u>4</u>
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	<u>5</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>26</u>
Item 4. <u>Controls and Procedures</u>	<u>26</u>
<u>Part II. Other Information</u>	<u>27</u>
Item 1. <u>Legal Proceedings</u>	<u>27</u>
Item 1A. <u>Risk Factors</u>	<u>27</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>27</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>27</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>27</u>
Item 5. <u>Other Information</u>	<u>27</u>
Item 6. <u>Exhibits</u>	<u>28</u>
<u>Signatures</u>	<u>29</u>

We use the terms, "EPM," "Company," "we," "us" and "our" to refer to Evolution Petroleum Corporation, and unless the context otherwise requires, its wholly-owned subsidiaries.

FORWARD-LOOKING STATEMENTS

This Form 10-Q and the information referenced herein contains forward-looking statements within the meaning of the Private Securities Litigations Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “plan,” “expect,” “project,” “estimate,” “assume,” “believe,” “anticipate,” “intend,” “budget,” “forecast,” “predict” and other similar expressions are intended to identify forward-looking statements. These statements appear in a number of places and include statements regarding our plans, beliefs or current expectations, including the plans, beliefs and expectations of our officers and directors. When considering any forward-looking statement, you should keep in mind the risk factors that could cause our actual results to differ materially from those contained in any forward-looking statement. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include the timing and extent of changes in commodity prices for oil and natural gas, operating risks and other risk factors as described in Part II, Item 1A, "Risk Factors" and elsewhere in this report and as also may be described from time to time in our future reports we file with the Securities and Exchange Commission. You should read such information in conjunction with our consolidated condensed financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not currently perceive them to be material. Such factors could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these statements other than as required by law. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission.

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)**Evolution Petroleum Corporation and Subsidiaries**
Consolidated Condensed Balance Sheets
(Unaudited)

	December 31, 2019	June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 20,935,968	\$ 31,552,533
Receivables	4,008,414	3,168,116
Prepaid expenses	518,396	458,278
Total current assets	25,462,778	35,178,927
Oil and natural gas properties, net (full-cost method of accounting)	68,814,569	60,346,466
Other property and equipment, net	21,914	26,418
Total property and equipment	68,836,483	60,372,884
Other assets, net	331,608	210,033
Total assets	\$ 94,630,869	\$ 95,761,844
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 2,985,901	\$ 2,084,140
Accrued liabilities and other	548,676	537,755
State and federal income taxes payable	246,972	130,799
Total current liabilities	3,781,549	2,752,694
Long term liabilities		
Deferred income taxes	11,362,943	11,322,691
Asset retirement obligations	2,493,741	1,560,601
Operating lease liability	112,870	—
Total liabilities	17,751,103	15,635,986
Commitments and contingencies		
Stockholders' equity		
Common stock; par value \$0.001; 100,000,000 shares authorized; 33,106,988 and 33,183,730 shares issued and outstanding, respectively	33,107	33,183
Additional paid-in capital	41,306,353	42,488,913
Retained earnings	35,540,306	37,603,762
Total stockholders' equity	76,879,766	80,125,858
Total liabilities and stockholders' equity	\$ 94,630,869	\$ 95,761,844

See accompanying notes to consolidated condensed financial statements.

Evolution Petroleum Corporation and Subsidiaries
Consolidated Condensed Statements of Operations
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Revenues				
Crude oil	\$ 8,974,237	\$ 10,515,875	\$ 17,819,741	\$ 21,913,327
Natural gas liquids	406,634	532,243	712,578	1,441,870
Natural gas	744	—	1,511	—
Total revenues	9,381,615	11,048,118	18,533,830	23,355,197
Operating costs				
Production costs	4,234,605	3,452,168	7,324,694	6,910,598
Depreciation, depletion and amortization	1,461,049	1,603,633	2,910,803	3,152,093
General and administrative expenses *	1,436,197	1,258,570	2,774,550	2,563,832
Total operating costs	7,131,851	6,314,371	13,010,047	12,626,523
Income from operations	2,249,764	4,733,747	5,523,783	10,728,674
Other				
Enduro transaction breakup fee	—	—	—	1,100,000
Interest and other income	52,941	59,858	119,070	106,429
Interest expense	(29,345)	(29,345)	(58,690)	(58,690)
Income before income taxes	2,273,360	4,764,260	5,584,163	11,876,413
Income tax provision	508,442	859,695	1,026,425	2,176,047
Net income available to common stockholders	\$ 1,764,918	\$ 3,904,565	\$ 4,557,738	\$ 9,700,366
Earnings per common share				
Basic	\$ 0.05	\$ 0.12	\$ 0.14	\$ 0.29
Diluted	\$ 0.05	\$ 0.12	\$ 0.14	\$ 0.29
Weighted average number of common shares				
Basic	32,988,737	33,167,159	33,057,691	33,134,726
Diluted	32,988,737	33,176,503	33,061,555	33,147,775

* For the three months ended December 31, 2019 and 2018, non-cash stock-based compensation expenses were \$236,190 and \$254,111, respectively. For the six months ended December 31, 2019 and 2018, non-cash stock-based compensation expenses were \$568,203 and \$469,484, respectively.

See accompanying notes to consolidated condensed financial statements.

Evolution Petroleum Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended December 31,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 4,557,738	\$ 9,700,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,910,803	3,152,093
Stock-based compensation	568,203	469,484
Settlements of asset retirement obligations	(26,773)	—
Deferred income tax expense (benefit)	40,252	506,297
Other	32,149	9,648
Changes in operating assets and liabilities:		
Receivables	(840,298)	507,689
Prepaid expenses	(60,118)	(70,048)
Accrued liabilities and other	875,929	(144,638)
Income taxes payable	116,173	13,364
Net cash provided by operating activities	8,174,058	14,144,255
Cash flows from investing activities		
Acquisition of oil and natural gas properties	(9,337,716)	—
Capital expenditures for oil and natural gas properties	(1,080,874)	(5,048,987)
Capital expenditures for other property and equipment	—	(2,066)
Net cash used in investing activities	(10,418,590)	(5,051,053)
Cash flows from financing activities		
Cash dividends to common stockholders	(6,621,194)	(6,634,896)
Common share repurchases, including shares surrendered for tax withholding	(1,750,839)	(138,638)
Net cash used in financing activities	(8,372,033)	(6,773,534)
Net change in cash, cash equivalents and restricted cash	(10,616,565)	2,319,668
Cash, cash equivalents and restricted cash, beginning of period	31,552,533	27,681,133
Cash and cash equivalents, end of period	\$ 20,935,968	\$ 30,000,801

Supplemental disclosures of cash flow information:

	Six Months Ended December 31,	
	2019	2018
Income taxes paid	\$ 1,100,000	\$ 1,862,919
Non-cash transactions:		
Change in accounts payable used to acquire oil and natural gas properties	39,361	(1,094,249)
Oil and natural gas property costs incurred through recognition of asset retirement obligations and revision of previous estimates	871,076	31,268

See accompanying notes to consolidated condensed financial statements.

Evolution Petroleum Corporation and Subsidiaries
Consolidated Condensed Statements of Changes in Stockholders' Equity
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Par Value				
For the Three Months Ended December 31, 2019:						
Balance at September 30, 2019	33,003,134	\$ 33,003	\$ 41,458,682	\$ 37,090,174	\$ —	\$ 78,581,859
Issuance of restricted common stock	212,750	213	(213)	—	—	—
Forfeitures of restricted stock	(40,870)	(41)	41	—	—	—
Common share repurchases, including shares surrendered for tax withholding	—	—	—	—	(388,415)	(388,415)
Retirements of treasury stock	(68,026)	(68)	(388,347)	—	388,415	—
Stock-based compensation	—	—	236,190	—	—	236,190
Net income	—	—	—	1,764,918	—	1,764,918
Common stock cash dividends, \$0.10 per share	—	—	—	(3,314,786)	—	(3,314,786)
Balance at December 31, 2019	33,106,988	\$ 33,107	\$ 41,306,353	\$ 35,540,306	\$ —	\$ 76,879,766
For the Six Months Ended December 31, 2019:						
Balance at June 30, 2019	33,183,730	\$ 33,183	\$ 42,488,913	\$ 37,603,762	\$ —	\$ 80,125,858
Issuance of restricted common stock	271,778	272	(272)	—	—	—
Forfeitures of restricted stock	(49,118)	(49)	49	—	—	—
Common share repurchases, including shares surrendered for tax withholding	—	—	—	—	(1,750,839)	(1,750,839)
Retirements of treasury stock	(299,402)	(299)	(1,750,540)	—	1,750,839	—
Stock-based compensation	—	—	568,203	—	—	568,203
Net income	—	—	—	4,557,738	—	4,557,738
Common stock cash dividends, \$0.10 per share	—	—	—	(6,621,194)	—	(6,621,194)
Balance at December 31, 2019	33,106,988	\$ 33,107	\$ 41,306,353	\$ 35,540,306	\$ —	\$ 76,879,766
For the Three Months Ended December 31, 2018:						
Balance at September 30, 2018	33,157,852	\$ 33,157	\$ 41,882,949	\$ 37,978,770	\$ —	\$ 79,894,876
Issuance of restricted common stock	35,215	36	(36)	—	—	—
Common share repurchases, including shares surrendered for tax withholding	—	—	—	—	(48,646)	(48,646)
Retirements of treasury stock	(6,402)	(7)	(48,639)	—	48,646	—
Stock-based compensation	—	—	254,111	—	—	254,111
Net income	—	—	—	3,904,565	—	3,904,565
Common stock cash dividends, \$0.10 per share	—	—	—	(3,319,111)	—	(3,319,111)
Balance at December 31, 2018	33,186,665	\$ 33,186	\$ 42,088,385	\$ 38,564,224	\$ —	\$ 80,685,795
For the Six Months Ended December 31, 2018:						
Balance at June 30, 2018	33,080,543	\$ 33,080	\$ 41,757,645	\$ 35,498,754	\$ —	\$ 77,289,479
Issuance of restricted common stock	121,611	122	(122)	—	—	—
Common share repurchases, including shares surrendered for tax withholding	—	—	—	—	(138,638)	(138,638)
Retirements of treasury stock	(15,489)	(16)	(138,622)	—	138,638	—
Stock-based compensation	—	—	469,484	—	—	469,484
Net income	—	—	—	9,700,366	—	9,700,366
Common stock cash dividends, \$0.10 per share	—	—	—	(6,634,896)	—	(6,634,896)
Balance at December 31, 2018	33,186,665	\$ 33,186	\$ 42,088,385	\$ 38,564,224	\$ —	\$ 80,685,795

See accompanying notes to consolidated condensed financial statements.

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Note 1 — Organization and Basis of Preparation

Nature of Operations. Evolution Petroleum Corporation is an oil and gas company focused on delivering a sustainable dividend yield to its stockholders through the ownership, management and development of oil and gas properties. The Company's long-term goal is to build a diversified portfolio of oil and gas assets primarily through acquisitions, while seeking opportunities to maintain and increase production through selective development, production enhancement and other exploitation efforts on its properties.

Interim Financial Statements. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the appropriate rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. All adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the interim periods presented have been included. The interim financial information and notes hereto should be read in conjunction with the Company's 2019 Annual Report on Form 10-K for the fiscal year ended June 30, 2019, as filed with the SEC. The results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

Principles of Consolidation and Reporting. Our consolidated financial statements include the accounts of EPM and its wholly-owned subsidiaries (the "Company"). All significant intercompany transactions have been eliminated in consolidation. The consolidated financial statements for the previous year may include certain reclassifications to conform to the current presentation. Any such reclassifications have no impact on previously reported net income or stockholders' equity.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include (a) reserve quantities and estimated future cash flows associated with proved reserves, which may significantly impact depletion expense and potential impairments of oil and natural gas properties, (b) asset retirement obligations, (c) stock-based compensation, (d) income taxes and the valuation of deferred tax assets and (e) commitments and contingencies. We analyze our estimates based on historical experience and various other assumptions that we believe to be reasonable. While we believe that our estimates and assumptions used in preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

Note 2 — Summary of Significant Accounting Policies

The significant accounting policies followed by the Company are set forth in Note 2 - Summary of Significant Accounting Policies in the 2019 Form 10-K and are supplemented by the notes to the unaudited condensed consolidated financial statements included in this report. These unaudited condensed consolidated financial statements should be read in conjunction with the 2019 Form 10-K.

Recently Adopted Accounting Pronouncement - Leases

In February 2016, the FASB issued ASU 2016-02, Leases ("ASC 842"), which relates to the accounting for leasing transactions. This standard requires an entity to recognize a right-of-use ("ROU") asset and lease liability for leases. Classification of leases as either a finance or operating lease determines the recognition, measurement and presentation of expenses. This accounting standards update also requires certain quantitative and qualitative disclosures about leasing arrangements. Leases acquired to explore for or use minerals, oil or natural gas resources, including the right to explore for those natural resources and rights to use the land in which those natural resources are contained, are not within the scope of the standards update.

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Effective July 1, 2019, the Company adopted the new standard using a modified retrospective approach and elected to use the optional transition methodology whereby reporting periods prior to adoption continue to be presented in accordance with legacy accounting guidance, Accounting Standard Codification 840 - Leases. Upon transition, we recognized a ROU asset (or operating lease right-of-use asset) and an operating lease liability with no retained earnings impact. We applied the following practical expedients as provided in the standards update which provide elections to not reassess:

- Whether an expired or existing pre-adoption date contracts contained leases.
- Lease classification of any expired or existing leases.
- Initial direct costs for any expired or existing leases.

We determine if an arrangement is a lease at inception of the arrangement. To the extent that we determine an arrangement represents a lease, we classify that lease as an operating lease or a finance lease. We capitalize our operating leases on our consolidated balance sheet through a ROU asset and a corresponding lease liability. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Short-term leases that have an initial term greater than one month but less than one year are not capitalized in the above manner but related costs each period must be disclosed.

As a non-operator in recent years and having adequate liquidity, the Company has generally not entered into lease transactions. Presently, our only lease is an operating lease for our corporate office space in Houston, Texas, effective May 1, 2019, which expires November 30, 2022. We have no finance leases and no short-term leases.

Adoption of the new standard did not impact our unaudited condensed consolidated statements of operations, cash flows or stockholders' equity. At adoption we recorded our operating lease as follows:

Asset (Liability)	Balance June 30, 2019	Adjustment at Adoption July 1, 2019
Operating lease right-of-use asset	\$ —	\$ 161,125
Accrued liabilities and other:		
Deferred rent	\$ (4,338)	\$ 4,338
Operating lease liability	\$ —	\$ (26,194)
Operating lease liabilities - long-term	\$ —	\$ (139,269)

In addition to the transitional elections, we have also elected a practical expedient to not separate lease components from non-lease components, such as services provided by the lessor under the contract. Accordingly, we account for the lease and non-lease components in an arrangement as a single lease component. We elected this expedient for our existing asset classes.

Although we presently have no short-term leases, we have made an accounting policy election not to apply the lease recognition requirements to any future short-term leases, which the guidance defines as having a lease term of 12 months or less and not having an option to purchase the underlying asset that we would be reasonably certain to exercise. Such lease payments would be recognized in our statement of operations on a straight-line basis over the lease term as would have been done under the previous guidance.

Variable lease payments, which are neither fixed by the contract nor dependent on an index or rate, are not included in the lease liability or ROU assets. We recognize such payments in our statement of operations in the period in which the obligation for those payments is incurred.

Recently Issued Accounting Pronouncement

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, and requires the use of a new forward-looking expected loss model that will result in the earlier recognition of allowances for losses. Early adoption is permitted and entities must adopt the amendment using a modified retrospective approach to the first reporting period in which the guidance is effective. For smaller reporting companies, as provided by Accounting Standards Update 2019-10, Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), ASU 2016-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2022. The adoption of ASU 2016-13 is currently not expected to have a material effect on our consolidated financial statements.

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes ("Topic 740") - Simplifying the Accounting for Income Taxes. ASU 2019-12 is intended to simplify accounting for income taxes. It removes certain exceptions to the general principles in Topic 740 and amends existing guidance to improve consistent application. ASU 2019-12 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2020. Early adoption is permitted. We are currently evaluating the impact of ASU 2019-12 on our consolidated financial statements.

Note 3 — Revenue from Contracts with Customers

Our revenue is primarily generated from our interests in the Delhi field in Northeast Louisiana and, commencing November 1, 2019 our interests in the Hamilton Dome field in Wyoming. Additionally, an overriding royalty interest retained in a past divestiture of Texas property provided de minimis revenue:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Revenues				
Crude oil	\$ 8,974,237	\$ 10,515,875	\$ 17,819,741	\$ 21,913,327
Natural gas liquids	406,634	532,243	712,578	1,441,870
Natural gas	744	—	1,511	—
Total revenues	<u>\$ 9,381,615</u>	<u>\$ 11,048,118</u>	<u>\$ 18,533,830</u>	<u>\$ 23,355,197</u>

We are non-operator and presently do not take production in kind and do not negotiate contracts with customers. We recognize oil, gas, and NGL production revenue at the point in time when custody and title ("control") of the product transfers to the customer. Transfer of control drives the presentation of post-production expenses such as transportation, gathering and processing deductions within the accompanying statements of operations. Fees and other deductions incurred prior to control transfer are recorded within the production costs line item on the accompanying unaudited condensed statements of operations, while fees and other deductions incurred subsequent to control transfer are embedded in the price and effectively recorded as a reduction of oil, gas, and NGL production revenue.

Judgments made in applying the guidance in Accounting Standards Codification Topic 606, Revenue from Contracts with Customers relate primarily to determining the point in time when control of product transfers to the customer. The Company does not believe that significant judgments are required with respect to the determination of the transaction price, including amounts that represent variable consideration, as volume and price carry a low level of estimation uncertainty given the precision of volumetric measurements and the use of index pricing with predictable differentials. Accordingly, the Company does not consider estimates of variable consideration to be constrained.

The Company's contractual performance obligations arise upon the production of hydrocarbons from wells in which the Company has an ownership interest. The performance obligations are considered satisfied at a point in time upon control transferring to a customer at a specified delivery point. Consideration is allocated to satisfied performance obligations at the end of an accounting period.

Revenue is recorded in the month when contractual performance obligations are satisfied. However, settlement statements from the purchasers of hydrocarbons and the related cash consideration are received one to two months after production has occurred, which is typical in the industry. As a result, the Company must estimate the amount of production delivered to the customer and the consideration that will ultimately be received for sale of the product. Estimated revenue due to the Company is recorded within the receivables line item on the accompanying unaudited condensed consolidated balance sheets ("accompanying balance sheets") until payment is received. The accounts receivable balances from contracts with customers within the accompanying balance sheets as of December 31, 2019 and June 30, 2019 were \$4.0 million and \$3.2 million, respectively. To estimate accounts receivable from operator contracts with customers, the Company uses knowledge of its properties, historical performance, contractual arrangements, index pricing, quality and transportation differentials, and other factors as the basis for these estimates. Differences between estimates and actual amounts received for product sales are recorded in the month that payment is received from the purchaser. Revenue recognized during the six months ended December 31, 2019, that related to performance obligations satisfied in prior reporting periods, was immaterial.

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Note 4 — Enduro Purchase and Sale Agreement and "Stalking Horse" Bid

During the first quarter of fiscal 2019, the Company recorded a \$1.1 million break-up fee upon the closing of a higher bidder's purchase transaction. During May 2018, the Company had entered into a Purchase and Sale Agreement ("PSA"), to acquire, as the "stalking horse" bidder, certain oil and gas assets from an affiliate of Enduro Resource Partners LLC ("Enduro") for a purchase price of \$27.5 million, subject to the outcome of Enduro's Chapter 11 process. Contemporaneous with executing the PSA, the Company made a \$2.75 million deposit to an acquisition escrow account which, together with interest earned, comprised the restricted cash balance on the Company's June 30, 2018 consolidated statement of financial position. Earlier in the first quarter of 2019, the Company was repaid its deposit together with related earned interest when a higher bidder first emerged in the bidding process.

The Company's initial and subsequent bids represented offers under Section 363 of the U.S. Bankruptcy Code in Enduro's Chapter 11 proceeding. Such offers are commonly referred to as "stalking horse" bids and are subject to higher bids, in accordance with the bidding procedures approved by the Bankruptcy Court. In connection with the PSA, the Company had incurred third party due diligence expenses, which have been reflected in the Company's consolidated statement of operations for the year ended June 30, 2018.

Note 5 — Prepaid Expenses

	December 31, 2019	June 30, 2019
Prepaid insurance	\$ 90,504	\$ 206,198
Prepaid subscription and licenses	48,895	55,435
Prepaid federal and state income taxes	351,679	121,679
Prepaid investor relations and other	27,318	74,966
Total prepaid expenses	<u>\$ 518,396</u>	<u>\$ 458,278</u>

Note 6 — Property and Equipment

	December 31, 2019	June 30, 2019
Oil and natural gas properties		
Property costs subject to amortization	\$ 106,951,180	\$ 95,622,153
Less: Accumulated depreciation, depletion, and amortization	(38,136,611)	(35,275,687)
Unproved properties not subject to amortization	—	—
Oil and natural gas properties, net	<u>\$ 68,814,569</u>	<u>\$ 60,346,466</u>
Other property and equipment		
Furniture, fixtures, office equipment and other, at cost	\$ 154,731	\$ 154,731
Less: Accumulated depreciation	(132,817)	(128,313)
Other property and equipment, net	<u>\$ 21,914</u>	<u>\$ 26,418</u>

During the six months ended December 31, 2019 and 2018, the Company incurred capital expenditures of \$1.1 million and \$4.0 million, respectively, in the Delhi field.

Hamilton Dome Acquisition

On November 1, 2019, and effective as of October 1, 2019, our wholly-owned subsidiary, Evolution Petroleum West, Inc., a Delaware corporation, purchased a 23.51% non-operating working interest and a 19.70% revenue interest in the Hamilton Dome unitized field located in Hot Springs County, Wyoming, from entities owned or controlled by Merit Energy Company ("Merit") of Dallas, Texas. At closing on November 1, 2019, we paid a cash purchase price of \$9.5 million which was subject to customary purchase price adjustments, which were settled in December 2019 upon our receipt of a \$0.2 million cash payment made by Merit. Given the effective date of the transaction, the purchase price adjustment consisted of our interest's share of sales proceeds from October sales net of our share of operating expenses. Commencing November 1, 2019, we began recording

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

our share of Hamilton Dome revenues, related expenses and capital costs. In connection with this acquisition, the Company recorded a \$0.9 million non-cash addition of asset retirement obligations of wells and related assets.

The unit included 265 producing and water injection wells and associated facilities producing crude oil from proved developed reserves. There were no proved undeveloped reserves, probable nor possible reserves. We accounted for this acquisition transaction as an asset purchase.

Note 7 — Leases

Operating leases are reflected as an operating lease ROU asset included in other assets, in accrued and other liabilities-current and as an operating lease liability on our unaudited condensed consolidated balance sheet. Operating lease ROU assets and liabilities are recognized at the commencement date of an arrangement based on the present value of lease payments over the lease term. In addition to the present value of lease payments, the operating lease ROU asset would also include any lease payments made to the lessor prior to lease commencement less any lease incentives and initial direct costs incurred, if any. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

As a non-operator in recent years and having adequate liquidity, the Company has generally not entered into lease transactions. Presently, our only operating lease is for corporate office space in Houston, Texas, effective May 1, 2019 and which expires November 30, 2022. Presently we have one operating lease for office space, no finance leases and no short-term leases.

Certain assumptions and judgments made by the Company when evaluating a contract that meets the definition of a lease under Topic 842 include:

- **Discount Rate** - Our lease does not provide an implicit rate. Accordingly, we are required to use our incremental borrowing rate in determining the present value of lease payments based on the information available at commencement date. Our incremental borrowing rate reflects the estimated rate of interest that we would pay to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. At adoption, July 1, 2019, we used our prime-rate-based borrowing rate under our senior secured credit facility as our incremental borrowing as the term facility was based on a similar term and is appropriately risk-adjusted.
- **Lease Term** - At inception the Company evaluates the contract containing a lease arrangement to determine the length of the lease term when recognizing a ROU asset and corresponding lease liability. When determining the lease term, an option available to extend or to early terminate the arrangement is evaluated and included when it is reasonably certain an option will be exercised. Because of the Company's intent to maintain operational flexibility, there is no available option to extend that the Company is reasonably certain it will exercise. We have no expectation to use the early termination option that we are reasonably certain to exercise.

The components of our total lease expense, included in general and administrative expense, are as follows:

	Three Months Ended December 31, 2019	Six Months Ended December 31, 2019
Operating lease cost	13,015	\$ 26,030
Variable lease expense (1)	5,594	6,584
Total lease expense	18,609	\$ 32,614

(1) Variable lease payments that are not dependent on an index or rate are not included in the lease liability or ROU asset.

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Supplemental cash flow, balance sheet and other disclosures information related to our operating leases are as follows:

	As of and For the Six Months Ended December 31, 2019
Cash Flow:	
Cash paid for amounts included in the measurement of lease liabilities	\$ 4,903
ROU asset added in exchange for lease obligation at adoption	161,125
Balance Sheet:	
Operating lease ROU asset (included in other assets)	139,379
Accrued liabilities - current	51,974
Operating lease liability - long-term	112,870
Other:	
Weighted average remaining lease term in years	2.91
Weighted average discount rate	5.15%

At December 31, 2019, maturities of our operating lease liability are as follows:

Fiscal Year	Operating Lease Liability
Remainder of 2020	\$ 29,419
2021	59,945
2022	61,843
2023	26,098
Total lease payments	177,305
Less imputed interest	(12,461)
Total lease liability	\$ 164,844

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Note 8 — Other Assets

As of December 31, 2019 and June 30, 2019, other assets consisted of the following:

	December 31, 2019	June 30, 2019
Royalty rights	\$ 108,512	\$ 108,512
Less: Accumulated amortization of royalty rights	(54,256)	(47,474)
Investment in Well Lift Inc., at cost	108,750	108,750
Deferred loan costs	168,972	168,972
Less: Accumulated amortization of deferred loan costs	(149,505)	(141,927)
Right of use asset under operating lease	161,125	—
Less: Accumulated amortization of right of use asset	(21,746)	—
Software license	20,662	20,662
Less: Accumulated amortization of software license	(10,906)	(7,462)
Other assets, net	<u>\$ 331,608</u>	<u>\$ 210,033</u>

Our royalty rights and investment in Well Lift, Inc. ("WLI") resulted from the separation of our artificial lift technology operations in December 2015. We conveyed our patents and other intellectual property to WLI and retained a 5% royalty on future gross revenues associated with the technology. We own 17.5% of the common stock of WLI and account for our investment in this private company at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, if such were to occur. The Company evaluates the investment for impairment when it identifies any events or changes in circumstances that might have a significant adverse effect on the fair value of the investment.

Note 9 — Accrued Liabilities and Other

As of December 31, 2019 and June 30, 2019, our other current liabilities consisted of the following:

	December 31, 2019	June 30, 2019
Accrued incentive and other compensation	\$ 370,456	\$ 369,719
Asset retirement obligations due within one year	—	50,244
Operating lease liability, current	51,974	—
Accrued franchise taxes	62,178	5,738
Accrued ad valorem taxes	52,515	100,500
Other accrued liabilities	11,553	11,554
Accrued liabilities and other	<u>\$ 548,676</u>	<u>\$ 537,755</u>

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Note 10 — Asset Retirement Obligations

Our asset retirement obligations represent the estimated present value of the amount we expect to incur to plug, abandon and remediate our producing properties at the end of their productive lives in accordance with applicable laws. The following is a reconciliation of the beginning and ending asset retirement obligations for the six months ended December 31, 2019 and for the year ended June 30, 2019:

	December 31, 2019	June 30, 2019
Asset retirement obligations — beginning of period	\$ 1,610,845	\$ 1,422,955
Liabilities incurred	903,580 (a)	31,268
Liabilities settled	(50,610)	—
Liabilities sold	—	—
Accretion of discount	62,430	101,506
Revision of previous estimates	(32,504)	55,116
Asset retirement obligations — end of period	\$ 2,493,741	\$ 1,610,845
Less current portion in accrued liabilities	—	(50,244)
Long-term portion of asset retirement obligations	\$ 2,493,741	\$ 1,560,601

(a) Liabilities incurred in fiscal 2020 were due to our acquisition of our Hamilton Dome interest.

Note 11 — Stockholders' Equity**Common Stock**

As of December 31, 2019, we had 33,106,988 shares of common stock outstanding.

The Company began paying quarterly cash dividends on common stock in December 2013. We paid dividends of \$6,621,194 and \$6,634,896 to our common stockholders during the six months ended December 31, 2019 and 2018, respectively. The following table reflects the dividends paid within the respective three month periods:

Common Stock Cash Dividends per Share	2019	2018
First quarter ended September 30,	\$ 0.10	\$ 0.10
Second quarter ended December 31,	\$ 0.10	\$ 0.10

In May 2015, the Board of Directors approved a share repurchase program covering up to \$5 million of the Company's common stock. Since inception of the program through December 31, 2019, the Company spent \$3.3 million to repurchase 556,339 common shares at an average price of \$5.95 per share, including 290,147 shares at an average cost of \$5.85 during the six months ended December 31, 2019. Under the program's terms, shares are repurchased only on the open market and in accordance with the requirements of the Securities and Exchange Commission. Such shares are initially recorded as treasury stock, then subsequently canceled. The timing and amount of repurchases depends upon several factors, including financial resources and market and business conditions. There is no fixed termination date for this repurchase program, and it may be suspended or discontinued at any time.

During the six months ended December 31, 2019 and 2018, the Company also acquired treasury stock from holders of newly vested stock-based awards to fund the recipients' payroll tax withholding obligations. The treasury shares were subsequently canceled. Such shares were valued at fair market value on the date of vesting. The following table shows all treasury stock purchases in the respective periods:

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

	Six Months Ended December 31,	
	2019	2018
Number of treasury shares acquired (1)	299,402	15,489
Average cost per share	\$ 5.85	\$ 8.95
Total cost of treasury shares acquired	\$ 1,750,839	\$ 138,638

(1) The fiscal 2020 number of shares is net of 49,118 shares forfeited in the period.

Expected Tax Treatment of Dividends

For the fiscal year ended June 30, 2019, all common stock dividends were treated for tax purposes as qualified dividend income to recipients. Based on our current projections for the fiscal year ending June 30, 2020, we expect all common dividends for such period to be treated as qualified dividend income. Such projections are based on our reasonable expectations as of December 31, 2019 and are subject to change based on our final tax calculations at the end of the fiscal year.

Note 12 — Stock-Based Incentive Plan

At the December 8, 2016 annual meeting, the stockholders approved the adoption of the Evolution Petroleum Corporation 2016 Equity Incentive Plan (the "2016 Plan"), which replaced the Evolution Petroleum Corporation Amended and Restated 2004 Stock Plan (the "2004 Plan") for which there were no shares available for future grants. The 2016 Plan authorizes the issuance of 1,100,000 shares of common stock prior to its expiration on December 8, 2026. Incentives under the 2016 Plan may be granted to employees, directors and consultants of the Company in any one or a combination of the following forms: incentive stock options and non-statutory stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards, performance share awards, performance cash awards, and other forms of incentives valued in whole or in part by reference to, or otherwise based on, our common stock, including its appreciation in value. As of December 31, 2019, 390,489 shares remained available for grant under the 2016 Plan.

All outstanding awards granted under the 2004 Plan continue to be subject to the terms and conditions as set forth in the agreements evidencing such awards and the terms of the 2004 Plan. Under these agreements, we have outstanding grants of restricted common stock awards ("Restricted Stock") and contingent restricted common stock awards ("Contingent Restricted Stock") to employees and directors of the Company.

Restricted Stock and Contingent Restricted Stock

The Company has awarded grants of both Restricted Stock and Contingent Restricted Stock as part of its long-term incentive plan. Such grants, which expire after a maximum of four years if unvested, contain service-based, performance-based and market-based vesting provisions. The common shares underlying the Restricted Stock grants are issued on the date of grant. Contingent Restricted Stock grants vest only upon the attainment of higher performance-based or market-based vesting thresholds and are issued only upon vesting. Shares underlying Contingent Restricted Stock awards are reserved from the Plan they were granted under.

In July 2019, the new chief executive officer upon his employment, received 48,872 shares of service-based restricted common stock which vest in three equal amounts on June 30, 2020, 2021 and 2022, and was also awarded a total of 200,000 market-based restricted stock units consisting of four equal tranches, each of which may vest only if its respective stock price requirement is met before the award term expires. Each tranche has a separate stated price requirement and respective vesting will occur only if, before July 1, 2023, the ninety-day trailing average Company stock share price equals or exceeds its tranche price requirement.

Later during the six months ended December 31, 2019, we granted 52,119 service-based and 104,236 market-based Restricted Stock awards to our employees as well as 56,395 service-based awards to the Company's directors.

Service-based awards vest with continuous employment by the Company, generally in annual installments over their terms of three to four years. Awards to the Company's directors have one-year cliff vesting. Restricted Stock grants which vest based on service are valued at the fair market value on the date of grant and amortized over the service period.

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Performance-based grants vest upon the attainment of earnings, revenue and other operational goals and require that the recipient remain an employee or director of the Company through the vesting date. The Company recognizes compensation expense for performance-based awards ratably over the expected vesting period based on the grant date fair value when it is deemed probable, for accounting purposes, that the performance criteria will be achieved. The expected vesting period may be deemed to be shorter than the term of the award. As of December 31, 2019, there were no performance-based awards outstanding.

Many of our past market-based awards could vest if their respective two- or three-year trailing total returns on the Company's common stock exceed the corresponding total returns of various quartiles of indices consisting of peer companies. Additionally, more recent market-based awards vest when the average of the Company's closing stock price over a defined measurement period meets or exceeds a required stock price. The fair values and expected vesting periods of these awards are determined using a Monte Carlo simulation based on the historical volatility of the Company's total return compared to the historical volatilities of the other companies in the index. Compensation expense for market-based awards is recognized over the expected vesting period using the straight-line method, so long as the holder remains an employee or director of the Company. Total compensation expense is based on the fair value of the awards at the date of grant and is independent of vesting or expiration of the awards, except for termination of service.

For market-based awards granted during the six months ended December 31, 2019 and 2018, the assumptions used in the Monte Carlo simulation valuations, expected lives and fair values were as follows:

	Six Months Ended December 31,	
	2019	2018
Weighted average fair value of market-based awards granted	\$ 3.79	\$ 8.24
Risk-free interest rate	1.65% to 1.87%	2.69%
Expected vesting term in years	1.35 to 2.56	2.82
Expected volatility	38.6% to 43.7%	41.8%
Dividend yield	6% to 7.2%	4.0%

Unvested Restricted Stock awards at December 31, 2019 consisted of the following:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Service-based awards	171,609	\$ 5.95
Market-based awards	129,710	5.10
Unvested Restricted Stock at December 31, 2019	<u>301,319</u>	<u>\$ 5.59</u>

The following table sets forth the Restricted Stock transactions for the six months ended December 31, 2019:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value	Unamortized Compensation Expense at December 31, 2019	Weighted Average Remaining Amortization Period (Years)
Unvested at July 1, 2019	176,683	\$ 8.09		
Service-based shares granted	157,386	5.73		
Market-based shares granted	104,236	4.34		
Vested	(87,868)	7.29		
Forfeited	(49,118)	9.35		
Unvested Restricted Stock at December 31, 2019	<u>301,319</u>	<u>\$ 5.59</u>	<u>\$ 1,442,559</u>	<u>2.08</u>

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Unvested Contingent Restricted Stock awards table below consists solely of market-based awards:

	Number of Contingent Restricted Shares	Weighted Average Grant-Date Fair Value	Unamortized Compensation Expense at December 31, 2019	Weighted Average Remaining Amortization Period (Years)
Unvested at July 1, 2019	10,156	\$ 3.42		
Market-based awards granted	200,000	3.50		
Vested	(10,156)	3.42		
Unvested contingent shares at December 31, 2019	200,000	\$ 3.50	\$ 433,878	0.87

Stock-based compensation expense related to Restricted Stock and Contingent Restricted Stock grants for the three months ended December 31, 2019 and 2018 was \$236,190 and \$254,111, respectively. For the corresponding six periods, stock-based compensation expense was \$568,203 and \$469,484, respectively.

Note 13 — Income Taxes

We file a consolidated federal income tax return in the United States and various combined and separate filings in several state and local jurisdictions.

There were neither unrecognized tax benefits nor any accrued interest or penalties associated with unrecognized tax benefits during any periods presented in the financial statements. We believe we have appropriate support for the income tax positions taken and to be taken on our tax returns and that the accruals for tax liabilities are adequate for all open years based on our assessment of various factors including past experience and interpretations of tax law applied to the facts of each matter. The Company's federal and state income tax returns are open to audit under the statute of limitations for the years ended June 30, 2015 through June 30, 2018 for federal tax purposes and for the years ended June 30, 2016 through June 30, 2018 for state tax purposes. To the extent we utilize net operating losses generated in earlier years, such earlier years may also be subject to audit.

For the six months ended December 31, 2019 and 2018, respectively, we recognized income tax expenses of \$1.0 million and \$2.2 million. For the corresponding periods, effective tax rates were 18.4% and 18.3%. Our effective tax rate will typically differ from the statutory federal rate as a result of state income taxes, primarily in the State of Louisiana, and differences related to percentage depletion in excess of basis, stock-based compensation and other permanent differences. For both periods, our respective statutory federal tax rate was 21%.

Note 14 — Net Income Per Share

The following table sets forth the computation of basic and diluted income per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
<i>Numerator</i>				
Net income available to common shareholders	\$ 1,764,918	\$ 3,904,565	\$ 4,557,738	\$ 9,700,366
<i>Denominator</i>				
Weighted average number of common shares — Basic	32,988,737	33,167,159	33,057,691	33,134,726
Effect of dilutive securities:				
Contingent restricted stock grants	—	9,344	3,864	13,049
Weighted average number of common shares and potentially dilutive common shares used in diluted earnings per share	32,988,737	33,176,503	33,061,555	33,147,775
Net income per common share — Basic	\$ 0.05	\$ 0.12	\$ 0.14	\$ 0.29
Net income per common share — Diluted	\$ 0.05	\$ 0.12	\$ 0.14	\$ 0.29

Evolution Petroleum Corporation and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

Outstanding Potentially Dilutive Securities	Weighted Average Exercise Price	At December 31, 2019
Contingent Restricted Stock grants	\$ —	200,000

Outstanding Potentially Dilutive Securities	Weighted Average Exercise Price	At December 31, 2018
Contingent Restricted Stock grants	\$ —	10,156

Note 15 — Senior Secured Credit Agreement

On April 11, 2016, the Company entered into a three-year, senior secured reserve-based credit facility ("Facility") in an amount up to \$50 million. On May 25, 2018, we entered into the third amendment to our credit agreement governing the revolving credit facility to, among other things, extend the maturity date to April 11, 2021. On December 31, 2018, we entered into the fourth amendment to our credit agreement governing the revolving credit facility to broaden the definition for the Use of Proceeds.

As of December 31, 2019, the Company's elected commitment and borrowing base were \$40 million, we were in compliance with all financial covenants and there were no amounts outstanding under the Facility, which is secured by substantially all of the Delhi field assets.

Under the Facility the borrowing base shall be determined semiannually during the term of the Facility. The bank's recent redetermination of the borrowing base confirmed our elected amount of \$40 million.

Borrowings from the Facility may be used for the acquisition and development of oil and gas properties, investments in cash flow generating assets complimentary to the production of oil and gas, and for letters of credit and other general corporate purposes.

The Facility included a placement fee of 0.50% on the initial borrowing base, amounting to \$50,000, and carries a commitment fee of 0.25% per annum on the undrawn portion of the borrowing base. Any borrowings under the Facility will bear interest, at the Company's option, at either LIBOR plus 2.75% or the Prime Rate, as defined under the Facility, plus 1.00%. The Facility contains financial covenants including a requirement that the Company maintain, as of the last day of each fiscal quarter, (a) a maximum total leverage ratio of not more than 3.00 to 1.00, (b) a debt service coverage ratio of not less than 1.10 to 1.00, and (c) a consolidated tangible net worth of not less than \$50 million, all as defined under the Facility.

In connection with this agreement, the Company incurred \$168,972 of debt issuance costs. Such costs were capitalized in Other Assets and are being amortized to expense. The unamortized balance in debt issuance costs related to the Facility was \$19,467 as of December 31, 2019.

Note 16 — Commitments and Contingencies

We are subject to various claims and contingencies in the normal course of business. In addition, from time to time, we receive communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which we operate. At a minimum, we disclose such matters if we believe it is reasonably possible that a future event or events will confirm a loss through impairment of an asset or the incurrence of a liability. We accrue a loss if we believe it is probable that a future event or events will confirm a loss and we can reasonably estimate such loss and we do not accrue future legal costs related to that loss. Furthermore, we will disclose any matter that is unasserted if we consider it probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. We expense legal defense costs as they are incurred.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

[Executive Overview](#)

[Results of Operations](#)

[Liquidity and Capital Resources](#)

[Critical Accounting Policies and Estimates](#)

Executive Overview

General

Evolution Petroleum Corporation is an oil and gas company focused on delivering a sustainable dividend yield to its stockholders through the ownership, management and development of oil and gas properties. In support of that objective, the Company's long-term goal is to build a diversified portfolio of oil and gas assets primarily through acquisitions, while seeking opportunities to maintain and increase production through selective development, production enhancement and other exploitation efforts on its properties.

Our producing assets consist of our interests in the Delhi Holt-Bryant Unit in the Delhi field in Northeast Louisiana, a CO₂ enhanced oil recovery project, and our interests in the Hamilton Dome field located in Hot Springs County, Wyoming, a secondary recovery field utilizing water injection wells to pressurize the reservoir, and overriding royalty interests in two onshore Texas wells.

Our interests in the Delhi field consist of a 23.9% working interest, with an associated 19.0% revenue interest and separate overriding royalty and mineral interests of 7.2% yielding a total net revenue interest of 26.2%. The field is operated by Denbury Onshore LLC, a subsidiary of Denbury Resources, Inc. (NYSE: DNR).

On November 1, 2019, we acquired mineral interests in the Hamilton Dome field consisting of a 23.5% working interest, with an associated 19.7% revenue interest (inclusive of a small overriding royalty interest). The field is operated by the non-public Merit Energy Company ("Merit"), who owns the vast majority of the remaining working interest in Hamilton Dome field.

Highlights for our Second Quarter of Fiscal 2020 and Operations Update

"Current quarter" refers to the three months ended December 31, 2019, the Company's second quarter of fiscal 2020.

"Prior quarter" refers to the three months ended September 30, 2019, the Company's first quarter of fiscal 2020.

"Year-ago quarter" refers to the three months ended December 31, 2018, the Company's second quarter of fiscal 2019.

- Acquired oil producing assets in Hamilton Dome Field in Wyoming for \$9.3 million of cash, net of a \$0.2 million post-closing adjustment.
- Paid 25th consecutive quarterly cash dividend on common shares and declared the next dividend payment of \$0.10 per share, payable on March 31, 2020.
- Generated total revenues of \$9.4 million for the quarter, up 2.5% from the prior quarter.
- Reported net income of \$1.8 million.
- Ended the quarter with \$20.9 million in cash and a \$40 million undrawn credit facility.

Overview

On November 1, 2019, we successfully closed, and subsequently integrated the acquisition of the Hamilton Dome field. Hamilton Dome field is a very long-life producing asset that has been on production for more than 100 years. Merit has operated the field for more than 20 years and is an experienced low-cost operator for these type of assets. The current quarter includes two months of production from Hamilton Dome field. The transaction is a first step in the Company's efforts to diversify and grow its asset base through the purchase of primarily long-life, developed oil and gas properties, which will be supportive of the Company's objective of providing a s

[Table of Contents](#)

ustainable dividend. The management of the Company believes that the current weakness in oil and gas prices presents opportunities to acquire long-life production with upside potential at an attractive price per BOE and that the Company's substantial liquidity positions it well to take advantage of such opportunities as they arise.

Similar to other oil and gas producers, our overall performance during the quarter was impacted by lower price realizations. During the quarter, we were further impacted by the short-term repair to the oil sales pipeline at Delhi, which more than offset the increased volumes.

Gross oil production at Delhi averaged approximately 5,900 BOPD during the quarter, a 4.5% decrease from the prior quarter. Gross NGL production for the quarter was approximately 1,130 BOEPD, a 2.8% increase from the prior quarter. Oil production in the Delhi Field was impacted by the shutting-in of high gas/oil ratio wells for evaluation for their potential to produce from other zones that have a lower gas/oil ratio. Facility improvement capital projects to increase the gas processing and re-injection capacity are also being evaluated to allow continued production from high gas/oil ratio wells that are not candidates for recompletion.

The Company recorded quarterly net income of \$1.8 million, or \$0.05 per diluted share, compared to \$2.8 million, or \$0.08 per diluted share, in the prior quarter. The change in net income is primarily due to lower average realized oil prices at Delhi, exacerbated by approximately \$0.4 million for temporary trucking and handling charges due to a planned repair to a section of the oil sales pipeline. These more than offset the Louisiana Light Sweet ("LLS") premium to West Texas Intermediate ("WTI"), and results in a deduction to WTI in the current quarter. The pipeline repair was completed in late January, and all Delhi oil sales are back on pipeline as of February 1, 2020.

These items, and others, are further discussed below.

Additional property and project information is included under Item 1. Business, Item 2. Properties, Notes to the Financial Statements and Exhibit 99.1 of our Form 10-K for the year ended June 30, 2019.

Results of Operations
Three Months Ended December 31, 2019 and 2018

Revenues

Compared to the corresponding year-ago period, current period revenues decreased 15.1% due to 18.7% lower realized commodity prices offset by a 4.5% increase in production volumes, primarily due to the impact of Hamilton Dome revenues for sixty-one days. The lower average realized oil price in the quarter was exacerbated by revenue reductions at Delhi of approximately \$0.4 million for temporary trucking and handling charges due to a planned repair to a section of the oil sales pipeline. This more than offsets Delhi field's expected Louisiana Light Sweet "LLS" premium to West Texas Intermediate ("WTI"), resulting in a realized price below WTI in the current quarter. This pipeline repair project commenced in November and was completed in late January, and all Delhi oil sales are back on pipeline as of February 1, 2020.

From the recently acquired Hamilton Dome field, the current quarter revenues benefited from approximately \$1.1 million of oil revenue sales that commenced November 1, 2019, representing Evolution's share of sixty-one days of oil production. The Hamilton Dome oil production trades at a discount to WTI based on its specific gravity and sulfur content.

The following table summarizes total production volumes, daily production volumes, average realized prices and revenues for the three months ended December 31, 2019 and 2018:

	Three Months Ended December 31,		Variance	Variance %
	2019	2018		
Oil and gas production				
Crude oil revenues	\$ 8,974,237	\$ 10,515,875	\$ (1,541,638)	(14.7)%
NGL revenues	406,634	532,243	(125,609)	(23.6)%
Natural gas revenues	744	—	744	n.m.
Total revenues	\$ 9,381,615	\$ 11,048,118	\$ (1,666,503)	(15.1)%
Production Volumes				
Crude oil volumes (Bbl)	168,117	163,361	4,756	2.9 %
NGL volumes (Bbl)	27,260	23,701	3,559	15.0 %
Natural gas volumes (Mcf)	356	—	356	n.m.
Equivalent volumes (BOE)	195,437	187,062	8,375	4.5 %
Production Rates				
Crude oil (BOPD, net)	1,827	1,776	51	2.9 %
NGLs (BOEPD, net)	296	258	38	14.7 %
Natural gas (BOEPD, net)	1	—	1	n.m.
Equivalent volumes (BOEPD, net)	2,124	2,034	90	4.4 %
Realized Prices				
Crude oil price per Bbl	\$ 53.38	\$ 64.37	\$ (10.99)	(17.1)%
NGL price per Bbl	14.92	22.46	(7.54)	(33.6)%
Natural gas price per Mcf	2.09	—	2.09	n.m.
Equivalent price per BOE	\$ 48.00	\$ 59.06	\$ (11.06)	(18.7)%
n. m. Not meaningful.				

The quarterly results above include those of our interests in the Hamilton Dome field beginning on November 1, 2019 acquisition date.

Production Costs

Due to the significance of CO₂ costs incurred at the Delhi field, the Company reports production costs in two categories:

1. CO₂ Cost (at Delhi); and
2. Other Production Costs, which now includes both Delhi field and Hamilton Dome field.

[Table of Contents](#)

In the current quarter, Delhi CO₂ Cost decreased 6.3%; Delhi Other Production Costs decreased 2.3%; and total Delhi production costs decreased 4.1% to the year-ago quarter. Although purchased CO₂ volumes increased 9.6% to 83.6 MMcf per day, this was more than offset by lower CO₂ Cost per mcf of \$0.77, down 14.4% from the year-ago quarter, primarily due to lower crude oil prices, as purchased CO₂ volumes are indexed to realized oil prices received in the field.

All our Other Production Costs increased by \$0.9 million primarily due to two months of production costs attributable to the Hamilton Dome field acquired in the current quarter. Delhi Other Production Costs were down slightly as mentioned above.

On a total cost per BOE basis, Delhi field costs increased 6.4% to \$19.64 per BOE in current quarter, largely due to a 9.9% decline in total Delhi volumes in the current period, partly offset by a 4.1% decrease in total Delhi production costs.

Hamilton Dome field costs per BOE was \$34.37 for the two months included in the current quarter, slightly higher than projected, and higher than the trailing ten-months of field performance, or approximately \$30 - \$32 per BOE. In December, the field required several atypical workovers to address well repairs. These workovers also had a slight impact on production volumes at Hamilton Dome in the current quarter.

	Three Months Ended December 31,			
	2019	2018	Variance	Variance %
CO ₂ costs (a)	\$ 1,410,213	\$ 1,504,930	\$ (94,717)	(6.3)%
Other production costs	2,824,392	1,947,238	877,154	45.0 %
Total production costs	\$ 4,234,605	\$ 3,452,168	\$ 782,437	22.7 %
CO ₂ costs per BOE	\$ 7.22	\$ 8.05	\$ (0.83)	(10.3)%
All other production costs per BOE	14.45	10.40	4.05	38.9 %
Production costs per BOE	\$ 21.67	\$ 18.45	\$ 3.22	17.5 %

(a) Under our contract with the Delhi field operator, purchased CO₂ is priced at 1% of the realized oil price in the field per Mcf, plus sales taxes and transportation costs as per contract terms.

	Three Months Ended December 31,			
	2019	2018	Variance	Variance %
CO ₂ costs per mcf	\$ 0.77	\$ 0.90	\$ (0.13)	(14.4)%
CO ₂ volumes (MMcf per day, gross)	83.6	76.3	7.3	9.6 %

Depletion, Depreciation and Amortization ("DD&A")

Total DD&A expense was 8.9% lower compared to the same year-ago period due to a 13.6% decline in oil and gas DD&A rate partially offset by a 4.5% increase in production volumes in the period. The integration of the Hamilton Dome asset led to a lower overall DD&A per BOE rate. The DD&A rate going into next quarter is approximately \$6.80 per BOE.

	Three Months Ended December 31,			
	2019	2018	Variance	Variance %
DD&A of proved oil and gas properties	\$ 1,419,333	\$ 1,571,321	\$ (151,988)	(9.7)%
Depreciation of other property and equipment	2,182	4,143	(1,961)	(47.3)%
Amortization of intangibles	3,391	3,391	—	— %
Accretion of asset retirement obligations	36,143	24,778	11,365	45.9 %
Total DD&A	\$ 1,461,049	\$ 1,603,633	\$ (142,584)	(8.9)%
Oil and gas DD&A rate per BOE	\$ 7.26	\$ 8.40	\$ (1.14)	(13.6)%

General and Administrative Expenses

Expenses for the three months ended December 31, 2019 increased 14% to \$1.4 million from the same year-ago quarter, primarily due to \$0.2 million of higher salaries and benefits associated with employment of Chief Executive Officer, severance costs and normal variations in professional services expenses.

Other Income and Expenses

Interest income was lower due to lower average cash balance in the current quarter compared to the year-ago quarter, offset by slightly higher average interest rates.

	Three Months Ended December 31,		Variance	Variance %
	2019	2018		
Interest and other income	\$ 52,941	\$ 59,858	\$ (6,917)	(11.6)%
Interest expense	(29,345)	(29,345)	—	— %
Total other income, net	\$ 23,596	\$ 30,513	\$ (6,917)	(22.7)%

Net Income

Net income available to common stockholders for the three months ended December 31, 2019 decreased \$2.1 million, or 55%, to \$1.8 million compared to the year-ago quarter. Pre-tax income decreased due to the aforementioned operating variances. Our income tax provision decreased due to lower pre-tax income, partially offset by a higher effective income tax rate resulting from a lower permanent benefit related to statutory depletion.

	Three Months Ended December 31,		Variance	Variance %
	2019	2018		
Income before income taxes	2,273,360	4,764,260	(2,490,900)	(52.3)%
Income tax provision	508,442	859,695	(351,253)	(40.9)%
Net income available to common stockholders	\$ 1,764,918	\$ 3,904,565	\$ (2,139,647)	(54.8)%
Income tax provision as percentage of income before income taxes	22.4%	18.0%		

Results of Operations
Six Months Ended December 31, 2019 and 2018

Revenues

Compared to the corresponding year-ago period, current period revenues decreased 21% due to lower realized commodity prices as volumes were essentially unchanged, inclusive of the Hamilton Dome revenues for sixty-one days. The lower average realized oil price in the period was exacerbated by revenue reductions at Delhi of approximately \$0.4 million for temporary trucking and handling charges resulting from a planned repair to a section of the oil sales pipeline. This considerably reduced Delhi's Louisiana Light Sweet "LLS" premium to West Texas Intermediate ("WTI"), and results in a small premium to WTI in the six months ended December 31, 2019. This pipeline repair project commenced in November and was completed in late January, and all Delhi oil sales are back on pipeline as of February 1, 2020.

From the recently acquired Hamilton Dome field, the current period revenues benefited from approximately \$1.1 million of oil revenue sales that commenced November 1, 2019. The Hamilton Dome oil production trades at a discount to WTI based on its specific gravity and sulfur content.

The following table summarizes total production volumes, daily production volumes, average realized prices and revenues for the six months ended December 31, 2019 and 2018:

	Six Months Ended December 31,		Variance	Variance %
	2019	2018		
Oil and gas production				
Crude oil revenues	\$ 17,819,741	\$ 21,913,327	\$ (4,093,586)	(18.7)%
NGL revenues	712,578	1,441,870	(729,292)	(50.6)%
Natural gas revenues	1,511	—	1,511	n.m.
Total revenues	\$ 18,533,830	\$ 23,355,197	\$ (4,821,367)	(20.6)%
Production Volumes				
Crude oil volumes (Bbl)	317,224	322,267	(5,043)	(1.6)%
NGL volumes (Bbl)	53,776	48,102	5,674	11.8 %
Natural gas volumes (Mcf)	712	—	712	n.m.
Equivalent volumes (BOE)	371,119	370,369	750	0.2 %
Production Volumes (BOEPD, net)				
Crude oil (BOEPD, net)	1,724	1,751	(27)	(1.5)%
NGLs (BOEPD, net)	292	261	31	11.9 %
Natural gas (BOEPD, net)	1	—	1	n.m.
Equivalent volumes (BOEPD, net)	2,017	2,012	5	0.2 %
Realized Prices				
Crude oil price per Bbl	\$ 56.17	\$ 68.00	\$ (11.83)	(17.4)%
NGL price per Bbl	13.25	29.98	(16.73)	(55.8)%
Natural gas price per Mcf	2.12	—	2.12	n.m.
Equivalent price per BOE	\$ 49.94	\$ 63.06	\$ (13.12)	(20.8)%

n. m. Not meaningful.

Production Costs

Due to the significance of CO₂ costs incurred at the Delhi field, the Company reports production costs in two categories:

1. CO₂ Cost (at Delhi); and
2. Other Production Costs, which now includes both Delhi field and Hamilton Dome field.

In the current six-month period, Delhi CO₂ Cost decreased 9.8%; Delhi Other Production Costs decreased \$0.2 million, or 5.5%; and total Delhi production costs decreased 7.4% compared to the year-ago period. Although purchased CO₂ volumes increased 5.1% to 76.6 MMcf per day, this was more than offset by lower CO₂ Cost per mcf of \$0.80, down 14.0% from the

year-ago period, primarily due to lower crude oil prices, as purchased CO₂ volumes are indexed to realized oil prices received in the field.

All of our Other Production Costs increased by \$0.7 million primarily due to two months of production costs attributable to the Hamilton Dome field acquired on November 1, 2019, partially offset by \$0.2 million of lower Delhi Other Production Costs as mentioned above.

On a total cost per BOE basis, Delhi field costs increased 5.8% to \$19.74 per BOE in current period, largely due to a 7.0% decline in total Delhi volumes in the current period, partly offset by a 7.4% decrease in total Delhi production costs.

Hamilton Dome field costs per BOE was \$34.37 for its two months included in the current period, slightly higher than projected, and higher than the trailing ten-months of field performance, or approximately \$30 - \$32 per BOE. In December, the field required several atypical workovers to address well repairs. These workovers also had a slight impact on production volumes at Hamilton Dome in the current quarter.

	Six Months Ended December 31,			
	2019	2018	Variance	Variance %
CO ₂ costs (a)	\$ 2,694,980	\$ 2,988,782	\$ (293,802)	(9.8)%
Other production costs	4,629,714	3,921,816	707,898	18.1 %
Total production costs	\$ 7,324,694	\$ 6,910,598	\$ 414,096	6.0 %
CO ₂ costs per BOE	\$ 7.26	\$ 8.07	\$ (0.81)	(10.0)%
All other production costs per BOE	12.48	10.59	1.89	17.8 %
Production costs per BOE	\$ 19.74	\$ 18.66	\$ 1.08	5.8 %

(a) Under our contract with the Delhi field operator, purchased CO₂ is priced at 1% of the realized oil price in the field per Mcf, plus sales taxes and transportation costs as per contract terms.

	Six Months Ended December 31,			
	2019	2018	Variance	Variance %
CO ₂ costs per mcf	\$ 0.80	\$ 0.93	\$ (0.13)	(14.0)%
CO ₂ volumes (MMcf per day, gross)	76.6	72.9	3.7	5.1 %

Depletion, Depreciation and Amortization ("DD&A")

Total DD&A expense was 7.7% lower compared to the same year-ago period due to an 8.1% decrease in the oil and gas DD&A amortization as the volume change between the two periods was very slight. The integration of the Hamilton Dome asset contributed to an overall lower composite DD&A rate.

	Six Months Ended December 31,			
	2019	2018	Variance	Variance %
DD&A of proved oil and gas properties	\$ 2,837,087	\$ 3,088,063	\$ (250,976)	(8.1)%
Depreciation of other property and equipment	4,504	8,286	(3,782)	(45.6)%
Amortization of intangibles	6,782	6,782	—	— %
Accretion of asset retirement obligations	62,430	48,962	13,468	27.5 %
Total DD&A	\$ 2,910,803	\$ 3,152,093	\$ (241,290)	(7.7)%
Oil and gas DD&A rate per BOE	\$ 7.64	\$ 8.34	\$ (0.70)	(8.4)%

General and Administrative Expenses

Expenses for the six months ended December 31, 2019 increased \$0.2 million, or 8.2%, to \$2.8 million from the same year-ago period due to \$0.2 million of higher salaries and benefits associated with employment of Chief Executive Officer, severance costs and normal variations in professional services expenses.

Other Income and Expenses

Other income and expense (net) decreased due primarily to the Enduro breakup fee received during August 2018. Interest income is higher due to higher average interest rates in the current period, offset by slightly lower average cash balance in the current quarter when compared to the year-ago quarter.

	Six Months Ended December 31,			
	2019	2018	Variance	Variance %
Enduro transaction breakup fee	—	1,100,000	(1,100,000)	(100.0)%
Interest and other income	119,070	106,429	12,641	11.9 %
Interest expense	(58,690)	(58,690)	—	— %
Total other income, net	\$ 60,380	\$ 1,147,739	\$ (1,087,359)	(94.7)%

Net Income

Net income available to common stockholders for the six months ended December 31, 2019 decreased \$5.1 million, or 53%, to \$4.6 million compared to the same year-ago period. Pre-tax income decreased due to the aforementioned operating variances. Our income tax provision decreased primarily due to lower pre-tax income as our effective income tax rate was relatively unchanged from the year-ago period.

	Six Months Ended December 31,			
	2019	2018	Variance	Variance %
Income before income taxes	5,584,163	11,876,413	(6,292,250)	(53.0)%
Income tax provision	1,026,425	2,176,047	(1,149,622)	(52.8)%
Net income available to common stockholders	\$ 4,557,738	\$ 9,700,366	\$ (5,142,628)	(53.0)%
Income tax provision as percentage of income before income taxes	18.4%	18.3%		

Liquidity and Capital Resources

Subsequent to the \$9.3 million purchase of Hamilton Dome (net of a \$0.2 million post-closing adjustment), we had \$20.9 million in cash and cash equivalents at December 31, 2019, compared to \$31.5 million of cash and cash equivalents at June 30, 2019.

On November 1, 2019, and effective as of October 1, 2019, our wholly-owned subsidiary, Evolution Petroleum West, Inc., purchased a 23.51% non-operating working interest and a 19.70% revenue interest in the Hamilton Dome field located in Hot Springs County, Wyoming, from entities owned or controlled by Merit Energy Company ("Merit"). The cash consideration to Merit amounts to \$9.3 million after net settlement of post-closing adjustments.

In addition, we have a senior secured reserve-based credit facility (the "Facility") with a maximum capacity of \$50 million. The Facility had \$40 million of undrawn borrowing base availability on December 31, 2019. Under the Facility the borrowing base shall be determined semiannually. There have been no borrowings under the Facility, which matures on April 11, 2021, and it is secured by substantially by the reserves associated with Delhi field.

The bank's recent redetermination of the borrowing base confirmed our elected amount of \$40 million. Our next scheduled determination will occur in the spring of 2020.

Any future borrowings bear interest, at the Company's option, at either LIBOR plus 2.75% or the Prime Rate, as defined under the Facility, plus 1.0%. The Facility contains covenants which require the maintenance of (i) a total leverage ratio of not more than 3.0 to 1.0, (ii) a debt service coverage ratio of not less than 1.1 to 1.0 and (iii) a consolidated tangible net worth of not less than \$50.0 million, each as defined in the Facility. The Facility also contains other customary affirmative and negative covenants and events of default. As of December 31, 2019, the Company was in compliance with all covenants contained in the Facility.

During the six months ended December 31, 2019, we funded our operations, capital expenditures and cash dividends with cash generated from operations resulting in a decrease of \$10.6 million in cash, largely impacted by \$9.3 million spent on an acquisition of the Hamilton Dome field and \$1.7 million for repurchasing shares under the buyback program. As of

December 31, 2019, our working capital was \$21.7 million, a decrease of \$10.7 million over working capital of \$32.4 million at June 30, 2019.

We have historically funded our operations through cash from operations and working capital. Our primary source of cash is the sale of oil and natural gas liquids production. A portion of these cash flows are used to fund our capital expenditures. While we expect to continue to expend capital to further develop the Delhi field, we and the operator have flexibility as to when this capital is spent. The Company expects to manage future development activities in the Delhi field and the limited capital maintenance requirements of the Hamilton Dome field within the boundaries of its operating cash flow and existing working capital.

We are pursuing new growth opportunities through acquisitions or other transactions. In addition to our cash on hand, we have access to at least \$40 million of undrawn elected borrowing base availability under our senior secured credit facility. In addition, we have an effective shelf registration statement with Securities and Exchange Commission under which we may issue up to \$500 million of new debt or equity securities. As we pursue new growth opportunities, we would expect to use our internal resources of cash, working capital and borrowing capacity under our credit facility. It may also be advantageous for us to consider issuing additional equity as part of any potential transaction, but we have no specific plans to issue additional equity at this time.

In addition to our on-going cash dividend program, during October 2019, the Company repurchased \$0.4 million of common shares under the stock buyback program approved in May 2015. The Board of Directors instituted a cash dividend on our common stock in December 2013 and we have since paid twenty-five consecutive quarterly dividends. Distribution of a substantial portion of free cash flow in excess of our operating and capital requirements through cash dividends remains a priority of our financial strategy, and it is our long-term goal to increase our dividends over time as appropriate. On February 4, 2020, the Board declared the next quarterly common stock dividend of \$0.10 per share, which will be paid on March 31, 2020 to stockholders of record on March 16, 2020. The Board reviews the quarterly dividend rate in light of our financial position and operations, forecasted results, including the outlook for commodity prices, the timing of further expansion of our producing assets and other potential growth opportunities.

Capital Expenditures

During the current period, we incurred \$11.3 million on capital projects consisting of \$9.3 million for the acquisition of Hamilton Dome field, a \$0.9 million non-cash asset addition related to Hamilton Dome asset retirement obligations, and incurred \$1.1 million at the Delhi field, primarily for the NGL plant and completion of the water curtain project.

The current expectation for net capital spending for the remainder of fiscal 2020 is approximately \$0.5 to \$0.7 million for conformance and capital workovers at Delhi field, and \$0.1 to \$0.2 million for capital workovers at Hamilton Dome. We anticipate all funding for our share of capital expenditure at Delhi and Hamilton Dome will be met from cash flows from operations.

Our Delhi proved undeveloped reserves at June 30, 2019 included 1,583 MBOE of reserves and \$8.6 million of future development costs associated with Phase V development in the eastern portion of the field. The timing of such development is also dependent, in part, on the field operator's available funds and capital spending plans and priorities within its portfolio of properties. The operator of Delhi has deferred the planned Phase V development project until 2021.

Overview of Cash Flow Activities

The table below compares a summary of our condensed consolidated statements of cash flows for six months ended December 31, 2019 and 2018 presented in the consolidated condensed financial statements in Item 1, Part I of this report on Form 10-Q.

Increases (Decreases) in Cash:	Six Months Ended December 31,		
	2019	2018	Difference
	(In Millions)		
Net cash provided by operating activities	\$ 8.2	\$ 14.1	\$ (5.9)
Net cash used in investing activities	(10.4)	(5.1)	(5.3)
Net cash used in financing activities	(8.4)	(6.7)	(1.7)
	<u>\$ (10.6)</u>	<u>\$ 2.3</u>	<u>\$ (12.9)</u>

Cash provided by operating activities in the current year period decreased \$5.9 million compared to the same year-ago period due to a \$5.1 million decrease in cash provided by net income together with \$0.6 million decrease in cash provided by non-cash expenses, and a \$0.2 million decrease in cash provided from current operating assets and liabilities.

Cash used in investing activities increased \$5.3 million due to \$9.3 million spent for the Hamilton Dome acquisition partly offset by \$3.9 million of lower Delhi field capital expenditure disbursements in the fiscal 2020 following the completion of the infill drilling project in the prior year.

Cash used by financing activities increased \$1.7 million due to common stock repurchases in the first quarter of fiscal 2020 through an authorized stock buyback program.

Critical Accounting Policies and Estimates

See our Critical Accounting Policies and Estimates as disclosed within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2019 Form 10-K. For recently adopted and recently issued accounting pronouncements from the Financial Accounting Standards Board, please see Note 2 – Summary of Significant Accounting Policies herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Information about market risks for the three months ended December 31, 2019, did not change materially from the disclosures in Item 7A of our Annual Report on Form 10-K for the year ended June 30, 2019.

Commodity Price Risk

Our most significant market risk is the pricing for crude oil and NGL's. We expect energy prices to remain volatile and unpredictable. If energy prices decline significantly, our revenues and cash flow would significantly decline. In addition, a non-cash write-down of our oil and gas properties could be required under full cost accounting rules if future oil and gas commodity prices sustained a significant decline. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital, as, if and when needed. We may use derivative instruments to manage our exposure to commodity price risk from time to time based on our assessment of such risk.

Interest Rate Risk

We currently have only a small exposure to changes in interest rates. Changes in interest rates affect the interest earned on our cash and cash equivalents. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to this Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

As required by Securities and Exchange Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(e)) as of the end of the quarter covered by this report. In designing and evaluating our disclosure controls and procedures, our management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2019 our disclosure controls and procedures are effective in ensuring that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, during the quarter ended December 31, 2019, we have determined there has been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings**

None.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended June 30, 2019 includes a detailed description of our risk factors. There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 30, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

During the quarter ended December 31, 2019, the Company purchased shares of common stock in the open market under its share repurchase program and also received shares of common stock from employees of the Company to pay their share of payroll taxes arising from vestings of restricted stock and contingent restricted stock. The table below summarizes information about the Company's purchases of its equity securities during the quarter ended December 31, 2019.

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share(1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 2019	67,710	\$5.71	Not applicable	\$1.7 million
November 2019	—	\$—	Not applicable	\$1.7 million
December 2019	316	\$5.12	Not applicable	\$1.7 million
Total	68,026	\$5.71	Not applicable	\$1.7 million

(1) During the current quarter the Company received 316 shares of common stock from certain of its employees which were surrendered in exchange for their payroll tax liabilities arising from vestings of restricted stock and contingent restricted stock. The acquisition cost per share reflects the weighted-average market price of the Company's shares on the dates vested.

(2) On May 12, 2015, the Board of Directors approved a share repurchase program covering up to \$5 million of the Company's common stock. Under the program's terms, shares may be repurchased only on the open market and in accordance with the requirements of the Securities and Exchange Commission. The timing and amount of repurchases will depend upon several factors, including financial resources and market and business conditions. There is no fixed termination date for this repurchase program, and the repurchase program may be suspended or discontinued at any time. Such shares are initially recorded as treasury stock, then subsequently canceled.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

A. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

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.

EVOLUTION PETROLEUM CORPORATION
(Registrant)

By: /s/ DAVID JOE

David Joe

Senior Vice President, Chief Financial Officer and
Treasurer

Date: February 7, 2020

CERTIFICATION

I, Jason E. Brown, President and Chief Executive Officer of Evolution Petroleum Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Evolution Petroleum Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 7, 2020

/s/ JASON E. BROWN

Jason E. Brown
President and Chief Executive Officer

CERTIFICATION

I, David Joe, Senior Vice President, Chief Financial Officer and Treasurer of Evolution Petroleum Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Evolution Petroleum Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 7, 2020

/s / DAVID JOE

David Joe
Senior Vice President, Chief Financial Officer
and Treasurer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Jason E. Brown, President and Chief Executive Officer of Evolution Petroleum Corporation (the "Company"), certifies in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019 (the "Report") pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to his knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of February 7, 2020.

/s/ JASON E. BROWN

Jason E. Brown
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Evolution Petroleum Corporation and will be retained by Evolution Petroleum Corporation and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certificate is being furnished to the Securities and Exchange Commission as an exhibit to this Form 10-Q and shall not be considered filed as part of the Form 10-Q.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, David Joe, Senior Vice President, Chief Financial Officer and Treasurer of Evolution Petroleum Corporation (the "Company"), certifies in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019 (the "Report") pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to his knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of February 7, 2020.

/s / DAVID JOE

David Joe
Senior Vice President, Chief Financial Officer
and Treasurer

A signed original of this written statement required by Section 906 has been provided to Evolution Petroleum Corporation and will be retained by Evolution Petroleum Corporation and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certificate is being furnished to the Securities and Exchange Commission as an exhibit to this Form 10-Q and shall not be considered filed as part of the Form 10-Q.