
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from to

Commission File Number 001-32942

EVOLUTION PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

41-1781991

(IRS Employer Identification No.)

2500 CityWest Blvd., Suite 1300, Houston, Texas 77042

(Address of principal executive offices and zip code)

(713) 935-0122

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 and 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 or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$0.001, as of May 14, 2009, was 26,259,147.

**EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Evolution Petroleum Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

Assets	March 31, 2009	June 30, 2008
Current assets		
Cash and cash equivalents	\$ 4,900,219	\$ 11,272,280
Certificates of deposit	1,740,944	—
Receivables		
Oil and natural gas sales	487,953	2,066,300
Income taxes	6,689	478,599
Other	164,243	86,966
Income taxes recoverable	1,545,922	3,625,987
Prepaid expenses and other current assets	123,231	270,938
Total current assets	<u>8,969,201</u>	<u>17,801,070</u>
Property and equipment, net of depreciation, depletion, and amortization		
Oil and natural gas properties — full cost method of accounting, of which \$9,845,303 at March 31, 2009 and \$8,754,429 at June 30, 2008 were excluded from amortization	28,495,507	22,047,233
Other property and equipment	159,681	161,027
Total property and equipment	<u>28,655,188</u>	<u>22,208,260</u>
Other assets, net	356,399	356,518
Total assets	<u>\$ 37,980,788</u>	<u>\$ 40,365,848</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 629,132	\$ 2,892,459
Accrued payroll	561,283	772,559
Royalties payable	208,223	473,327
Other current liabilities	67,106	32,703
Total current liabilities	<u>1,465,744</u>	<u>4,171,048</u>
Long term liabilities		
Deferred income taxes	3,791,348	2,901,929
Asset retirement obligations	602,894	215,056
Deferred rent	76,914	74,081
Total liabilities	<u>5,936,900</u>	<u>7,362,114</u>
Commitments and contingencies (Note 12)		

Stockholders' equity

Common stock; par value \$0.001; 100,000,000 shares authorized; issued 27,047,347 shares; outstanding 26,259,147 and 26,870,439 as of March 31, 2009 and June 30, 2008, respectively.	27,047	26,870
Additional paid-in capital	16,002,791	14,188,841
Retained earnings	16,896,072	18,788,023
	<u>32,925,910</u>	<u>33,003,734</u>
Treasury stock, at cost, 788,200 shares as of March 31, 2009.	(882,022)	—
	<u>32,043,888</u>	<u>33,003,734</u>
Total stockholders' equity	<u>32,043,888</u>	<u>33,003,734</u>
Total liabilities and stockholders' equity	<u>\$ 37,980,788</u>	<u>\$ 40,365,848</u>

See accompanying notes to consolidated financial statements.

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Evolution Petroleum Corporation and Subsidiaries
Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
Revenues				
Crude oil	\$ 351,684	\$ 554,498	\$ 2,337,948	\$ 1,664,648
Natural gas liquids	350,891	90,405	1,341,629	111,699
Natural gas	461,889	99,799	1,431,655	123,277
Total revenues	<u>1,164,464</u>	<u>744,702</u>	<u>5,111,232</u>	<u>1,899,624</u>
Operating Costs				
Lease operating expense	255,710	300,186	905,020	971,688
Production taxes	29,750	12,867	137,522	46,231
Depreciation, depletion and amortization	759,836	139,086	1,909,009	372,645
Accretion of asset retirement obligations	12,591	7,110	24,452	16,656
General and administrative *	1,595,402	1,266,427	4,722,869	4,062,423
Total operating costs	<u>2,653,289</u>	<u>1,725,676</u>	<u>7,698,872</u>	<u>5,469,643</u>
Loss from operations	(1,488,825)	(980,974)	(2,587,640)	(3,570,019)
Other income				
Interest income	8,024	165,014	99,452	772,835
Net loss before income tax benefit	(1,480,801)	(815,960)	(2,488,188)	(2,797,184)
Income tax benefit	(444,184)	(279,975)	(596,237)	(848,961)
Net loss	<u>\$ (1,036,617)</u>	<u>\$ (535,985)</u>	<u>\$ (1,891,951)</u>	<u>\$ (1,948,223)</u>
Loss per common share				
Basic and Diluted	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares				
Basic and Diluted	<u>26,219,034</u>	<u>26,784,473</u>	<u>26,495,176</u>	<u>26,779,339</u>

*General and administrative expenses for the three month period ended March 31, 2009 and 2008 included non-cash stock-based compensation expense of \$537,285 and \$493,872, respectively. General and administrative expenses for the nine month period ended March 31, 2009 and 2008 included non cash stock-based compensation expense of \$1,645,535 and \$1,311,443, respectively.

See accompanying notes to consolidated financial statements.

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

Nine Months Ended
March 31,

	2009	2008
Cash flows from operating activities		
Net loss	\$ (1,891,951)	\$ (1,948,223)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	1,909,009	372,645
Stock-based compensation	1,645,535	1,311,443
Accretion of asset retirement obligations	24,452	16,656
Settlement of asset retirement obligations	(90,761)	—
Deferred income taxes	889,419	—
Deferred rent	2,833	25,847
Changes in operating assets and liabilities:		
Receivables from oil and natural gas sales	1,578,347	(190,261)
Receivables from income taxes and other	2,474,698	(915,825)
Prepaid expenses and other current assets	147,707	286,961
Accounts payable and accrued expenses	(256,805)	(146,399)
Royalties payable	(265,104)	(259)
Net cash provided by (used in) operating activities	<u>6,167,379</u>	<u>(1,187,415)</u>
Cash flows from investing activities		
Net proceeds from the sale of the Tullos Assets	—	4,420,868
Proceeds from other asset sales	—	31,582
Development of oil and natural gas properties	(7,411,549)	(4,109,932)
Acquisitions of oil and natural gas properties	(2,477,133)	(6,946,157)
Capital expenditures for other equipment	(28,041)	(79,305)
Purchases of certificates of deposit	(1,740,944)	—
Other assets	119	(1,375)
Net cash used in investing activities	<u>(11,657,548)</u>	<u>(6,684,319)</u>
Cash flows from financing activities		
Proceeds from issuance of restricted stock	130	76
Purchase of treasury stock	(882,022)	—
Net cash provided by (used in) financing activities	<u>(881,892)</u>	<u>76</u>
Net decrease in cash and cash equivalents	(6,372,061)	(7,871,658)
Cash and cash equivalents, beginning of period	11,272,280	27,746,942
Cash and cash equivalents, end of period	<u>\$ 4,900,219</u>	<u>\$ 19,875,284</u>

See accompanying notes to consolidated financial statements.

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization and Basis of Preparation

Nature of Operations. Evolution Petroleum Corporation (“EPM”) and its subsidiaries (the “Company”, “we”, “our” or “us”), is an independent petroleum company headquartered in Houston, Texas and incorporated under the laws of the State of Nevada. We are engaged primarily in the acquisition, exploitation and development of properties for the production of crude oil and natural gas. We acquire properties with known oil and natural gas resources and exploit them through the application of conventional and specialized technology to increase production, ultimate recoveries, or both.

Interim Financial Statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with 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 accounting principles generally accepted in the United States 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 2008 Annual Report on Form 10-K for the year ended June 30, 2008, 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. All significant intercompany transactions have been eliminated in consolidation. The consolidated financial statements for the previous year include certain reclassifications that were made to conform to the current presentation. Such reclassifications have no impact on previously reported 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 reserve quantities and estimated future cash flows associated with proved reserves, which significantly impact depletion expense and potential impairments of oil and natural gas properties, income taxes and the valuation of deferred tax assets, stock-based compensation and 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 — Recent Accounting Pronouncements

New Accounting Standards. The following discloses the existence and effect of accounting standards issued but not yet adopted by us with respect to accounting standards that may have an impact on the Company when adopted in the future.

Modernization of Oil and Gas Reporting. On December 31, 2008 the SEC released new requirements for reporting oil and gas reserves. The new disclosure requirements, when effective, provide for consideration of new technologies in evaluating reserves, allows companies to disclose their probable and possible reserves to investors, requires reporting of oil and gas reserves using an average price based on the prior 12-month period rather than year-end prices, revises the disclosure requirements for oil and gas operations, and revises accounting for the limitation on capitalized costs for full cost companies. The new rule is expected to be effective for fiscal years ending on or after December 31, 2009, although the transition may be extended. A company may not apply the new rules to disclosures in quarterly reports prior to the first annual report in which the revised disclosures are required. We have not yet evaluated the effects the new rule will have on our financial statements.

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Recent Accounting Pronouncements (Continued)

Accounting for Business Combinations. In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141R, *Business Combinations* (“SFAS No. 141R”), which replaces SFAS No. 141, *Business Combinations*. SFAS No. 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration, and certain acquired contingencies. SFAS No. 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS No. 141R will be applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141R would have an impact on accounting for any businesses acquired after the effective date of this pronouncement.

Accounting for Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The provisions of SFAS No. 157 will be applied prospectively as of the beginning of the fiscal year in which it is initially applied except for, among other items, a financial instrument that was measured at fair value at initial recognition under Statement 133 using the transaction price in accordance with the guidance in footnote 3 of Issue 02-3 prior to initial application of SFAS No. 157. In February 2008, the FASB deferred the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis and amended SFAS No. 157 to exclude SFAS No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions. SFAS No. 157 did not have an impact on our financial statements when adopted on July 1, 2008. We are currently evaluating what the impact, if any, of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities will have on our financial statements.

Accounting for Earnings Per Share. In June 2008, the FASB issued Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (“FSP No. EITF 03-6-1”). FSP No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings Per Share*. FSP No. EITF 03-6-1 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008; early adoption is not permitted. The adoption of FSP No. EITF 03-6-1 will be effective for us for interim and annual periods ending after July 1, 2009. We are currently evaluating what the impact, if any, of FSP No. EITF 03-6-1 will have on our earnings per share.

Note 3 — Sale of Oil and Natural Gas Properties

On March 3, 2008, NGS Sub Corp., a Delaware corporation wholly owned by EPM (“NGS Sub”), pursuant to an Asset Purchase and Sale Agreement (the “Asset Sale Agreement”) dated February 15, 2008, completed the sale of its 100% working interest and approximately 79% average net revenue interest in producing and shut-in crude oil wells, water disposal wells, equipment and improvements (the “Tullos Assets”) located in the Tullos Urania, Colgrade and Crossroads Fields in LaSalle and Winn Parishes, Louisiana (the “Tullos Field Area”). The following table presents the transaction and its affect on our financial statements.

Proceeds from sale of properties in the Tullos Field Area	\$ 4,649,241
Less payout of a third party carried interest arrangement	(168,106)
Less miscellaneous transaction costs	(60,267)
<i>Net proceeds</i>	<u>4,420,868</u>
Net book value of our properties in the Tullos Field Area on March 3, 2008	
Asset retirement obligation	153,886
Oil and natural gas properties	(1,721,990)
Other property and equipment	(26,721)
Prepaid expenses and other current assets	(178,826)
Other assets	(13,347)
Remaining credit recorded to oil and natural gas properties	<u>\$ 2,633,870</u>

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 — Sale of Oil and Natural Gas Properties (Continued)

The following unaudited pro forma consolidated financial information is presented for illustrative purposes only and presents the pro forma operating results for the Company for the three and nine months ended March 31, 2008 as though the disposition of our properties in the Tullos Field Area occurred on July 1, 2007. The unaudited pro forma consolidated financial information is not intended to be indicative of the operating results that actually would have occurred if the transaction had been consummated at the beginning of the period presented, nor is the information intended to be indicative of future operating results.

The unaudited pro forma consolidated financial information for the three and nine month period ended March 31, 2008 are as follows:

	Three Months Ended March 31, 2008		Nine Months Ended March 31, 2008	
	As Reported	Pro Forma	As Reported	Pro Forma
Oil and natural gas revenues	\$ 744,702	\$ 351,884	\$ 1,899,624	\$ 422,306
Loss from operations	(980,974)	(1,058,866)	(3,570,019)	(3,802,261)
Net loss	(535,985)	(587,150)	(1,948,223)	(2,109,979)
Loss per common share — basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.07)	\$ (0.08)

Note 4 — Property and Equipment

We utilize the full cost method of accounting for costs related to the development and acquisition of oil and natural gas reserves. Under this method, all such costs (productive and nonproductive), including salaries, benefits and other internal costs directly attributable to these activities are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs, less accumulated amortization and related deferred income taxes (the "Net Capitalized Costs"), are subject to a "ceiling test" that limits such costs to the aggregate of the present value of future net revenues attributable to proved oil and natural gas reserves discounted at 10 percent (the "Standardized Measure") plus the cost of properties not being amortized (pursuant to Reg. S-X Rule 4-10 (c)(3)(ii)), plus the lower of cost or estimated fair value of unproven properties included in the costs being amortized, and net of related income taxes (the "Ceiling"). Any costs in excess of the Ceiling are written off as a non-cash expense. The expense may not be reversed in future periods, even though higher oil and natural gas prices may subsequently increase the Ceiling. Full cost companies must use the prices in effect at the end of each fiscal quarter, with consideration of price changes only to the extent of contractual arrangements, to calculate the Standardized Measure. Favorable price changes subsequent to the balance sheet date and prior to the release of financial statements may be considered to avoid an impairment. The Ceiling determined with the Standardized Measure of our proved reserves, calculated based upon March 31, 2009 quoted market prices (\$3.37 per MMBtu for Houston Ship Channel natural gas and \$49.66 per barrel for NYMEX oil, adjusted for market differentials), exceeded our Net Capitalized Costs by approximately \$180,000, or less than 1% of our net oil and natural gas property costs. However, due to the increases in crude oil and natural gas prices subsequent to March 31, 2009, our Ceiling has increased over and above our Net Capitalized Costs, and as such, we did not have an impairment of our oil and natural gas properties as of March 31, 2009.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 — Property and Equipment (Continued)

As of March 31, 2009 and June 30, 2008 our oil and natural gas properties and other property and equipment consisted of the following:

	March 31, 2009	June 30, 2008
Oil and natural gas properties		
Property costs subject to amortization	\$ 21,161,866	\$ 13,924,844
Less: Accumulated depreciation, depletion, and amortization	(2,511,662)	(632,040)
Unproved properties not subject to amortization	9,845,303	8,754,429
Oil and natural gas properties, net	<u>\$ 28,495,507</u>	<u>\$ 22,047,233</u>
Other property and equipment		
Furniture, fixtures and office equipment, at cost	259,882	231,841
Less: Accumulated depreciation	(100,201)	(70,814)
Other property and equipment, net	<u>\$ 159,681</u>	<u>\$ 161,027</u>

Unproved properties not subject to amortization includes unevaluated acreage of \$7.8 and \$6.8 million as of March 31, 2009 and June 30, 2008, respectively. As of March 31, 2009, this acreage consists of properties in the Giddings Field, our projects in the Woodford Shale trend in Oklahoma, and our Neptune project in South Texas. As of June 30, 2008, the unevaluated acreage consisted of properties in the Giddings Field and our projects in the Woodford Shale trend in Oklahoma. Unproved properties also include approximately \$2.0 million as of March 31, 2009 and June 30, 2008 of participating interests through separately acquired royalty and overriding royalty interests aggregating 7.4% of the Delhi Holt Bryant Unit in the Delhi Field in Louisiana. Subject to industry conditions, evaluation of these properties is expected to be completed within three years. Our evaluation of impairment of unproved properties occurs, at a minimum, on a quarterly basis.

The following table provides a summary of costs that are not being amortized as of March 31, 2009, by the fiscal year in which the costs were incurred:

Costs excluded from amortization	Total	During the	During the Year Ended June 30,		
		Nine Months Ended March 31, 2009	2008	2007	2006 and Prior
Leasehold acquisition costs	\$ 7,890,926	\$ 1,452,174	\$ 5,495,568	\$ 943,184	\$ —
Royalty and overriding royalty interests	1,954,377	3,636	—	966,794	983,947
	<u>\$ 9,845,303</u>	<u>\$ 1,455,810</u>	<u>\$ 5,495,568</u>	<u>\$ 1,909,978</u>	<u>\$ 983,947</u>

Note 5 — Asset Retirement Obligations

Our asset retirement obligations represent the estimated present value of the amount we will 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 obligation for the nine months ended March 31, 2009:

Asset retirement obligations - July 1, 2008	\$ 215,056
Liabilities incurred	185,770
Liabilities settled	(90,761)
Accretion expense	24,452
Revisions to previous estimates	268,377
Asset retirement obligations — March 31, 2009	\$ 602,894

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 — Stockholders' Equity

On August 19, 2008, the Board of Directors authorized the issuance of 46,795 shares of common stock to certain employees who elected to receive these shares in lieu of a portion of their fiscal 2008 cash bonus. The value of the shares issued was \$168,462, based on the fair market value on the date of issuance, or \$3.60 per share. See Note 7.

On October 30, 2008, we repurchased 788,200 shares of common stock at an average price of \$1.10 per share, plus approximately \$15,000 of transaction costs, from an unaffiliated accredited investor. At this time, we currently have no plan to repurchase any more common shares.

On December 9, 2008, three outside directors each received 30,000 shares of restricted common stock, with a per share price of \$1.20, as part of a compensation plan for outside directors. The same outside directors each received 8,633 shares of restricted common stock, with a per share price of \$4.17, as part of their compensation plan during the calendar year 2008. All issuances of common stock were subject to vesting terms per individual stock agreements, which is generally one year for directors.

On January 16 and February 10, 2009, we issued 24,324 and 15,789 shares of restricted common stock, respectively, to Mr. Cagan as compensation for his services as a director, in lieu of the \$5,000 monthly advisor fee previously paid to CMCP. The 15,789 share award was elected by Mr. Cagan in lieu of cash retainers and fees for his board service during calendar 2009. These issuances of common stock are subject to vesting terms per the individual stock agreements, which is generally one year for directors.

Note 7 — Stock-Based Incentive Plan

We have granted option awards to purchase common stock (the "Stock Options") and restricted common stock awards ("Restricted Stock") to employees, directors, and consultants of the Company and its subsidiaries under the Natural Gas Systems Inc. 2003 Stock Plan (the "2003 Stock Plan") and the Evolution Petroleum Corporation Amended and Restated 2004 Stock Plan (the "2004 Stock Plan" or together, the "EPM Stock Plans"). Option awards for the purchase of 600,000 shares of common stock were issued under the 2003 Stock Plan. The 2004 Stock Plan authorized the issuance of 5,500,000 shares of common stock. There are no shares available for grant under the 2003 Stock Plan and, as of March 31, 2009, 557,861 shares remain available for grant under the 2004 Stock Plan.

We have also granted common stock warrants, as authorized by the Board of Directors, to employees in lieu of cash bonuses or as incentive awards to reward previous service or provide incentives to individuals to acquire a proprietary interest in the Company's success and to remain in the service of the Company (the "Incentive Warrants"). These Incentive Warrants have similar characteristics of the Stock Options. A total of 1,037,500 Incentive Warrants have been issued, with Board of Directors approval, outside of the EPM Stock Plans.

On August 19, 2008, the Board of Directors authorized the issuance of 46,795 shares of common stock from the 2004 Stock Plan to certain employees who elected to receive these shares in lieu of a portion of their fiscal 2008 cash bonus. The value of the shares issued was \$168,462, based on the fair market value on the date of issuance, or \$3.60 per share.

Stock Options and Incentive Warrants

Non-cash stock-based compensation expense related to Stock Options and Incentive Warrants for the three month period ended March 31, 2009 and 2008 was \$500,000 and \$416,143, respectively. Non-cash stock-based compensation expense related to Stock Options and Incentive Warrants for the nine month period ended March 31, 2009 and 2008 was \$1,445,987 and \$1,120,349, respectively.

During the nine months ended March 31, 2009, we granted Stock Options to purchase 591,090 shares of common stock under the 2004 Stock Plan with a weighted average exercise price of \$4.27. During the nine months ended March 31, 2008, we granted Stock Options to purchase 1,385,000 shares of common stock under the 2004 Stock Plan with a weighted average exercise price of \$2.49. The exercise price was determined based on the market price of the Company's common stock on the date of grant. The Stock Options granted during the nine months ended March 31, 2009 and 2008 generally vest quarterly, on a straight line basis, over a period of four years. The Stock Options granted during the nine months ended March 31, 2009 and 2008 have a contractual life of seven and ten years, respectively. The weighted average assumptions used to calculate the fair value of these Stock Options and the weighted average fair value of the Stock Options granted are as follows:

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**EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 7 — Stock-Based Incentive Plan (Continued)

	Nine Months Ended March 31,	
	2009	2008
Expected volatility	87.1%	93.4%
Expected dividends	—	—
Expected term (in years)	4.6	6.1
Risk-free rate	3.10%	4.10%
Weighted-average grant date fair value of options granted	\$ 2.62	\$ 1.94

We estimated the fair value of Stock Options and Incentive Warrants issued to employees and directors under SFAS No. 123R at the date of grant using a Black-Scholes-Merton valuation model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected term (estimated period of time outstanding) of Stock Options and Incentive Warrants is based on the "simplified" method of the estimated expected term for "plain vanilla" options allowed by the SEC Staff Accounting Bulletin ("SAB") No. 107 and SAB No. 110, and varied based on the vesting period and contractual term of the Stock Options or Incentive Warrants. Expected volatility is based on the historical volatility of the Company's closing common stock price and that of an evaluation of a peer group of similar companies trading activity. We have not declared any cash dividends on the Company's common stock.

The following summary presents information regarding outstanding Stock Options and Incentive Warrants as of March 31, 2009, and the changes during the nine months then ended:

	Number of Stock Options and Incentive Warrants	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Weighted Average Remaining Contractual Term (in years)
Stock Options and Incentive Warrants outstanding at July 1, 2008	5,483,500	\$ 1.81		
Granted	591,090	\$ 4.27		
Exercised	—	—		
Canceled, forfeited, or expired	—	—		
Stock Options and Incentive Warrants outstanding at March 31, 2009	<u>6,074,590</u>	<u>\$ 2.05</u>	<u>\$ 1,789,330</u>	<u>6.7</u>
Vested or expected to vest at March 31, 2009	<u>6,074,590</u>	<u>\$ 2.05</u>	<u>\$ 1,789,330</u>	<u>6.7</u>
Exercisable at March 31, 2009	<u>4,244,263</u>	<u>\$ 1.66</u>	<u>\$ 1,702,874</u>	<u>6.4</u>

(1) Based upon the difference between the market price of our common stock on the last trading date of the period (\$1.88 as of March 31, 2009) and the Stock Option or Incentive Warrant exercise price of in-the-money Stock Options and Incentive Warrants.

There were no Stock Options or Incentive Warrants that were exercised during the nine months ended March 31, 2009 and 2008.

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**EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 7 — Stock-Based Incentive Plan (Continued)

A summary of the status of our unvested Stock Options and Incentive Warrants as of March 31, 2009 and the changes during the nine months ended March 31, 2009, is presented below:

Number of Weighted

	<u>Stock Options and Incentive Warrants</u>	<u>Average Grant- Date Fair Value</u>
Unvested at July 1, 2008	2,003,437	\$ 1.83
Granted	591,090	\$ 2.62
Vested	(764,200)	\$ 1.78
Forfeited	—	—
Unvested at March 31, 2009	<u>1,830,327</u>	<u>\$ 2.13</u>

The total unrecognized compensation cost at March 31, 2009, relating to non-vested share-based compensation arrangements granted under the EPM Stock Plans and Incentive Warrants was \$3,651,844. Such unrecognized expense is expected to be recognized over a weighted average period of 2.6 years. Unrecognized compensation related to non-vested share-based compensation arrangements are not adjusted for a decline in the underlying stock price subsequent to the date of the award.

Restricted Stock

For the nine months ended March 31, 2009, we issued 130,113 shares of restricted common stock to certain members of our board of directors.

For the nine months ended March 31, 2008, we issued 25,899 and 50,000 shares of restricted common stock to certain members of our board of directors and a consultant, respectively.

Stock-based compensation expense related to Restricted Stock grants for the three month period ended March 31, 2009 and 2008 was \$37,285 and \$77,729, respectively. Stock-based compensation expense related to Restricted Stock grants for the nine month period ended March 31, 2009 and 2008 was \$199,548 and \$191,094, respectively.

The following table sets forth the Restricted Stock transactions for the nine months ended March 31, 2009:

	<u>Number of Restricted Shares</u>	<u>Weighted Average Grant-Date Fair Value</u>
Unvested at July 1, 2008	50,898	\$ 4.11
Granted	130,113	\$ 1.29
Vested	(50,898)	\$ 4.11
Forfeited	—	—
Unvested at March 31, 2009	<u>130,113</u>	<u>\$ 1.29</u>

At March 31, 2009, unrecognized stock compensation expense related to Restricted Stock grants totaled \$123,783. Such unrecognized expense will be recognized over a weighted average period of 0.8 years.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 — Supplemental Disclosure of Cash Flow Information

Our supplemental disclosures of cash flow information for the nine months ended March 31, 2009 and 2008 are as follows:

	<u>Nine Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Income taxes paid:	\$ 15,000	\$ 33,879
Income tax refunds and net operating loss carry-back received:	\$ 4,052,631	—
Non-cash transactions:		
Increase (decrease) in accounts payable used to acquire oil and natural gas leasehold interests and develop oil and natural gas properties:	\$ (2,014,933)	\$ 2,081,781
Oil and natural gas properties incurred through recognition of asset retirement obligations:	\$ 454,147	\$ 170,890
Common stock issued in lieu of a portion of 2008 cash bonus accrued at June 30, 2008:	\$ 168,462	\$ —

Note 9 — 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 no unrecognized tax benefits nor any accrued interest or penalties associated with unrecognized tax benefits as of the date of adoption of FIN 48 and through March 31, 2009.

We recognized a tax benefit of 30% and 34% for the three months ended March 31, 2009 and 2008, respectively, and a tax benefit of 24% and 30% for the nine months ended March 31, 2009 and 2008, respectively. Stock-based compensation expense related to our qualified incentive stock option awards is our most significant permanent difference in reconciling our income tax benefit at the statutory federal rate to our effective income tax benefit.

As of March 31, 2009, we expect to recover approximately \$1.5 million in federal and state income taxes paid during the tax year ended June 30, 2007, arising from an estimated carry-back of income tax losses incurred during the nine months ended March 31, 2009. Significant intangible drilling costs were incurred during the 2009 fiscal year, which we will elect to deduct for federal and state income tax purposes. Under GAAP and specifically the full cost accounting method, intangible drilling costs are capitalized as part of oil and natural gas properties, and depleted using the unit-of-production method. The deduction of intangible drilling costs creates a significant difference in the income tax and book basis of our oil and natural gas properties and resulted in an increase in our net deferred tax liability, from \$2.9 million as of June 30, 2008, to \$3.8 million as of March 31, 2009.

Note 10 — Related Party Transactions

Laird Q. Cagan, a member of our Board of Directors, is a Managing Director and co-owner of Cagan McAfee Capital Partners, LLC (“CMCP”). CMCP has performed financial advisory services to us pursuant to a written agreement amended in November 2005 (the “Agreement”), providing for a retainer of \$5,000 per month. Also pursuant to the Agreement, Mr. Cagan, as a registered representative of Chadbourn Securities Inc. (“Chadbourn”) and as a partner of CMCP could serve as our placement agent in private equity financings, wherein CMCP could earn cash fees equal to 8% of gross equity proceeds, declining to 4% subject to the amount of equity raised through CMCP, and a fixed 4% warrant fee. During the term of the Agreement, Mr. Cagan received no compensation for serving as a director or as the Chairman of our Board of Directors. Effective December 31, 2008, the Agreement was modified to remove the monthly retainer and Mr. Cagan was re-elected as a director of our Board with remuneration consistent with other outside directors of our Board.

Eric A. McAfee, a major shareholder of the Company, is also a Managing Director of CMCP.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 — Related Party Transactions (Continued)

During the three months ended March 31, 2009 we did not pay CMCP any fee related to the Agreement. During the nine months ended March 31, 2009, we expensed and paid \$30,000, through monthly retainers of \$5,000 through December 31, 2008. During the three and nine months ended March 31, 2008, we expensed and paid CMCP \$15,000 and \$45,000, respectively, through monthly retainers of \$5,000. There were no other earned fees by CMCP during these periods.

See also Note 6 for equity transactions with related parties.

Note 11 — Earnings (loss) Per Share (“EPS”)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
<i>Numerator</i>				
Net loss	\$ (1,036,617)	\$ (535,985)	\$ (1,891,951)	\$ (1,948,223)
<i>Denominator</i>				
Weighted average number of common shares — basic and diluted	26,219,034	26,784,473	26,495,176	26,779,339
Net loss per common share — basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.07)	\$ (0.07)

Total potentially dilutive securities outstanding as of March 31, 2009 are as follows:

Outstanding Potential Dilutive Securities	Weighted Average Exercise Price	Outstanding at March 31, 2009
Common stock warrants issued in connection with equity and financing transactions	\$ 1.40	401,058
Stock Options and Incentive Warrants	\$ 2.05	6,074,590
		<u>6,475,648</u>

Note 12 — Commitments and Contingencies

Environmental clean-up. On August 3, 2007, we were advised of an oil spill in the Tullos Field near one of our leases. At the request of field agents of the Louisiana Department of Environmental Quality and the Environmental Protection Agency (“EPA”), we agreed to commence a clean-up operation that was completed by the end of August 2007. A detailed analysis of the oil in the spill compared to the Company’s produced oil was conducted by an EPA approved laboratory. We believe that the oil in the spill did not originate from our operations, supported by the formal findings of the laboratory. We received

insurance reimbursements of \$484,197 in October 2007, \$217,668 in March 2008, and \$75,514 in February 2009. These reimbursements covered all of our actual cleanup costs except a \$5,000 insurance deductible and excluding our legal fees, in-house administrative costs, and any possible EPA expense reimbursements and fines that might be billed. As of March 31, 2009, we believe all matters related to this oil spill have been settled, with the exception of an invoice from the United States Coast Guard for approximately \$20,000 for penalties and interest, which we believe is unsupported and plan to appeal.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 — Commitments and Contingencies (Continued)

Litigation. The Company is subject to various lawsuits and other claims 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 jurisdiction in which we operate. We establish reserves for specific liabilities in connection with regulatory and legal actions that we deem to be probable and estimable. No amounts have been accrued in our financial statements with respect to any legal or regulatory matters as we believe the matters have a remote chance of resulting in a significant judgment.

In July 2008, a multi-plaintiff lawsuit was filed in the twenty-eighth Judicial District Court, Lasalle Parish, Louisiana, against 15 defendants, including Four Star Development Corporation, a former indirect wholly owned subsidiary of the Company, which was sold on March 3, 2008, as part of our sale of the Tullos Field Area. Plaintiffs claim that the defendants' oil and natural gas exploration, development and production activities on their properties have caused soil and ground water contamination as a result of the release of hydrocarbons and drilling fluids. Plaintiffs seek damages for testing, clean-up and remediation of the properties as well as diminution in their value and mental anguish and emotional distress to the individual plaintiffs, unjust enrichment and punitive damages for alleged concealment of ongoing activities. At this time, we are not a party to the litigation and are unable at this time to determine the exposure, if any, to the Company.

In November 2005, a multi-plaintiff lawsuit was filed in the Fifth Judicial District Court, Richland Parish, Louisiana, against 18 defendants including NGS Sub Corp. and Arkla Petroleum LLC, the Company's direct and indirect wholly owned subsidiaries (the "Subsidiaries"), as working interest owners/operators of various oil and natural gas leases in the Delhi Field. Plaintiffs claim that the defendants' oil and natural gas exploration, development and production activities on their properties have caused soil and ground water contamination as a result of the release of hydrocarbons and drilling fluids. Plaintiffs seek damages for testing, clean-up and remediation of the properties as well as diminution in their value and mental anguish to the individual plaintiffs, unjust enrichment and punitive damages for alleged concealment of ongoing activities.

Defendants have answered Plaintiffs' suit denying all claims. Trial is set before a jury in Richland Parish for July 13, 2009. We are vigorously contesting all of Plaintiffs' claims. The case is currently in discovery and, at this time, we are unable to predict the outcome.

Lease Commitments. We have a non-cancelable operating lease for office space that expires on August 1, 2016. Future minimum lease commitments as of March 31, 2009 under this operating lease are as follows:

For the twelve months ended March 31,

2010	\$	138,089
2011		138,089
2012		152,037
2013		159,011
2014		159,011
Thereafter		371,026
Total	\$	<u>1,117,263</u>

Rent expense for the three months ended March 31, 2009 and 2008 was \$39,232 and \$35,466, respectively. Rent expense for the nine months ended March 31, 2009 and 2008 was \$110,165 and \$106,399, respectively.

Employment Contracts. We have entered into employment agreements with the Company's three senior executives. The employment contracts provide for a severance package for termination by the Company for any reason other than cause or permanent disability, or in the event of a constructive termination, that includes payment of base pay and certain medical and disability benefits from six months to a year after termination. The total contingent obligation under the employment contracts as of March 31, 2009 is approximately \$499,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q and the information referenced herein contain 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 our 2008 Annual Report on Form 10-K for the year ended June 30, 2008 as filed with the Securities and Exchange Commission. Furthermore, the assumptions that support our forward-looking statements are based upon information that is currently available and is subject to change. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-

looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages. All forward-looking statements attributable to Evolution Petroleum Corporation are expressly qualified in their entirety by this cautionary statement.

We use the terms, "EPM," "Company," "we," "us" and "our" to refer to Evolution Petroleum Corporation.

Executive Overview

General

We are a petroleum company engaged primarily in the acquisition, exploitation and development of properties for the production of crude oil and natural gas. We acquire known, underdeveloped oil and natural gas resources and exploit them through the application of capital and technology to increase production, ultimate recoveries, or both.

Our strategy is intended to generate scalable development opportunities at normally pressured depths, exhibiting relatively low completion risk, generally longer and more predictable production lives, less expenditures on infrastructure and lower operational risks.

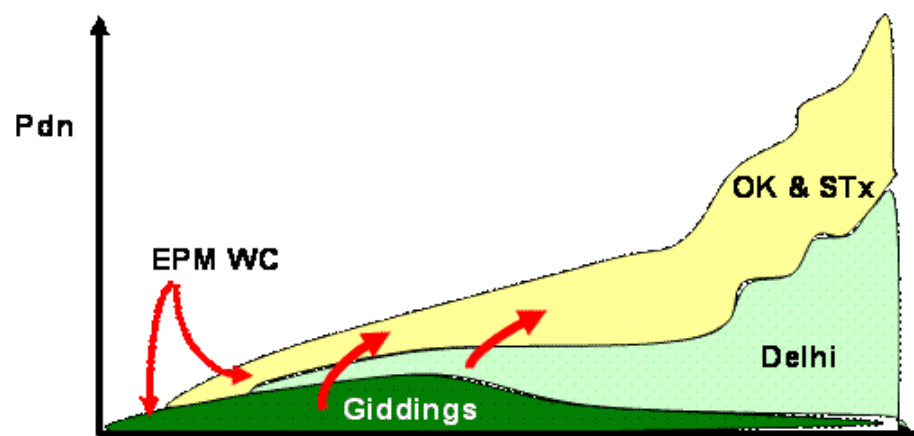
Within this overall strategy, we pursue three specific initiatives:

- I Enhanced oil recovery ("EOR"), using miscible and immiscible gas flooding;
- II Conventional redevelopment of bypassed primary resources within mature oil and natural gas fields utilizing modern technology and our expertise; and
- III Unconventional gas resource development, using modern stimulation and completion technologies.

Our most significant asset is within our EOR Initiative in the 13,636 acre Delhi Field, located in northeast Louisiana. Our non-operated interests consist of 7.4% in overriding and mineral royalty interests and a 25% after pay-out reversionary working interest in the Delhi Field Holt Bryant Unit, along with a 25% working interest in certain other depths in the Delhi Field resulting from the Farmout we completed on June 12, 2006 with Denbury Onshore LLC, a subsidiary of Denbury Resources Inc. ("Denbury") (the "Delhi Farmout"). The Holt Bryant Unit is currently being redeveloped by the operator, Denbury, using CO₂ enhanced oil recovery technology and a dedicated portion of Denbury's proved CO₂ reserves in the Jackson Dome, located approximately 100 miles east of Delhi. According to public presentations released by Denbury, injection of CO₂ is expected to begin in the third quarter of calendar 2009, followed by projected increases in oil production about early 2010.

Since our closing of the Delhi Farmout, we have focused on developing projects in our other initiatives, particularly through conventional redevelopment of bypassed resources in the Giddings Field using horizontal drilling methods, the leasing of unconventional gas shale projects in the Woodford Shale Trend in Oklahoma and the leasing of Neptune, a heavy oil project in S. Texas. Conceptually, our plan going forward can be illustrated as follows:

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As indicated by the above chart, (volumes are representative and not to scale), we are funding our development projects in the Giddings Field and leasing and development activities in our gas shale projects from our working capital resources. We expect that net cash flows from our properties in the Giddings Field, our current cash resources and cash flows from the Delhi Project will be used to fund full development our gas shale projects and other new projects. We may utilize project financing in the future for both Giddings and our gas shale projects.

Our long term strategy and primary focus continue to be on increasing share value through the identification and acquisition of resources and conversion of those resources into proved reserves through our expertise and technology. Near term, our focus is on (i) project identification and leasing of reserves that we believe will be categorized as proved undeveloped, and (ii) selective drilling activities to move existing reserves into the proved category. We are emphasizing long term share value maintenance and growth over near term earnings during the current period of low commodity prices.

Highlights for our Third Quarter Fiscal Year 2009

- **The CO₂ Pipeline to our Delhi Field has been completed.** On May 5, 2009, the operator reported that the 78 mile Delta Pipeline from Tinsley Field to our Delhi Field has been completed, tested and CO₂ fill into the pipeline has begun.
- **The redeployment of our proceeds from the sale of our properties in the Tullos Field Area into the Giddings Field continues to generate positive results.**

Sales volumes increased 346% during our third quarter in fiscal year 2009 versus our third quarter in fiscal year 2008. Our increase in sales volumes for the quarter were solely attributable to our production in the Giddings Field. Our properties in the Tullos Field Area, which were sold on March 3, 2008, accounted for approximately 45% of total sales volumes for the three months ended March 31, 2008. Production during March 2009 averaged 482 gross (386 net) BOE per day, despite two key wells producing for only two-thirds of the month.

We completed two new re-entry wells in the third fiscal quarter of 2009. The first fiscal 2009 Giddings Field re-entry well, the Hilton Yegua #1, was completed and placed on production during mid-January 2009. A second re-entry well, the Pearson #1, was completed and placed on production in late January 2009. We own a 100% working interest and approximately 79% revenue interest in the two wells.

We lowered our field income break-even point by 58%. During the quarter ended March 31, 2009, lifting costs (lease operating and severance tax, on a combined per unit of sales basis) were \$6.88 and depletion rates were \$17.57 per BOE at our Giddings Field, equaling a field income break-even point of \$24.45 per BOE. This compares to lifting costs of \$44.63 and a depletion rate of \$13.29 per BOE, equaling a field income break-even point of \$57.92 per BOE for the last full fiscal quarter of production prior to divestiture in early March 2008.

The product prices we received declined 65% year over year and declined 31% sequentially. During the quarter ended March 31, 2009, we received \$27.27 per BOE, as compared to \$77.82 per BOE during the three months ended March 31, 2008, and \$39.78 per BOE during the three months ended December 31, 2008.

We remained financially strong.

We ended the quarter with \$7.5 million of working capital, compared to \$7.6 million at December 31, 2008 and \$13.6 million at June 30, 2008. At March 31, 2009, working capital included \$6.6 million of cash and cash equivalents, and short-term certificates of deposit, and \$1.5 million of recoverable income taxes arising from current year tax losses being carried back to a prior tax year. We incurred \$8.3 million in capital expenditures for oil and natural gas leasehold and development costs during the nine months ended March 31, 2009, which was funded by working capital. We continue to have no short or long term funded debt other than our payables incurred in the ordinary course of business.

We protected our short-term investments during difficult credit market conditions. We have continually avoided structurally enhanced investment securities, auction rate securities and other higher risk credit instruments. Instead, we relied upon lower yielding U.S. Government Agency money market funds through July 2008, when we shifted all of our cash equivalents into short-term U.S. Treasury money market funds. During the second quarter of fiscal 2009, we redeployed some of our cash and cash equivalents into certificates of deposit that mature within a year and that are fully insured by the FDIC.

We are still debt free, and expect to remain so during fiscal 2009.

Looking Forward in 2009

We will maintain our focus on increasing underlying value per share by converting unproved resources to proved reserves.

Our Delhi CO₂ project is nearing production:

- CO₂ pipeline fill will continue through the second calendar quarter of 2009.
- Final commissioning of the pipeline is expected in June 2009.
- A rig will be mobilized for additional field work in the second calendar quarter of 2009.
- CO₂ reservoir injection is scheduled for the summer of 2009.
- The CO₂ processing facility is scheduled to be operational in the fourth calendar quarter of 2009.
- First oil production is expected to begin within six months following first field injection of CO₂, or sometime around early calendar 2010. We believe that production response in the Delhi Field resulting from the injection of CO₂ will lead to a substantial addition to our net proved reserves.

We expect to initiate pilot drilling within our shallow Woodford Shale projects. Current plans for fiscal 2009 include the drilling or re-entry of up to three vertical wells to depths of about 1,500 feet to utilize air drilling to develop what we believe will be substantial low cost gas reserves.

We expect to initiate development drilling within our Neptune heavy oil project in South Texas. We completed the leasing of approximately 1,500 net acres where we intend to drill infill (or downspaced) wells within an existing moderately heavy oil field. Production in this field by another operator has established proved reserves on infill spacing. We also expect to apply our specialized completion technology to further enhance recovery.

Further declines of oil and natural gas prices could result in a significant impairment of our full-cost pool. The current recessionary economic environment has resulted in lower demand for oil and natural gas, resulting in volatile commodity price. Commodity prices at March 31, 2009 (\$3.37 per MMBtu for Houston Ship Channel natural gas and \$49.66 per barrel for NYMEX oil, adjusted for market differentials), would have caused an impairment of our oil and natural gas properties of approximately \$180,000, or less than 1% of our net oil and natural gas property costs. However, due to the increases in crude oil and natural gas prices subsequent to March 31, 2009, we did not recognize an impairment of our oil and natural gas properties as of March 31, 2009. Our depletion rate decreased from \$19.56 per barrel to \$17.57 per barrel during the three months ended March 31, 2009 due to revision of estimated future development costs associated with our proved undeveloped reserves. Natural gas prices at the wellhead

declined from \$5.23 per mcf in December 2008 to \$3.25 per mcf in March 2009, offset partially by the increase in received oil price from \$40.06 to \$44.71 per barrel. Receipts per BOE declined dramatically during the quarter, offset in part by continuing declines in oil field service and drilling costs. Prices have improved subsequent to March 31, 2009 as of early May 2009.

Reductions in General and Administrative Costs

We expect a 10% reduction in our fully burdened payroll expenses starting in mid- fourth quarter of fiscal 2009. During April 2009, we reduced our headcount by two full time employees and one contractor, bringing our staff to eleven full-time employees and two contractors. We are also reviewing all recurring costs and operations for potential savings.

Liquidity and Capital Resources

Our primary liquidity needs are to fund strategic property acquisitions, our drilling program, and operating costs. As disclosed in our quarterly report on Form 10-Q for the quarter ended September 30, 2008, we revised our 2009 capital expenditures budget for fiscal 2009 (the "Revised 2009 Plan"), reducing the overall program by more than half to less than \$10 million. Due to our positive working capital, cash flows from producing properties, no debt and no near term expiring leases, we believe we have the ability to fund or further adjust our capital expenditure budget to capture select opportunities that may arise for the benefit of our shareholders, without the need of additional financing. Therefore, we believe that our current sources of liquidity are sufficient to fund our ongoing cash requirements.

At March 31, 2009, our working capital was \$7.5 million and we continued to be debt free. This compares to working capital of \$13.6 million at June 30, 2008. The decrease in working capital of \$6.1 million since June 2008 was due to cash of \$9.9 million used for investing activities, primarily for investments in oil and natural gas properties, cash used of \$0.9 million to repurchase our common stock, a decrease of \$4.2 million in receivables and other current assets, primarily from the collection of oil and gas receivables and income tax receivables, partially offset by cash of \$6.2 million provided by operations and a decrease of \$2.7 million in current liabilities, primarily due to payments made on accounts payable for costs incurred for our drilling program.

Cash flows provided by operating activities for the nine months ended March 31, 2009 were \$6.2 million. Cash flows provided by operations includes cash proceeds of \$6.4 million from oil and natural gas production primarily from our properties in the Giddings Field, cash proceeds of \$0.1 million from interest income, cash proceeds of \$4.1 million from income tax refunds, primarily from our 2008 tax year net operating loss carry-back, offset by cash payments of \$0.1 million for settling liabilities associated with our asset retirement obligations and \$4.3 million of cash payments for operating activities, including lease operating expenses, production taxes, and salaries and wages. This compares to \$1.2 million of cash used in operations for the nine months ended March 31, 2008, which includes \$1.7 million of cash proceeds from oil and natural gas production primarily from our properties in the Tullos Field Area, which we sold on March 3, 2008, and cash proceeds from interest income of \$0.8 million, offset by \$3.7 million of cash payments for operating activities, including lease operating expenses, production taxes, and salaries and wages.

Cash flows used in investing activities totaled \$11.7 million during the nine months ended March 31, 2009, which includes the purchase of short-term certificates of deposit of \$1.8 million. Our remaining investing activities of \$9.9 million were primarily for development activities in the Giddings Field and leasehold acquisition costs in the Giddings Field, our Woodford Shale projects in Oklahoma and our Neptune project in South Texas. The \$9.9 million includes net payments on accounts payable of \$2.0 million from June 30, 2008, relating to expenditures for oil and natural gas properties incurred in the prior fiscal period, thus \$7.9 million of cash was used for oil and gas properties incurred during this fiscal year. During the nine months ended March 31, 2008, approximately \$11.1 million of cash was used for investments to acquire and develop oil and natural gas property interests and other property and equipment, primarily for investments in oil and natural gas properties at the Giddings Field, and does not include approximately \$2.1 million net increase in accounts payable from July 1, 2007 through March 31, 2008, relating to expenditures on oil and natural gas properties. The sale of the Tullos Assets partially offset our development and acquisition activities by providing net proceeds of approximately \$4.4 million for the nine months ended March 31, 2008.

Cash flows used in financing activities for the nine months ended March 31, 2009 were \$0.9 million. On October 30, 2008, we repurchased 788,200 shares of common stock at an average price of \$1.10 per share, plus approximately \$15,000 of transaction costs, from an unaffiliated accredited investor. Cash flows from financing activities for the nine months ended March 31, 2008 were insignificant.

We incurred \$8.3 million of capital expenditures for oil and natural gas leasehold and development costs during the nine months ended March 31, 2009, which includes \$0.4 million related to the recognition of asset retirement obligations. Of the \$8.3 million, \$2.2 million was incurred for leasehold acquisitions and \$6.1 million was incurred for development activities. Development activities were in the Giddings Field and leasehold acquisition costs were for properties in the Giddings Field, our Woodford Shale projects in Oklahoma and our Neptune project in South Texas. We incurred approximately \$13.3 million in capital expenditures for oil and natural gas leasehold and development costs during the nine months ended March 31, 2008, which includes \$0.2 million related to the recognition of asset retirement obligations. Of the \$13.3 million, \$6.6 million was incurred for leasehold acquisitions and \$6.7 million for development costs, primarily in the Giddings Field.

Since our wells in the Giddings Field tend to produce a large portion of their reserves relatively quickly, and due to continued economic uncertainty, we believe that it is in our shareholders' best interests, and consistent with our focus on increasing share value, to slow the development of our properties in the Giddings Field until expectations of higher commodity prices may be realized. Our Revised 2009 Plan provided for drilling up to three re-entry wells in the Giddings Field, which is a reduction from the previous ten well re-entry plan, subject to future changes in commodity prices and market conditions. The first fiscal 2009 Giddings Field re-entry well, the Hilton Yegua #1, was completed and placed on production in mid-January 2009. A second re-entry well, the Pearson #1, began drilling in late December 2008 and was completed and placed on production by late January 2009. We own a 100% working interest and approximately 79% revenue interest in the two wells.

Additionally, during the fourth quarter of our fiscal year 2009, we are planning initial test drilling or re-entry of up to three low-cost vertical wells within our shallow Woodford Shale project in Oklahoma. It is our intention to potentially quantify and convert that potential resource into higher graded reserves. Similarly, we expect to initiate drilling of low cost development wells in our new South Texas project beginning the summer of 2009, subject to the price of crude oil, with the expectation of potentially establishing additional proved reserves of moderately heavy oil associated with water at shallow depths.

Results of Operations

Three months ended March 31, 2009 compared with the three months ended March 31, 2008

The following table sets forth certain financial information with respect to our oil and natural gas operations:

	Three Months Ended March 31		Variance	% change
	2009	2008		
Production Volumes, net to the Company:				
Crude oil (Bbl)	8,953	6,540	2,413	37%
Natural gas liquids ("NGLs") (Bbl)	15,091	1,606	13,485	840%
Natural gas (Mcf)	112,176	12,287	99,889	813%
Crude oil, NGLs and natural gas (BOE)	42,740	10,194	32,546	319%
Sales Volumes, net to the Company:				
Crude oil (Bbl)	8,911	5,915	2,996	51%
NGLs (Bbl)	15,091	1,606	13,485	840%
Natural gas (Mcf)	112,176	12,287	99,889	813%
Crude oil, NGLs and natural gas (BOE)	42,698	9,569	33,129	346%
Revenue data:				
Crude oil	\$ 351,684	\$ 554,498	\$ (202,814)	(37)%
NGLs	350,891	90,405	260,486	288%
Natural gas	461,889	99,799	362,090	363%
Total revenues	\$ 1,164,464	\$ 744,702	\$ 419,762	56%
Average price:				
Crude oil (per Bbl)	\$ 39.47	\$ 93.74	\$ (54.27)	(58)%
NGLs (per Bbl)	23.25	56.29	(33.04)	(59)%
Natural gas (per Mcf)	4.12	8.12	(4.00)	(49)%
Crude oil, NGLs and natural gas (per BOE)	\$ 27.27	\$ 77.82	\$ (50.55)	(65)%
Expenses (per BOE)				
Lease operating expenses and production taxes	\$ 6.88	\$ 32.72	\$ (25.84)	(79)%
Depletion expense on oil and natural gas properties (a)	\$ 17.57	\$ 13.55	\$ 4.02	30%

(a) Excludes depreciation of furniture and fixtures of \$9,769 and \$9,465, for the three months ended March 31, 2009 and 2008, respectively.

Net loss. For the three months ended March 31, 2009, we reported a net loss of \$1,036,617, or \$0.04 loss per share (which includes \$1.3 million of non-cash charges related to stock-based compensation, depreciation, depletion, and amortization, and accretion on asset retirement obligations) on total oil and natural gas revenues of \$1,164,464. This compares to a net loss of \$535,985, or \$0.02 loss per share (which included approximately \$0.6 million of non-cash charges related to stock based compensation, depreciation, depletion, and amortization, and accretion on asset retirement liabilities), on total oil and natural gas revenues of \$744,702 for the three months ended March 31, 2008. The increase in loss is attributable to an increase in operating costs of \$927,613 (primarily related to an increase in non-cash charges as noted above), a decrease in interest income of \$156,990, offset by an increase in revenues of \$419,762 and an increase in our income tax benefit of \$164,209. Additional details of the components of net loss are explained in greater detail below.

Sales Volumes. Crude oil, NGLs, and natural gas sales volumes, net to our interest, for the three months ended March 31, 2009 increased 346% to 42,698 BOE, compared to 9,569 BOE for the three months ended March 31, 2008. The increase in sales volumes is due to production of crude oil, NGLs and natural gas from our properties in the Giddings Field. Our properties in the Tullos Field Area, which were sold on March 3, 2008, accounted for 45% of total sales volumes for the three months ended March 31, 2008.

Production. Oil production will vary from oil sales volumes by changes in crude oil inventories, which are included in total proved reserves. Crude oil, NGLs and natural gas production for the three months ended March 31, 2009 increased 319% to 42,740 BOE, compared to 10,194 BOE for the three months ended March 31, 2008. The increase is due to crude oil, NGLs and natural gas production from our properties in the Giddings Field. Production from our properties in the Tullos Field Area, which were sold on March 3, 2008, accounted for 48% of production for the three months ended March 31, 2008.

Oil, NGLs and Natural Gas Revenues. Crude oil, NGLs and natural gas revenues for the three months ended March 31, 2009 increased 56% from the comparable quarter in the previous fiscal year. This was due to an increase in sales volumes of crude oil, NGLs, and natural gas during the three months

ended March 31, 2009 from our properties in the Giddings Field, whereas our sales volumes from our properties in the Giddings Field during the three months ended March 31, 2008, accounted for 55% of total net production sold. Increased production was substantially offset by a 65% decline in the average price received per BOE, from \$78 per BOE for the three months ended March 31, 2008 to \$27 per BOE for the three months ended March 31, 2009. Our properties in the Giddings Field generated almost 100% of our revenues for the three months ended March 31, 2009. Oil revenues from our properties in the Tullos Field Area, which was sold in March 2008, accounted for 53% of total revenues for the three months March 31, 2008.

Lease Operating Expenses (including production severance taxes). Lease operating expenses and production taxes for the three months ended March 31, 2009 decreased approximately 9% from the comparable quarter in the prior fiscal year. Fewer higher producing wells in the Giddings Field compared to numerous lower producing wells in the Tullos Field Area are contributing more efficient operations and decreasing lease operating costs, which is partially offset by higher production taxes in the Giddings Field as compared to the Tullos Field Area where 48% of our production was during the previous period. The higher production taxes are due to higher revenues in our Texas properties compared to our production from our Louisiana properties in the comparable quarter in the previous fiscal year, even after adjusting for the Texas limited severance tax holiday on wells restored to production. On a BOE basis, lease operating expenses (including production severance taxes) decreased by 79% over the comparable three month period in the prior fiscal year, due to the reasons discussed above.

General and Administrative Expenses (“G&A”). G&A expenses increased 26% to \$1.6 million for the three months ended March 31, 2009, compared to \$1.3 million for the three months ended March 31, 2008. A large portion of the increase in G&A is due to the completion of the Giddings drilling program in early February 2009, whereas a portion of the salary costs of engineers and other employees, that were directly associated and capitalized with the drilling program, are currently being charged to G&A. For the three months ended March 31, 2009 and 2008, these costs totaled \$36,906 and \$245,931, respectively, an increase in G&A of \$209,025. Also contributing to the increase was non-cash stock-based compensation of \$537,285 (34% of total G&A) and \$493,872 (39% of total G&A) for the three months ended March 31, 2009 and 2008, respectively. Non-cash stock-based compensation is an integral part of total staff compensation utilized to recruit quality staff from other, more established companies. A third major contributor to the increase is legal expense associated with the Delhi litigation in the amount of \$146,962 for the quarter ended March 31, 2009.

Depreciation, Depletion & Amortization Expense (“DD&A”). DD&A increased by \$620,750 to \$759,836 for the three months ended March 31, 2009, compared to \$139,086 for the three months ended March 31, 2008. The increase is primarily due to a higher depletion rate (\$17.57 vs. \$13.55) per BOE and a 346% increase in sales volumes. The increase in the depletion rate is due to the higher development cost of PUDs in the Giddings Field that we added in amount far in excess of the volume of lower cost PDP’s in our properties in the Tullos Field Area, which we sold in March 2008. Proved reserves in the Giddings Field typically are higher cost, but higher valued, compared to the long life, high operating cost proved reserves in the Tullos Field Area.

Interest Income. Interest income for the three months ended March 31, 2009 decreased \$156,990 to \$8,024, compared to \$165,014 for the three months ended March 31, 2008. The decrease in interest income is due to lower available cash balances, including certificates of deposit, averaging \$8.3 million during the three months ended March 31, 2009, as compared to cash balances averaging \$20.7 million during the three months ended March 31, 2008, combined with a lower interest rate environment during the three months ended March 31, 2009. The lower cash balance is primarily due to cash used to pay for additions to our oil and natural gas properties.

Nine months ended March 31, 2009 compared with the nine months ended March 31, 2008

The following table sets forth certain financial information with respect to our oil and natural gas operations:

	Nine Months Ended March 31		Variance	% change
	2009	2008		
Production Volumes, net to the Company:				
Crude oil and natural gas liquids (Bbl)	29,008	20,382	8,626	42%
Natural gas liquids (“NGLs”) (Bbl)	33,836	1,993	31,843	1,598%
Natural gas (Mcf)	240,251	15,904	224,347	1,411%
Crude oil, NGLs and natural gas (BOE)	102,886	25,026	77,860	311%
Sales Volumes, net to the Company:				
Crude oil (Bbl)	28,844	19,875	8,969	45%
NGLs (Bbl)	33,836	1,993	31,843	1,598%
Natural gas (Mcf)	240,251	15,904	224,347	1,411%
Crude oil, NGLs and natural gas (BOE)	102,722	24,519	78,203	319%
Revenue data:				
Crude oil	\$ 2,337,948	\$ 1,664,648	\$ 673,300	40%
NGLs	1,341,629	111,699	1,229,930	1101%
Natural gas	1,431,655	123,277	1,308,378	1061%
Total revenues	\$ 5,111,232	\$ 1,899,624	\$ 3,211,608	169%
Average price:				
Crude oil (per Bbl)	\$ 81.05	\$ 83.76	\$ (2.71)	(3)%

NGLs (per Bbl)	39.65	56.05	(16.40)	(29)%
Natural gas (per Mcf)	5.96	7.75	(1.79)	(23)%
Crude oil, NGLs and natural gas (per BOE)	\$ 49.76	\$ 77.48	\$ (27.72)	(36)%

Expenses (per BOE)

Lease operating expenses and production taxes (a)	\$ 10.08	\$ 40.07	\$ (29.99)	(75)%
Depletion expense on oil and natural gas properties (b)	\$ 18.30	\$ 13.34	\$ 4.96	37%

(b) Excludes non-recurring expenses related to the oil spill in the Tullos Field Area of \$7,418 and \$35,417, for the nine months ended March 31, 2009 and 2008, respectively.

(c) Excludes depreciation of furniture and fixtures of \$29,387 and \$45,586, for the nine months ended March 31, 2009 and 2008, respectively.

Net loss. For the nine months ended March 31, 2009, we reported a net loss of \$1,891,951, or \$0.07 in loss per share (which includes \$3.6 million of non-cash charges related to stock-based compensation, depreciation, depletion, and amortization, and accretion on asset retirement obligations) on total oil and natural gas revenues of \$5,111,232. This compares to a net loss of \$1,948,223, or \$0.07 loss per share (which, included approximately \$1.7 million of non-cash charges related to stock based compensation, depreciation, depletion, and amortization, and accretion on asset retirement obligations), on total oil and natural gas revenues of \$1,899,624 for the nine months ended March 31, 2008. An increase in our revenues of \$3,211,608 was offset by increases in operating costs of \$2,229,229 (primarily related to an increase in non-cash charges as noted above), a decrease in interest income of \$673,383, and a decrease in our income tax benefit of \$252,724. Additional details of the components of net loss are explained in greater detail below.

Sales Volumes. Crude oil, NGLs, and natural gas sales volumes, net to our interest, for the nine months ended March 31, 2009 increased 319% to 102,722 BOE, compared to 24,519 BOE for the nine months ended March 31, 2008. The increase in sales volumes is due to production of crude oil, NGLs and natural gas from our properties in the Giddings Field. Our properties in the Tullos Field Area, which were sold on March 3, 2008, accounted for 73% of total sales volumes for the nine months ended March 31, 2008.

Production. Oil production will vary from oil sales volumes by changes in crude oil inventories, which are included in total proved reserves. Crude oil, NGLs and natural gas production for the nine months ended March 31, 2009 increased 311% to 102,886 BOE, compared to 25,026 BOE for the nine months ended March 31, 2008. The increase is due to crude oil, NGLs and natural gas production from our properties in the Giddings Field. Production from our properties in the Tullos Field Area, which were sold on March 3, 2008, accounted for 73% of production for the nine months ended March 31, 2008.

Oil, NGLs and Natural Gas Revenues. Crude oil, NGLs and natural gas revenues for the nine months ended March 31, 2009 increased 169% from the nine months ended March 31, 2008. This was due to an increase in sales volumes of crude oil, NGLs, and natural gas during the nine months ended March 31, 2009 from our properties in the Giddings Field, whereas our sales volumes from our properties in the Giddings Field during the nine months ended March 31, 2008, accounted for 27% of total net production sold. Increased production was substantially offset by a 36% decline in the average price received per BOE, from \$77 per BOE for the nine months ended March 31, 2008 to \$50 per BOE for the nine months ended March 31, 2009. Our properties in the Giddings Field generated almost 100% of our revenues for the nine months ended March 31, 2009. Oil revenues from our properties in the Tullos Field Area, which was sold in March 2008, accounted for 78% of total revenues for the nine months March 31, 2008.

Lease Operating Expenses (including production severance taxes). Lease operating expenses and production taxes for the nine months ended March 31, 2009 increased approximately 2% from the comparable nine month period in the prior fiscal year. The increase for the nine months ended March 31, 2009 is attributable to higher production taxes in the Giddings Field as compared to the Tullos Field Area where the majority of our production was during the previous period. The higher production taxes are due to higher revenues in our Texas properties compared to our production from our Louisiana properties in the comparable period in the previous fiscal year, even after adjusting for the Texas limited severance tax holiday on wells restored to production. The higher production taxes was partially offset by a decrease in lease operating costs, due to fewer higher producing wells in the Giddings Field compared to numerous lower producing wells in the Tullos Field Area. On a BOE basis, lease operating expenses (including production severance taxes) decreased by 75% over the comparable nine month period in the prior fiscal year, due to increased production at Giddings in the current period as compared to our properties in the Tullos Field Area in the comparable prior year period.

General and Administrative Expenses (“G&A”). G&A expenses increased 16% to \$4.7 million for the nine months ended March 31, 2009, compared to \$4.1 million for the nine months ended March 31, 2008. Higher overall compensation expenses for new hires, and including non-cash stock-based compensation, accounted for the majority of the increase. New hires were associated with a build up of our infrastructure to accommodate our operations in the Giddings Field. Non-cash stock-based compensation expense was \$1,645,535 (35% of total G&A) and \$1,311,443 (32% of total G&A) for the nine months ended March 31, 2009 and 2008, respectively. Non-cash stock-based compensation is an integral part of total staff compensation utilized to recruit quality staff from other, more established companies. Also contributing to the increase is legal expense associated with the Delhi litigation in the amount of \$254,401 for the nine months ended March 31, 2009.

Depreciation, Depletion & Amortization Expense (“DD&A”). DD&A increased by \$1,536,364 to \$1,909,009 for the nine months ended March 31, 2009, compared to \$372,645 for the nine months ended March 31, 2008. The increase is primarily due to a higher depletion rate (\$18.30 vs. \$13.34) per BOE and a 319% increase in sales volumes. The increase in the depletion rate is due to the higher development cost of PUDs in the Giddings Field that we added in amount far in excess of the volume of lower cost PDP’s in our properties in the Tullos Field Area, which we sold in March 2008. Proved reserves in the Giddings Field typically are higher cost, but higher valued, compared to the long life, high operating cost proved reserves in the Tullos Field Area.

Interest Income. Interest income for the nine months ended March 31, 2009 decreased \$673,383 to \$99,452, compared to \$772,835 for the nine months ended March 31, 2008. The decrease in interest income is due to lower available cash balances averaging \$9.4 million during the nine months ended March 31, 2009, as compared to cash balances averaging \$23.8 million during the nine months ended March 31, 2008, combined with a lower interest rate environment during the nine months ended March 31, 2009. The lower cash balance is primarily due to cash used to pay for additions to our oil and natural gas properties.

Inflation. Although the general inflation rate in the United States, as measured by the Consumer Price Index and the Producer Price Index, has been relatively low in recent years, the oil and gas industry has experienced unusually high price increases. With the general rise in the price of oil and natural gas products over the last three years, increased prices for drilling and oilfield services, oilfield equipment, tubulars, labor, expertise and other services, have also increased, thereby escalating our lease operating expenses and our capital expenditures. Most recently, we have seen a precipitous decline in both petroleum product prices, drilling and oilfield services, although product prices, operating costs and development costs may not always move in tandem. Such declines as of March 31, 2009 are reflected in our ceiling test calculations.

Known Trends and Uncertainties. General worldwide economic conditions have deteriorated due to credit conditions impacted by the sub-prime mortgage turmoil and other factors. Concerns over slower or declining economic growth are affecting numerous industries, companies, as well as consumers, which has resulted in reduced demand for crude oil and natural gas. If demand continues to decrease in the future, it may continue to put downward pressure on crude oil and natural gas prices, thereby lowering our revenues and working capital going forward.

Seasonality. Our business is generally not seasonal, except for certain rare instances when weather conditions may adversely affect access to our properties or delivery of our petroleum products. Although we do not generally modify our production for changes in market demand, we do experience seasonality in the product prices we receive, generally based on higher demand for natural gas in the summer and winter and higher demand for downstream oil products during the summer driving season.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements to report during the third quarter ending March 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Information about market risks for the three months ended March 31, 2009, did not change materially from the disclosures in Item 7A. of our Annual Report on Form 10-K for the year ended June 30, 2008 except as noted below. As such, the information contained herein should be read in conjunction with the related disclosures in our Annual Report on Form 10-K for the year ended June 30, 2008.

Interest Rate Risk

We are exposed 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.

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Commodity Price Risk

Our revenues, profitability and future growth depend substantially on prevailing prices for oil and natural gas. 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. Lower prices may also reduce the amount of oil and natural gas that we can economically produce. Although our current production base may not be sufficient enough to effectively allow hedging, we may periodically use derivative instruments to hedge our commodity price risk. We may hedge a portion of our projected oil and natural gas production through a variety of financial and physical arrangements intended to support oil and natural gas prices at targeted levels and to manage our exposure to price fluctuations. We may use futures contracts, swaps and fixed price physical contracts to hedge our commodity prices. Realized gains and losses from our price risk management activities are recognized in oil and natural gas sales when the associated production occurs. We presently do not hold or issue derivative instruments for hedging or speculative purposes.

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 the Company's 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 March 31, 2009 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.

During the quarter ended March 31, 2009 there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On August 3, 2007, we were advised of an oil spill in the Tullos Field near one of our leases. At the request of field agents of the Louisiana Department of Environmental Quality and the Environmental Protection Agency ("EPA"), we agreed to commence a clean-up operation that was completed by the end of August 2007. A detailed analysis of the oil in the spill compared to the Company's produced oil was conducted by an EPA approved laboratory. We believe

that the oil in the spill did not originate from our operations, supported by the formal findings of the laboratory. We received insurance reimbursements of \$484,197 in October 2007, \$217,668 in March 2008, and \$75,514 in February 2009. These reimbursements covered all of our actual cleanup costs except a \$5,000 insurance deductible and excluding our legal fees, in-house administrative costs, and any possible EPA expense reimbursements and fines that might be billed. As of March 31, 2009, we believe all matters related to this oil spill have been settled, with the exception of an invoice from the United States Coast Guard for approximately \$20,000 for penalties and interest, which we believe is unsupported, and plan to appeal.

In July 2008, a multi-plaintiff lawsuit was filed in the twenty-eighth Judicial District Court, Lasalle Parish, Louisiana, against 15 defendants, including Four Star Development Corporation, a former indirect wholly owned subsidiary of the Company, which was sold on March 3, 2008, as part of our sale of the Tullos Field Area. Plaintiffs claim that the defendants' oil and natural gas exploration, development and production activities on their properties have caused soil and ground water contamination as a result of the release of hydrocarbons and drilling fluids. Plaintiffs seek damages for testing, clean-up and remediation of the properties as well as diminution in their value and mental anguish and emotional distress to the individual plaintiffs, unjust enrichment and punitive damages for alleged concealment of ongoing activities. At this time, we are not a party to the litigation and are unable at this time to determine the exposure, if any, to the Company.

In November 2005, a multi-plaintiff lawsuit was filed in the Fifth Judicial District Court, Richland Parish, Louisiana, against 18 defendants including NGS Sub Corp. and Arkla Petroleum LLC, the Company's direct and indirect wholly owned subsidiaries (the "Subsidiaries"), as working interest owners/operators of various oil and natural gas leases in the Delhi Field. Plaintiffs claim that the defendants' oil and natural gas exploration, development and production activities on their properties have caused soil and ground water contamination as a result of the release of hydrocarbons and drilling fluids. Plaintiffs seek damages for testing, clean-up and remediation of the properties as well as diminution in their value and mental anguish to the individual plaintiffs, unjust enrichment and punitive damages for alleged concealment of ongoing activities.

Defendants have answered Plaintiffs' suit denying all claims. Trial is set before a jury in Richland Parish for July 13, 2009. We are vigorously contesting all of Plaintiffs' claims. The case is currently in discovery and, at this time, we are unable to predict the outcome.

ITEM 1A. RISK FACTORS

See risk factors set forth in the Company's Annual Report on Form 10-K for the year ended June 30, 2008 and subsequent updates in the Company's quarterly reports on Form 10-Q for the periods ended September 30, 2008 and December 31, 2008.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

On February 1, 2009, we entered into a gas purchase and sale agreement, through our wholly owned subsidiary Evolution Operating Co., Inc., with Copano Field Services/Upper Gulf Coast, L.P. (the "Buyer"), whereas the Buyer will purchase 100% of the gas delivered from certain wells in the Giddings Field owned by us at 91% of the IF HSC Index. The primary term of this gas purchase and sale agreement is through March 1, 2014, and will continue from month to month thereafter unless terminated by either party upon by 30 days written notice. The foregoing description of this agreement is qualified in its entirety by reference to the agreement, which is attached hereto as Exhibit 10.1.

ITEM 6. EXHIBITS

A. Exhibits

- | | |
|------|--|
| 10.1 | Gas Purchase and Sale Agreement Between Copano Field Services/Upper Gulf Coast, L.P. ("Buyer") and Evolution Operating Co., Inc. ("Seller") |
| 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 Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934, as |

amended and 18 U.S.C. Section 1350.

- 32.2 Certification of Chief Financial Officer pursuant Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. Section 1350.

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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)

Date: May 15, 2009

By: /s/ STERLING H. MCDONALD
Sterling H. McDonald
Vice-President and Chief Financial Officer
Principal Financial and Accounting
Officer

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GAS PURCHASE AND SALE AGREEMENT

BETWEEN

COPANO FIELD SERVICES/UPPER GV LF COAST, LP. ("BUYER")

AND

EVOLUTION OPERATING CO., INC. ("SELLER")

February 1, 2009
 Grimes County, Texas
 Copano Meter #SH2-1 0122

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GAS PURCHASE AND SALE AGREEMENT

THIS GAS PURCHASE AND SALE AGREEMENT (the "Agreement") is made and entered into effective as of the 1st day of February 2009 by and between **COPANO FIELD SERVICES/UPPER GULF COAST, L.P.**, a Texas limited partnership ("Buyer"), and **EVOLUTION OPERATING CO. INC.**, ("Seller"). Buyer and Seller are sometimes referred to collectively as "Parties" or singularly as a "Party."

WITNESSETH:

WHEREAS, Seller owns and/or controls Gas to be produced from well(s) and acreage located in Grimes County, Texas, and desires to deliver and sell to Buyer quantities of such Gas as provided herein; and

WHEREAS, Buyer desires to purchase and receive Seller's Gas subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the Parties hereto covenant and agree as follows:

I. Dedication

(a) Subject to the terms and conditions of this Agreement, Seller dedicates and commits to the performance of this Agreement (i) 100 percent of its owned and/or controlled Gas produced from the well(s) described on the attached Exhibit "B," and (ii) the acreage assigned to such well(s).

(b) Buyer shall purchase 100% of the gas delivered from the well(s) described on Exhibit "B" up to the MDQ. The maximum daily quantity of Gas that Buyer agrees to purchase under this Agreement (the "MDQ") shall be 3,000 MMBtu per Day.

(c) Subject to the terms and conditions hereof, Buyer agrees to purchase Seller's Gas as provided under this Agreement except in those cases where failure to do so is due to (i) causes within the control of the Seller, (ii) Force Majeure as defined in the General Terms and Conditions attached hereto as Exhibit "A" (the "GT&C"), (iii) any quantity of Gas not meeting the quality specifications set forth in the GT&C, or (iv) Buyer's compliance with applicable laws of the State of Texas or rules and regulations of the Railroad Commission of Texas.

II. Point(s) of Delivery and Title

(a) The point(s) of delivery for all Gas purchased hereunder shall be at the point(s) described on Exhibit "B" (the "Point(s) of Delivery"). Seller shall be responsible for all necessary arrangements to deliver Gas into Buyer's pipeline. Buyer shall operate metering and tap facilities necessary to receive and measure Seller's Gas at the Point(s) of Delivery.

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(b) Nothing in this Agreement shall obligate Buyer or Seller to install any facilities to receive or deliver Seller's Gas other than those facilities specifically provided for hereunder.

(c) Title to Seller's Gas delivered hereunder shall pass to Buyer at the Point(s) of Delivery.

III. Facilities

Buyer and Seller have entered into a Facility Agreement dated January 9, 2009 that covers the responsibility for the installation, if any, ownership, operation and maintenance of the pipeline, tap and meter facilities necessary to receive Gas hereunder. Additional Facility Agreements may be entered into by the Parties from time to time in the event additional delivery points are added to this Agreement.

IV. Price

(a) Subject to all of the terms, conditions and provisions hereof, Buyer shall pay Seller for all Gas purchased hereunder each Month a price per MMBtu equal to 91 percent of the IF HSC Index. However, notwithstanding the forgoing, in the event the quality of Gas delivered by Seller to Buyer hereunder during any three (3) consecutive calendar Month period averages less than 200 MMBtu per Day, then effective on the first Day of the following calendar Month the price for all gas purchased hereunder shall be 89 percent of the IF HSC Index. The price shall remain at 89 percent of the IF HSC Index until such time as Seller delivers to Buyer hereunder a quantity of Gas equal to or in excess of an average of 200 MMBtu per Day during any three (3) consecutive calendar Month period, at which time the price shall be 91 percent of the IF HSC Index effective on the first Day of the following calendar Month.

The IF HSC Index is defined as the price published by Platts, a Division of the McGraw-Hill Companies, in the first issue of Inside F.E.R.C.'s Gas Market Report during the Month of production under the heading *Market Center Spot-Gas Prices*, subheading East Texas, Houston Ship Channel Index.

(b) In the event (i) Copano Pipelines/Upper Gulf Coast, L.P., an affiliate of Buyer, establishes the delivery point with Tennessee Gas Pipeline Company in Harris County, Texas being contemplated as of the date hereof, and (ii) Seller delivers under this Agreement at least 1,000 MMBtu per day on a consistent basis, then Seller shall have the right and option to elect from time to time after April 1, 2009, to have the price provided in paragraph (a) above based on either the IF Tennessee Index or the IF HSC Index. Seller shall provide Buyer with written notice at least five (5) Business Days prior to the first day of the Month for which the election is to take effect, and each such election shall remain in effect for a minimum of three (3) calendar Months.

The IF Tennessee Index is defined as the price published by Platts in the first issue of Inside F.E.R.C.'s Gas Market Report during the Month of production under the heading *Market Center Spot-Gas Delivered to Pipelines*, subheading Tennessee Gas

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Pipeline Co., Texas, Zone 0.

(c) Notwithstanding paragraphs (a) and (b) above, should initial deliveries from a well or increased deliveries from a workover well begin after the first Day of the Month, the price to be paid by Buyer to Seller for such quantities of Seller's Gas delivered each Day from that well during said partial Month shall be equal to either 89 or 91 percent of the Gas Daily HSC Index, based on whether the 89 or 91 percent price in effect under paragraph (a), or 91 percent of the Gas Daily Tennessee Index, based on Seller's election under paragraph (b) above.

The Gas Daily HSC Index is defined as the daily midpoint price published each Day of Gas flow in Platt's Gas Daily under the heading *Daily Price Survey*, subheading East-Houston-Katy, Houston Ship Channel Index.

The Gas Daily Tennessee Index is defined as the daily midpoint price published each Day of Gas flow in Platt's Gas Daily under the heading *Daily Price Survey*, subheading Tennessee Zone 0 South Corpus Christi Index.

(d) Any fees due from Seller to Buyer hereunder shall be deducted from Buyer's payment to Seller for Gas purchased each Month.

(e) The price payable by Buyer to Seller for Gas purchased hereunder is inclusive of reimbursement to Seller for (i) 100 percent of Texas State severance taxes, and (ii) Seller's cost to conform such Gas to the quality and pressure specifications set forth herein.

V. Fees

- (a) **Treating Fee.** If at any time Seller's Gas at any Point of Delivery exceeds the maximum carbon dioxide (CO₂) content provided in Section 2 of the GT&C, Seller shall pay the appropriate treating fees for removal or blending of CO₂ for such Point of Delivery as follows:

<u>CO₂ Limit</u>	<u>Fee/Mcf</u>
>3.0%	\$.05
>4.0%	\$.07
>5.0%	\$.09
>6.0%	\$.11
>7.0%	Mutually agreed to

- (b) **Compressor and Dehydration Fuel.** Seller shall provide in-kind at no expense to Buyer its pro rata share of compressor and dehydration fuel used in the operation of Buyer's Pipeline System.
- (c) **Low Quantity Fee.** During any Month after the Month of initial deliveries hereunder, if Gas quantities delivered to Buyer by Seller at any Point of Delivery are

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less than 50 MMBtu per Day averaged over the Month, then Seller shall pay Buyer a low quantity fee of \$350.00 per Month for such Point of Delivery.

VI. **Term**

The primary term of this Agreement shall commence on and become effective as of February 1, 2009 and shall remain in full force and effect until March 1, 2014, (the "Primary Term"), and shall continue from Month to Month thereafter, unless terminated by either Party upon at least 30 Days' written notice given to the other Party prior to the end of the Primary Term or any Month thereafter. However, such termination shall not discharge obligations theretofore incurred by the Parties hereunder, including any payment obligations.

VII. **Notices**

All notices provided for herein shall be in writing at the addresses listed below or to such other address either Party shall designate by written notice from time to time. Such notices shall be sent by certified U.S. mail, return receipt requested, postage prepaid, by facsimile, or by courier. Notices sent by certified mail or courier shall be deemed provided upon delivery as evidenced by the receipt of delivery. Notices sent by facsimile shall be deemed to have been provided upon the sending Party's receipt of its facsimile machine's confirmation of successful transmission. However, if the Day on which such facsimile is received is not a Business Day or such facsimile is received after five p.m. on a Business Day, then notice provided by such facsimile shall be deemed to have been provided on the next following Business Day.

Buyer:

For Notices, Correspondence and Nominations:

COPANO FIELD SERVICES/UPPER GULF COAST, L.P.
2727 Allen Parkway, Suite 1200
Houston, Texas 77019
Attn: Contract Services
Telephone: (713) 621-9547
Facsimile: (713) 737-9047
E-Mail: contracts@copanoenergy.com

Seller:

For Correspondence, Invoices, Payments and Notices:

EVOLUTION OPERATING CO., INC.
2500 City West Blvd., Suite 1300
Houston, TX 77042
Attn: Daryl Mazzanti
Telephone: (713) 935-0122
Facsimile: (713) 935-0199
E-mail: dmazzanti@evolutionpetroleum.com
Tax ID:

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VIII. **General Terms and Conditions**

The General Terms and Conditions attached hereto as Exhibit "A" ("GT&C") have been approved and accepted by both Parties hereto and they are hereby made an integral part of this Agreement; provided, however, that if there should exist any conflict or discrepancy between anything contained in the main body of this Agreement and in the GT&C, then the provisions in the main body of this Agreement shall at all times and in all cases govern and control.

IX. **Signatures**

IN WITNESS WHEREOF, this Agreement is executed in duplicate counterparts, each of which shall be an original as of the date first hereinabove written, and shall be binding on each party that executes same.

**COPANO FIELD SERVICES/UPPER GULF COAST, L.P.
“BUYER”**

By: Copano Field Services GP, L.L.C.
its Managing General Partner

By: /s/ Brian D. Eckhart
Brian D. Eckhart
Senior Vice President, Transportation and Supply

**EVOLUTION OPERATING CO., INC.
“SELLER”**

By: /s/ Daryl Mazzanti
Daryl Mazzanti
Vice President, Operations

IF SELLER AGREES THAT SECTION 10, CONFIDENTIALITY, IN THE GENERAL TERMS AND CONDITIONS ATTACHED HERETO AS EXHIBIT “A”, SHALL BE INCLUDED IN THIS AGREEMENT FOR THE PRIMARY TERM AND ANY EXTENSION THEREOF, PLEASE INITIAL IN THE SPACE PROVIDED BELOW MARKED “YES”, OTHERWISE INITIAL THE SPACE MARKED “NO”.

- YES, SECTION 10, CONFIDENTIALITY, IS INCLUDED IN THIS AGREEMENT**
 NO, SECTION 10 IS NOT INCLUDED IN THIS AGREEMENT

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Exhibit “A”

**to Gas Purchase and Sales Agreement dated February 1, 2009, between
Copano Field Services/Upper Gulf Coast, LP. and
Evolution Operating Co., Inc.
(the “Agreement”)**

GENERAL TERMS AND CONDITIONS

1. DEFINITIONS

The following terms shall have the meanings stated below for purposes of the Agreement and these General Terms and Conditions:

1.1 AGA—the American Gas Association. “AGA standards” means any current manual, pamphlet or recommended practice published by or under the auspices of the AGA applicable to the type of measurement equipment used hereunder, whether or not it has been accepted as an American National Standard.

1.2 Btu— the quantity of heat required to raise the temperature of one pound avoirdupois pure water from 58.5 degrees to 59.5 degrees Fahrenheit, as defined in the American Gas Association (AGA) Gas Measurement Manual and any subsequent revisions.

1.3 Business Day—any day except Saturday, Sunday or Federal Reserve Bank holidays.

1.4 Cubic Foot or Standard Cubic Foot—the volume of Gas that would occupy one cubic foot of space when the Gas is at a base temperature of 60°F and a base pressure of 14.65 psia using an assumed average atmospheric (barometric) pressure of 14.7 psia. **Mcf**— 1,000 Cubic Feet.

1.5 Day—a period of 24 consecutive hours beginning at 9:00 a.m. Central Time.

1.6 Gas—natural gas, including all hydrocarbon and non-hydrocarbon components, whether casinghead gas produced from oil wells, gas well gas, or other sources of production.

1.7 GPA—the Gas Processors Association. “GPA Standards” means any current manual, pamphlet or recommended practice published by or under the auspices of the GPA applicable to the type of measurement equipment used hereunder, whether or not it has been accepted as an American National Standard.

1.8 Gross Heating Value—the gross number of Btu that would be produced by the complete combustion of one standard cubic foot of Gas with air at the same temperature and pressure, when saturated with water vapor at 60°F and a constant pressure of 14.65 psia, and when the products of combustion are cooled to the initial temperature of the Gas and air, and the water formed by such combustion is condensed to a liquid state. The Gross Heating Value of the Gas shall be corrected for the water vapor content of the Gas being delivered; provided, however, that if the water vapor content of the Gas is seven (7) pounds or less per 1,000,000 cubic feet, the Gas shall be assumed to be dry and no correction will be made.

1.9 Month—a calendar month beginning on the first Day of the month.

- 1.10 Persons**—any natural person, corporation, partnership, joint venture, association, cooperative, or other entity.
- 1.11 Pipeline System**—the Gas pipelines and other facilities used by Buyer for receiving Seller’s Gas covered by this Agreement.
- 1.12 Psia**—pressure expressed in pounds per square inch absolute.
- 1.13 Thermally Equivalent**—an equal number of MMBtu.

Terms not otherwise defined herein are as defined in the Agreement.

2. GAS QUALITY

2.1 Specifications. Seller shall deliver at the Point(s) of Delivery merchantable pipeline quality Gas that conforms to the following quality specifications:

- (a) has a total Heating Value of not less than 950 Btu per Cubic Foot;
- (b) is commercially free from dust, hydrocarbon liquids, free water, suspended matter, all gums and gum forming constituents and any other substance that might become separated from the Gas in the Pipeline System;
- (c) does not contain more than 1/4 grain of hydrogen sulfide (H₂S) or more than one (1) grain of total Sulfur(S) per 100 Standard Cubic Feet;
- (d) is free of oxygen;
- (e) does not contain more than three (3) percent CO₂ by volume;
- (f) not contain more than seven pounds (7#) of water vapor per one million cubic feet of Gas;
- (g) does not contain more than one (1) percent Nitrogen by volume; and
- (h) has a temperature of not more than 120°F, and not less than 40°F.

2.2 Failure to Meet Specifications. If the Gas tendered by Seller to Buyer at the Point of Delivery shall fail at any time to conform to any of the specifications set forth herein, then upon prior written notice by Buyer to Seller, Buyer may, at its option, either refuse to accept such Gas or take any necessary action to bring such Gas into conformity. If the quality specifications of any downstream pipeline to which Seller’s Gas is delivered hereunder are more stringent than those set forth in Section 2.1, Buyer shall use reasonable efforts to treat, blend or condition Seller’s Gas to meet such quality specifications. If Buyer incurs expenses directly related to Seller’s failure to meet the specifications set forth in Section 2.1, or if Buyer treats, blends or conditions Seller’s Gas to meet the downstream pipeline’s specifications, Seller shall reimburse Buyer for its reasonably incurred allocable expenses, except with respect to CO₂ content in which event the fees described in Article V shall apply.

2.3 Corrosion Inhibition Program. For each Point of Delivery that the Parties have mutually agreed to allow Gas to be delivered containing more than three (3) percent CO₂, a

corrosion inhibition program shall be conducted by Seller at its expense by continuous injection of inhibitor chemical upstream of each such Point of Delivery. Seller agrees to inject such chemicals specified by Buyer and at injection rates requested by Buyer, provided such requirements represent reasonable industry practice, and shall allow Buyer access to such injection facilities at reasonable times to monitor operation. Seller shall install and maintain such injection facilities and shall be responsible for the cost of such inhibitor chemicals injected.

3. PRESSURES

3.1 Delivery Pressure. Seller shall deliver Gas to Buyer at the Point(s) of Delivery at pressures sufficient to allow the Gas to enter the Pipeline System, but not at pressures in excess of the maximum allowable operating pressure of the Pipeline System (“MAOP”) as it may exist from time to time, at the Point(s) of Delivery. Buyer is under no obligation to modify pipeline pressures to permit the entry of Seller’s Gas into the Pipeline System. If Seller is required to compress Gas to overcome operating pressure, then Seller shall equip its compression and production equipment (i) with overpressure relief or shut-off devices to prevent delivery to Buyer in excess of the MAOP, (ii) with Gas cooling equipment to prevent discharge temperatures above 120°F into the Pipeline System, and (iii) with pulsation dampening equipment acceptable to Buyer to minimize pulsation induced measurement errors.

3.2 Rates of Flow. The Gas purchased hereunder shall be delivered and received as nearly as practicable at uniform hourly and daily rates of flow. Seller shall have agents or employees available at all reasonable times to receive from Buyer’s dispatcher advice and requests for changes in the rates of delivery of Gas hereunder as requested by Buyer from time to time. Seller agrees to advise Buyer as soon as possible of any changes in rates of flow of Gas.

4. GAS MEASUREMENT

4.1 Unit of Volume. The unit of volume for the purpose of measurement shall be one Cubic Foot of Gas. Measured volumes shall be multiplied by the Gross Heating Value, and the product thereof shall be divided by 1000 to compute the MMBtu purchased and received hereunder.

4.2 Computation of Volume. The volumes of Gas measured hereunder shall be calculated in accordance with specifications prescribed by AGA Report No. 3, Third Edition, dated 1992, "Orifice Metering of Natural Gas and Other Related Hydrocarbon Fluids," including all appendices where applicable, as supplemented and modified from time to time ('AGA Report No. 3").

4.3 Meters. Buyer shall provide transfer measurement by use of an orifice meter and chart-recorded or electronic flow measurement, at Buyer's option. Measurement equipment shall be installed and operated in accordance with AGA Report No. 3 as it existed at the time of installation. Metering equipment will be deemed to adhere to industry standards providing that it met industry standards at the time of installation. Seller shall have the right to inspect equipment installed or furnished by Buyer and the charts and other measurement or testing data of Buyer at all times during normal business hours of Buyer, but the reading, calibration and adjustment of such equipment and changing of charts shall be done only by Buyer.

4.4 Gas Measurement Computation Factors. The following measurement factors shall be observed.

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(a) Buyer shall determine the specific gravity of the Gas to the nearest one-thousandth (.001) by calculation according to GPA Standard 2172. The specific gravity shall be determined in conjunction with the determination of Gross Heating Value and composition based on the Gas composition analysis.

(b) Buyer shall determine the total Gross Heating Value of the Gas, at base conditions, at each Point of Delivery according to GPA Standard 2172.

(c) Except as provided below, the deviation of the Gas from Boyle's Law shall be determined from the AGA Transmission Measurement Committee Report No. 8, entitled "Compressibility and Super Compressibility for Natural Gas and Other Hydrocarbon Gases," ("Report No. 8") as amended from time to time, in conjunction with the determination of Heating Value.

4.5 Notice of Meter and Equipment Tests. At least quarterly if Seller's Gas averages less than 1,000 MMBtu per Day, or Monthly if Seller's Gas averages more than 1,000 MMBtu per Day, Buyer shall give notice to Seller and to the operator of the well of the time and location of all tests of Gas delivered hereunder, or of any equipment used in measuring or determining the nature or quality of the Gas, so that Seller may conveniently have its representative present. As between Buyer and Seller, if Seller in the exercise of its reasonable discretion is unsatisfied with any test, it shall so notify Buyer, and Buyer shall perform retests as necessary to assure an accurate test. The cost of a retest shall be borne by Seller if the difference between the original test and the retest is equal to or less than one (1) percent. The one (1) percent accuracy standard referred to in this Section 4.5 and in Section 4.7 below shall mean the difference determined through testing between the readings of the recording device of the measurement equipment being tested and the readings of the recording device on the test instrument.

4.6 Check Meters and Non-Interference. Seller may, at its option and expense, install and operate check meters to verify the accuracy of Buyer's primary measurement equipment, but Buyer shall measure Seller's Gas with the measurement equipment. Check meters shall be installed so as not to interfere with the operation of the measurement equipment. The Parties shall exercise care in the installation, maintenance, and operation of check measuring equipment, pressure regulating equipment, and Gas compressors so as to prevent any inaccuracy in the determination of the quantity or quality of Gas being measured. Buyer may require installation of pulsation filters if unacceptable square root error or gauge line error shift occurs. The Party responsible for the source of unacceptable pulsation shall also be responsible for the installation cost of remedial devices or filtering equipment to eliminate pulsation. If the Parties disagree on the source of pulsation, the Parties shall select a mutually agreeable consulting organization for the purposes of resolving the disagreement. The Party responsible for the source of the pulsation causing the square root error or gauge line error shift shall bear the full costs associated with any consulting fees. In the event that the determination by the consultant is inconclusive, the costs shall be borne equally by the Parties.

4.7 Adjustment of Inaccuracies. Upon any test, if the percentage of inaccuracy of (i) an electronic flow measurement is greater than one (1) percent, or (ii) a chart-recorded meter is greater than two (2) percent, then the meter registration shall be corrected for any period definitely known or agreed. If the period of time is not definitely known or agreed upon, then the correction shall be for a period extending back 1/2 of the time elapsed since the date of the

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last calibration. Buyer shall immediately restore as closely as possible to a condition of accuracy any measurement equipment found inaccurate. If any measurement equipment is out of service or out of repair for any reason so that the amount of Gas delivered cannot be estimated or computed from the reading thereof, the amount of Gas delivered through the meter during the period it is out of service or out of repair shall be estimated and agreed upon by Buyer and Seller upon the basis of the best data available using the first of the following methods that is feasible:

(a) by using the registration of Seller's check meter if installed and accurately registering;

(b) by correcting the error if the percentage of error is ascertainable by calibration, test, or mathematical calculation; or

(c) by estimating the quantity of deliveries by comparison with deliveries during preceding periods under similar conditions when the meter was registering accurately.

No retroactive adjustment will be made for inaccuracies unless they exceed (i) one (1) percent of affected volumes if measured by electronic flow measurement, or (ii) two (2) percent of affected volumes if measured by recording charts, but in no event shall any adjustment be made for inaccuracies less than 100 Mcf per Month.

5. OPERATING PROVISIONS

5.1 Operational Control. Buyer shall retain full operational control of the Pipeline System and shall at all times be entitled to schedule deliveries and to operate its facilities in a manner consistent with its obligations and with operating conditions, inclusive of normal and routine maintenance, as they may exist from time to time on the Pipeline System, and that will allow Buyer to optimize the use of the Pipeline System now and in the future, consistent with the terms of this Agreement. This right includes but is not limited to the right to interrupt the receipt of Gas as necessary to test, alter, modify,

enlarge, maintain or repair any facility or property comprising a part of or an appurtenance to the Pipeline System. Buyer shall not be required to add compression to compress Seller's Gas into the Pipeline System, lower its Pipeline System operating pressure, alter the direction of Gas flow, alter other operation or use of its facilities, or otherwise change its normal operations to receive Seller's Gas hereunder, except as specifically set forth in this Agreement.

5.2 Reservations of Seller. Seller reserves the following rights:

- (a) To operate Seller's property free from any control by Buyer in such manner as Seller, in Seller's sole discretion, may deem advisable, including without limitation, the right to drill new wells, to repair and rework old wells and to abandon any well or surrender any lease or portion thereof.
- (b) To use gas produced from the leases for drilling, gas-lifting, developing and operating Seller's leases subject hereto, for the operation of Seller's pipelines, water stations, compressors, camps and other miscellaneous uses incident to the operation of Seller's leases and to fulfill obligations to the lessor thereof, or as to royalty obligations, if any.

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- (c) To unitize any of Seller's leases with other properties of Seller and of others in which event this Agreement will cover the interest owned or controlled by Seller in such unit attributable to the leases and wells in the field. It is, however, agreed and understood that in exercising such reserved and discretionary rights, Seller will act as a reasonably prudent operator would act under the same or similar circumstances.

5.3 Rights-of-Way and Access. Seller shall grant, and does hereby grant, to Buyer the use of all requisite easements and rights-of-way, lease service rights, and other rights of access, regardless of form, over, across, and under any land where Seller has the right to grant use, and the right to perform there any acts necessary or convenient in carrying out the terms of this Agreement and Buyer's obligations hereunder. Rights of access and use shall include but not be limited to those under Seller's or its suppliers' mineral leases to construct, operate, and maintain pipelines and appurtenant facilities for the purpose of receiving Gas from the leaseholds. Any property of Buyer placed in or upon any of the lease(s) or easement(s) shall remain the personal property of Buyer, subject to removal by it at any time for any reason.

5.4 Other Pipeline Requirements. The Pipeline System is connected to the facilities of other pipelines. As a result, Buyer may from time to time be subject to certain requirements imposed by those pipelines. Buyer shall have the right under this Agreement to require Seller to comply with the same third party pipeline requirements with which Buyer must comply. **SELLER AGREES TO INDEMNIFY, DEFEND, AND HOLD BUYER HARMLESS FROM SELLER'S FAILURE TO COMPLY WITH THOSE REQUIREMENTS, PROVIDED BUYER HAS PROVIDED SELLER REASONABLE NOTICE OF THE REQUIREMENTS.**

6. BILLING AND PAYMENT

6.1 Statement. On or before the 15th Day of each Month following the Month of deliveries, Buyer shall mail or transmit electronically to Seller its statement reflecting calculations of total quantities of Seller's Gas, expressed in Mcf and in MMBtu, measured and purchased during the previous Month, amounts payable to Seller for Gas purchased, and any fees payable by Seller and deducted from Seller's payment under this Agreement for such Month.

6.2 Payment. On or before the last Day of each Month, Buyer shall make payment to Seller by check for the amounts due to Seller as shown on its statement.

6.3 Disputed Statements. If Seller in good faith disputes any statement, Seller shall, within the period for payment set out in Section 6.2, notify Buyer in writing of the amounts in dispute. As soon thereafter as the Seller may reasonably assemble documentation demonstrating the basis for the dispute, Seller shall furnish such documentation to Buyer. Buyer shall have no obligation to pay interest on the disputed amount until the dispute is resolved. Any invoice tendered pursuant to this Section 6, or the measurement data associated therewith, shall be contested, if at all, within two (2) years from the date of the invoice; otherwise the statement shall conclusively be deemed correct.

7. INFORMATION AND AUDIT

7.1 Information. Seller will furnish Buyer upon request with copies of any and all forms pertinent to this Agreement filed by Seller or its agent with any state or federal regulatory agency covering Gas delivered under this Agreement. Additionally, Buyer and Seller shall each preserve all records applicable to this Agreement, including all test and

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measurement data and charts, for a period of at least 24 Months following the end of each calendar year, or such longer periods as shall be required under law or regulation.

7.2 Audit. Either Party, upon notice in writing to the other Party and upon execution of a confidentiality agreement with the other Party, shall have the right at reasonable hours to audit the accounts and records relating to any invoice under this Agreement within the 24 Month period following the date of such invoice; provided however, that the auditing Party must make a claim in writing to the other Party for all discrepancies disclosed by said audit within said 24 Months. Any audit shall be conducted by the auditing Party or its representative at the auditing Party's expense. Any invoices shall be final as to all Parties unless questioned within 24 Months after the date of the invoice.

8. LIABILITY AND WARRANTIES

8.1 Seller's Liability for Possession and Control of Gas. As between Seller and Buyer, Seller shall be in control and possession of the Gas deliverable hereunder until it is delivered at the Point(s) of Delivery. Seller shall be fully responsible and liable for any and all Gas loss, damages, claims, actions, expenses, liabilities, including reasonable attorney's fees, injury to and death of Persons, property damage claims, and penalties for environmental damage, pollution, and contamination, caused or resulting from Seller's Gas while in its control and possession or Seller's operation of its facilities. **SELLER SHALL DEFEND, INDEMNIFY, AND HOLD BUYER HARMLESS FROM AND AGAINST ANY AND ALL DAMAGES, CLAIMS, LOSSES,**

COSTS, EXPENSES AND LIABILITIES RELATED TO THE MATTERS FOR WHICH SELLER IS RESPONSIBLE ABOVE, AND FOR BUYER'S LOSSES, COSTS, DAMAGES, LIABILITIES AND EXPENSES, INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEY'S FEES, RESULTING FROM SELLER'S GAS THAT DOES NOT CONFORM TO THE QUALITY SPECIFICATIONS CONTAINED IN SECTION 2 HEREOF, REGARDLESS OF POSSESSION AND CONTROL.

8.2 Buyer's Liability for Possession and Control of Gas. As between Buyer and Seller, Buyer shall be in control and possession of the Gas after the time the Gas is received at the Point(s) of Delivery. Buyer shall be fully responsible and liable for any and all damages, claims, actions, expenses, liabilities, including reasonable attorney's fees, injury to and death of Persons, property damage claims, and penalties for environmental damage, pollution, and contamination caused or resulting from the operation of the Pipeline System or Buyer's handling of the Gas while in its control and possession. **BUYER SHALL DEFEND, INDEMNIFY, AND HOLD SELLER HARMLESS FROM AND AGAINST ANY AND ALL DAMAGES, CLAIMS, LOSSES, COSTS, EXPENSES AND LIABILITIES RELATED TO THE MATTERS FOR WHICH BUYER IS RESPONSIBLE ABOVE, EXCEPT FOR BUYER'S LOSSES, COSTS, DAMAGES, LIABILITIES AND EXPENSES RELATING TO GAS RECEIVED FROM SELLER THAT DOES NOT CONFORM TO THE QUALITY SPECIFICATIONS CONTAINED IN SECTION 2 HEREOF.**

8.3 Limitation of Liability. Neither Party shall be liable to the other for consequential damages, indirect damages, loss of profits, punitive damages nor other similar damages.

8.4 Warranty of Title. Seller warrants that it has good, merchantable title to all Gas delivered by it hereunder, that it has the right to deliver such Gas, free and clear of all liens, encumbrances and claims whatsoever. Title to Seller's Gas shall transfer from Seller to Buyer at the Point(s) of Delivery. **SELLER SHALL INDEMNIFY, SAVE, AND HOLD BUYER, ITS SUBSIDIARIES AND AFFILIATES, AND ITS DIRECTORS, OFFICERS, EMPLOYEES,**

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AND AGENTS, FREE AND HARMLESS FROM ALL SUITS, ACTIONS, DEBTS, ACCOUNTS, DAMAGES, COSTS, LOSSES, EXPENSES AND LIABILITIES, INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEY'S FEES, ARISING FROM OR OUT OF A BREACH OF THE WARRANTIES CONTAINED IN THIS SECTION 8.4.

8.5 Ownership Payments. Seller shall be responsible and liable for any and all payments to working, royalty and other interest owners with respect to the Gas delivered hereunder. **BUYER SHALL NOT HAVE ANY RESPONSIBILITY OR LIABILITY FOR ANY PAYMENTS TO INTEREST OWNERS RELATIVE TO SELLER'S GAS, AND SELLER SHALL DEFEND, INDEMNIFY, AND HOLD BUYER HARMLESS FROM AND AGAINST ANY AND ALL SUCH PAYMENTS, AND ANY RELATED COSTS AND LIABILITIES.**

8.6 Adverse Claims. **IN THE EVENT ANY ADVERSE CLAIM IS ASSERTED WITH RESPECT TO ANY OF SAID GAS, BUYER MAY WITHHOLD THE PURCHASE PRICE THEREOF UP TO THE AMOUNT OF AND FROM THE DATE OF SUCH CLAIM WITHOUT INTEREST UNTIL SUCH CLAIM HAS BEEN FINALLY DETERMINED OR UNTIL SELLER FURNISHES BUYER A BOND, IN FORM AND WITH SURETIES REASONABLY ACCEPTABLE TO BUYER, CONDITIONED TO HOLD BUYER HARMLESS FROM ANY SUCH CLAIMS.**

8.7 Seller's Security Interest. Nothing in this Agreement shall operate to waive, release or otherwise limit the rights of Seller to the security interest provided to Seller under Section 9.343 of the Texas Uniform Commercial Code, which rights are expressly reserved by Seller.

9. FORCE MAJEURE

In the event either Party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, other than to make payments when due hereunder, it is agreed that upon such Party giving notice and reasonably full particulars of such force majeure in writing or by electronic means to the other Party within a reasonable time after the occurrence of the cause relied on, then the obligations of the Party giving such notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall be remedied so far as possible with all reasonable dispatch if economically justifiable. The term "force majeure" as employed herein and for all purposes relating hereto shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts of terrorism, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquake, fires, storms, hurricane warnings, crevasses, floods, washouts, arrests and restraints of government and people, civil disturbance, explosions, breakage or accident to machinery or lines of pipe, the necessity for making repairs or alterations to machinery or lines of pipe, freezing of wells or lines of pipe, partial or entire failure of wells, inability of any party hereto to obtain necessary materials, supplies, or permits due to existing or future rules, regulations, orders, laws or proclamations of governmental authorities (both federal and state), including both civil and military, any failure by third parties to deliver Seller's Gas to Buyer's facilities or thereafter to transport Gas received from Buyer, and any other causes of a similar nature whether of the kind herein enumerated or otherwise, not within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. The term Force Majeure shall also include (a) the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable cost and after the exercise of due diligence, any necessary servitudes, right-of-way grants, permits or licenses, and (b) the inability of each party to acquire, or the delays of such party in acquiring at reasonable cost and after

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the exercise of due diligence, any necessary materials and supplies, permits and permissions. Notwithstanding anything to the contrary herein, the Parties agree that settlement of strikes, lockouts, and other industrial disturbances shall be within the sole discretion of the Party experiencing such disturbance.

10. CONFIDENTIALITY

During the Primary Term and any extension thereof, the provisions of this Agreement including, but not limited to, the MDQ and the price payable by Buyer to Seller, shall not be disclosed to any third party (excluding the affiliates of the parties) without the prior written consent of the other Party, which consent shall not be unreasonably withheld, except to the extent disclosure is required by laws, rules, regulations or orders of any governmental or regulatory authority. **A CONFIDENTIALITY PROVISION CAN NOT BE UNILATERALLY REQUIRED IN A GAS SALE, TRANSPORTATION OR GATHERING AGREEMENT TO WHICH A PRODUCER IS A PARTY AND THIS SECTION 10 WILL NOT BECOME A PART OF THIS**

11. TAXES

11.1 Tax Responsibility. Seller shall bear sole responsibility and liability for payment of all municipal, tribal, state, and federal taxes and charges (and penalties and interest thereon) applicable to Seller's Gas or to Buyer as the result of purchasing Seller's Gas hereunder, as such taxes are or may in the future be constituted, including, but not limited to, any energy or Btu taxes, but excluding ad valorem, franchise, and income taxes of Buyer. If Buyer is required to pay any municipal, tribal, state, or federal taxes, fees, or charges (or penalties or interest thereon) relative to Seller's Gas or as the result of purchasing Gas hereunder, Seller shall reimburse Buyer therefor, in addition to the other rates and charges provided for herein.

11.2 Limitation on Tax Responsibility. Neither Party shall be responsible or liable for the other Party's income taxes or for any taxes or other statutory charges levied or assessed against any of the facilities of the other Party used for the purpose of carrying out the provisions of this Agreement.

12. LAWS AND REGULATIONS

This Agreement is subject to all valid legislation and all valid present or future laws, orders, rules, and regulations of duly constituted authorities now or hereafter having jurisdiction or control over the Parties, the services contemplated herein, or the facilities used to provide those services. Each of Seller and Buyer warrants to the other that, at the time of any Gas purchase transaction, it will have all requisite authority under applicable statutes and regulations to conduct such transaction. Each of Seller and Buyer shall indemnify the other against any damages or costs, including attorneys' fees, incurred as a result of any breach by it of this provision.

13. MISCELLANEOUS

13.1 Waiver. A waiver by either Party of any one or more defaults by the other Party hereunder shall not operate as a waiver of any future default or defaults, whether of a like or of a different character.

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13.2 Governing Law. THIS AGREEMENT SHALL BE INTERPRETED, CONSTRUED, AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO THOSE THAT MIGHT REFER TO THE LAW OF ANOTHER JURISDICTION.

13.3 Counterparts. This Agreement may be executed in multiple counterparts, each of which when so executed and delivered shall be an original, and the counterparts together shall constitute one instrument.

13.4 Assignment. Either Party may assign this Agreement, but no assignment shall relieve either Party of its obligations under to this Agreement without the written consent of the other Party, which consent shall not be unreasonably withheld. Notwithstanding the foregoing sentence, nothing contained in this Paragraph shall in any way prevent either party from pledging or mortgaging its rights hereunder for security of indebtedness.

13.5 Third Party Beneficiaries. This Agreement is intended to be for the sole benefit of Buyer and Seller, and there are no third party beneficiaries to this Agreement. No third party shall have any right to enforce the terms of this Agreement against Buyer or Seller.

13.6 Severability. Should any section, paragraph, subparagraph, or other portion of this Agreement be found invalid or be required to be modified as a matter of law by a court or government agency, then only that portion of this Agreement shall be invalid or modified. The remainder of this Agreement that is still valid and unaffected shall remain in force. If the absence of the part that is held to be invalid, illegal, or unenforceable, or modification of the part required to be modified, substantially deprives a Party of material economic benefits under this Agreement, the Parties shall negotiate in good faith reasonable and valid provisions to restore the economic benefit to the affected Party.

13.7 Entire Agreement. This Agreement contains the entire agreement of Buyer and Seller with respect to the matters addressed herein, and shall be amended only by an instrument in writing signed by both Parties. Amendments by electronic media are prohibited, but this Agreement when executed, and signed amendments to it, may be delivered via facsimile. This Agreement shall be considered for all purposes as prepared through the joint efforts of the Parties, and shall not be construed against one Party or the other as a result of its preparation, submittal, or other event or negotiation, drafting, or execution.

END OF EXHIBIT "A"

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EXHIBIT "B"

**to Gas Purchase and Sales Agreement dated February 1, 2009, between
Copano Energy Services/Upper Gulf Coast, L.P. and
Evolution Operating Co., Inc.
(the "Agreement")**

DEDICATION

Pearson #1RE Well located in Grimes County, Texas.

POINT(S) OF DELIVERY

Copano Meter #SH2-10122 located in Grimes County, Texas.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert S. Herlin, 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: May 15, 2009

/s / ROBERT S. HERLIN

Robert S. Herlin
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sterling H. McDonald, Vice-President and Chief Financial 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: May 15, 2009

/s/ STERLING H. MCDONALD

Sterling H. McDonald
Vice-President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. 1350)**

The undersigned, Robert S. Herlin, 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 March 31, 2009 (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 the 15th day of May, 2009.

/s/ ROBERT S. HERLIN

Robert S. Herlin

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 OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. 1350)**

The undersigned, Sterling H. McDonald, Vice-President and Chief Financial 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 March 31, 2009 (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 the 15th day of May, 2009.

/s/ STERLING H. MCDONALD

Sterling H. McDonald

Vice-President and Chief Financial 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.
