

**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 December 31, 2016

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

For the transition period from        to

Commission File Number 001-32942

**EVOLUTION PETROLEUM CORPORATION**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**41-1781991**

(IRS Employer Identification No.)

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

(Address of principal executive offices and zip code)

**(713) 935-0122**

(Registrant's telephone number, including area code)

**Not Applicable**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes:  No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes:  No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 February 6, 2017, was 33,062,297.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b><u>2</u></b>
<b><u>ITEM 1. UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS</u></b>	<b><u>2</u></b>
<u>Unaudited Consolidated Condensed Balance Sheets as of December 31, 2016 and June 30, 2016</u>	<u>2</u>
<u>Unaudited Consolidated Condensed Statements of Operations for the three and six months ended December 31, 2016 and 2015</u>	<u>3</u>
<u>Unaudited Consolidated Condensed Statements of Cash Flows for the six months ended December 31, 2016 and 2015</u>	<u>4</u>
<u>Unaudited Consolidated Condensed Statement of Stockholders' Equity for the six months ended December 31, 2016</u>	<u>5</u>
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	<u>6</u>
<b><u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<b><u>17</u></b>
<b><u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b><u>26</u></b>
<b><u>ITEM 4. CONTROLS AND PROCEDURES</u></b>	<b><u>26</u></b>
<b><u>PART II. OTHER INFORMATION</u></b>	<b><u>27</u></b>
<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	<b><u>27</u></b>
<b><u>ITEM 1A. RISK FACTORS</u></b>	<b><u>27</u></b>
<b><u>ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	<b><u>27</u></b>
<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	<b><u>28</u></b>
<b><u>ITEM 4. MINE SAFETY DISCLOSURES</u></b>	<b><u>28</u></b>
<b><u>ITEM 5. OTHER INFORMATION</u></b>	<b><u>28</u></b>
<b><u>ITEM 6. EXHIBITS</u></b>	<b><u>29</u></b>
<b><u>SIGNATURES</u></b>	<b><u>30</u></b>

**PART I — FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**Evolution Petroleum Corporation and Subsidiaries**  
**Consolidated Condensed Balance Sheets**  
**(Unaudited)**

	December 31, 2016	June 30, 2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 19,156,377	\$ 34,077,060
Receivables	3,101,169	2,638,188
Deferred tax asset	—	105,321
Derivative assets, net	—	14,132
Prepaid expenses and other current assets	618,788	251,749
Total current assets	22,876,334	37,086,450
Oil and natural gas property and equipment, net (full-cost method of accounting)	63,832,372	59,970,463
Other property and equipment, net	48,096	28,649
Total property and equipment	63,880,468	59,999,112
Other assets	330,300	365,489
Total assets	\$ 87,087,102	\$ 97,451,051
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 3,259,711	\$ 5,809,107
Accrued liabilities and other	701,031	2,097,951
State and federal income taxes payable	310,544	621,850
Total current liabilities	4,271,286	8,528,908
Long term liabilities		
Deferred income taxes	13,444,891	11,840,693
Asset retirement obligations	784,247	760,300
Total liabilities	18,500,424	21,129,901
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock, par value \$0.001; 5,000,000 shares authorized: 8.5% Series A Cumulative Preferred Stock, 1,000,000 shares designated, 317,319 shares issued; no shares outstanding at December 31, 2016 as all shares were redeemed November 14, 2016 (Note 8); and 317,319 shares outstanding at June 30, 2016 with a liquidation preference of \$7,932,975 (\$25.00 per share)	—	317
Common stock; par value \$0.001; 100,000,000 shares authorized: issued and outstanding 33,062,297 shares and 32,907,863 as of December 31, 2016 and June 30, 2016, respectively	33,062	32,907
Additional paid-in capital	40,368,236	47,171,563
Retained earnings	28,185,380	29,116,363
Total stockholders' equity	68,586,678	76,321,150
Total liabilities and stockholders' equity	\$ 87,087,102	\$ 97,451,051

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
<b>Revenues</b>				
Crude oil	\$ 8,529,817	\$ 6,565,804	\$ 16,123,672	\$ 13,891,617
Natural gas liquids	—	685	89	1,735
Natural gas	—	317	(4)	1,021
Artificial lift technology services	—	56,121	—	107,960
Total revenues	8,529,817	6,622,927	16,123,757	14,002,333
<b>Operating costs</b>				
Production costs	2,292,421	2,229,741	4,637,062	4,838,320
Cost of artificial lift technology services	—	50,131	—	59,999
Depreciation, depletion and amortization	1,307,510	1,471,571	2,580,949	2,689,844
Accretion of discount on asset retirement obligations	13,106	11,517	26,330	22,860
General and administrative expenses *	1,241,399	2,057,521	2,476,442	3,742,366
Restructuring charges **	—	1,257,433	—	1,257,433
Total operating costs	4,854,436	7,077,914	9,720,783	12,610,822
Income (loss) from operations	3,675,381	(454,987)	6,402,974	1,391,511
<b>Other</b>				
Gain on realized derivative instruments, net	—	1,298,201	90	2,164,628
Gain (loss) on unrealized derivative instruments, net	—	361,761	(14,132)	1,433,723
Delhi field insurance recovery related to pre-reversion event	—	—	—	1,074,957
Interest and other income	14,061	5,853	26,806	11,665
Interest expense	(20,711)	(18,666)	(41,056)	(37,126)
Income before income taxes	3,668,731	1,192,162	6,374,682	6,039,358
Income tax provision	1,361,097	368,889	2,250,273	2,123,858
Net income attributable to the Company	2,307,634	823,273	4,124,409	3,915,500
Dividends on preferred stock	—	168,576	250,990	337,151
Deemed dividend on preferred shares called for redemption	—	—	1,002,440	—
Net income available to common stockholders	\$ 2,307,634	\$ 654,697	\$ 2,870,979	\$ 3,578,349
<b>Earnings per common share</b>				
Basic	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.11
Diluted	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.11
<b>Weighted average number of common shares</b>				
Basic	33,047,166	32,741,166	33,002,088	32,729,705
Diluted	33,083,027	32,802,440	33,037,269	32,789,461

\* General and administrative expenses for the three months ended December 31, 2016 and 2015 included non-cash stock-based compensation expense of \$275,184 and \$212,724, respectively. For the corresponding six month periods, non-cash stock compensation expense was \$586,872 and \$430,839, respectively.

\*\* Restructuring charges include \$59,339 of non-cash stock compensation expense for the three and six months ended December 31, 2015.

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

	Six Months Ended December 31,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income attributable to the Company	\$ 4,124,409	\$ 3,915,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,609,356	2,714,162
Impairments included in restructuring charge	—	569,228
Stock-based compensation	586,872	490,178
Accretion of discount on asset retirement obligations	26,330	22,860
Settlements of asset retirement obligations	(121,391)	—
Deferred income taxes	1,709,519	(547,579)
(Gain) loss on derivative instruments, net	14,042	(3,598,351)
Write-off of deferred loan costs	—	50,414
Changes in operating assets and liabilities:		
Receivables	(462,981)	1,167,391
Prepaid expenses and other current assets	(367,039)	(119,515)
Accounts payable and accrued expenses	(1,955,546)	(310,054)
Income taxes payable	(311,306)	152,898
Net cash provided by operating activities	5,852,265	4,507,132
<b>Cash flows from investing activities</b>		
Derivative settlement payments (paid) received	(318,618)	1,561,979
Capital expenditures for oil and natural gas properties	(7,978,130)	(8,650,217)
Capital expenditures for other property and equipment	(30,447)	—
Other assets	—	(161,345)
Net cash used in investing activities	(8,327,195)	(7,249,583)
<b>Cash flows from financing activities</b>		
Cash dividends to preferred stockholders	(250,990)	(337,151)
Cash dividends to common stockholders	(3,801,962)	(3,268,319)
Common share repurchases, including shares surrendered for tax withholding	(459,858)	(1,354,743)
Tax benefits related to stock-based compensation	—	3,910,163
Redemption of preferred shares	(7,932,975)	—
Other	32	(1,243)
Net cash (used in) provided by financing activities	(12,445,753)	(1,051,293)
Net decrease in cash and cash equivalents	(14,920,683)	(3,793,744)
Cash and cash equivalents, beginning of period	34,077,060	20,118,757
Cash and cash equivalents, end of period	\$ 19,156,377	\$ 16,325,013

**Supplemental disclosures of cash flow information:**

	Six Months Ended December 31,	
	2016	2015
Income taxes paid	\$ 1,278,773	\$ 440,000
Louisiana carryback income tax refund and related interest received	—	1,556,999
Non-cash transactions:		
Change in accounts payable used to acquire property and equipment	(1,516,932)	(2,442,183)
Deferred loan costs charged to oil and gas property costs	—	108,472
Settlement of accrued treasury stock purchases	—	(170,283)
Royalty rights acquired through non-monetary exchange of patent and trademark assets	—	108,512

See accompanying notes to consolidated condensed financial statements.

**Evolution Petroleum Corporation and Subsidiaries**  
**Consolidated Condensed Statement of Changes in Stockholders' Equity**  
**For the Six Months Ended December 31, 2016**  
**(Unaudited)**

	Preferred		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Balance at June 30, 2016	317,319	\$ 317	32,907,863	\$ 32,907	\$ 47,171,563	\$ 29,116,363	\$ —	\$ 76,321,150
Issuance of restricted common stock	—	—	227,889	228	(196)	—	—	32
Common share repurchases, including shares surrendered for tax withholding	—	—	(73,455)	—	—	—	(459,858)	(459,858)
Retirements of treasury stock	—	—	—	(73)	(459,785)	—	459,858	—
Stock-based compensation	—	—	—	—	586,872	—	—	586,872
Redemption of preferred shares	(317,319)	(317)	—	—	(6,930,218)	(1,002,440)	—	(7,932,975)
Net income attributable to the Company	—	—	—	—	—	4,124,409	—	4,124,409
Common stock cash dividends	—	—	—	—	—	(3,801,962)	—	(3,801,962)
Preferred stock cash dividends	—	—	—	—	—	(250,990)	—	(250,990)
Balance at December 31, 2016	—	\$ —	33,062,297	\$ 33,062	\$ 40,368,236	\$ 28,185,380	\$ —	\$ 68,586,678

See accompanying notes to consolidated condensed financial statements.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

**Note 1 — Organization and Basis of Preparation**

**Nature of Operations.** Evolution Petroleum Corporation ("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 development of oil and gas reserves within known oil and gas resources utilizing conventional and proprietary technology.

**Interim Financial Statements.** The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and 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 2016 Annual Report on Form 10-K for the fiscal year ended June 30, 2016, 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 net income or stockholders' equity. As a result of the separation of our artificial lift technology operations at December 31, 2015, previously reported revenues for the Delhi field and our artificial lift technology operations have been reclassified as appropriate to crude oil, natural gas liquids, natural gas and artificial lift technology service revenues. Before the reclassification, artificial lift technology revenues included crude oil, natural gas liquids and gas revenues produced by certain of the Company's operated wells which used our artificial lift technology, together with service revenues derived from the use of the Company's technology on third party wells. Previously reported production costs for our artificial lift technology operations have been reclassified as appropriate to oil and gas production costs and cost of artificial lift technology services.

**Use of Estimates.** The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include (a) reserve quantities and estimated future cash flows associated with proved reserves, which significantly impact depletion expense and potential impairments of oil and natural gas properties, (b) income taxes and the valuation of deferred tax assets, (c) stock-based compensation and (d) 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.

**New Accounting Pronouncements.**

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2015-14, which defers the effective date of ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") by one year and allows entities the option to early adopt the new revenue standard as of the original effective date. Issued in May 2014, ASU 2014-09 provided guidance on revenue recognition on contracts with customers to transfer goods or services or on contracts for the transfer of nonfinancial assets. ASU 2014-09 requires that revenue recognition on contracts with customers depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public companies, ASU 2014-09 would have been effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard provided for either the retrospective or cumulative effect transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 will have on its consolidated financial statements, if any.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which relates to the accounting for leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than twelve months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact the adoption of ASU 2016-02 will have on our consolidated financial statements.

***New Accounting Pronouncements Adopted.***

The Company early adopted ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, to be applied prospectively effective for the three months ended September 30, 2016, the first quarter of our fiscal year. This amended guidance simplifies the balance sheet position presentation and reduces complexity in accounting for deferred income tax assets and liabilities. The update requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. As a result, current deferred tax assets of \$105,321 have been netted together with noncurrent deferred income tax liabilities on the December 31, 2016 consolidated condensed balance sheet. The prior period presented has not been retrospectively adjusted.

The Company early adopted ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, effective for the three months ended September 30, 2016. This amended guidance simplifies and improves several aspects of the accounting for employee share-based payment transactions. Under previous guidance excess tax benefits were recognized as paid in capital to the extent they reduced cash taxes otherwise payable, and tax deficiencies were recognized as an offset to accumulated excess benefits, if any, or in the statement of operations. The new guidance requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statements of operations when the awards vest or are settled. Under the required modified retrospective transition, the Company had no cumulative-effect adjustment to retained earnings at the beginning of the period of adoption, as its accumulated excess tax benefits had been completely used in reducing taxable income for the year ended June 30, 2016. For vestings which occurred in the six months ended December 31, 2016, a related tax deficiency of \$22,574 was recognized in income tax expense. The Company also elected to prospectively adopt the presentation of excess tax benefits in the operating section of the statements of cash flows. Accordingly, such statements for pre-adoption periods will continue to present excess tax benefits in the financing section. The amended guidance permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock-based compensation: to continue to estimate the total number of awards for which the requisite service period will not be rendered as currently required or, to be applied on a modified retrospective basis, to account for forfeitures as they occur. Upon early adoption, the Company elected to change its accounting policy to account for forfeitures as they occur. Except for income tax expense mentioned above, none of the other provisions in this amended guidance had a material impact on our condensed consolidated financial statements.

**Note 2 — Receivables**

As of December 31, 2016 and June 30, 2016, our receivables consisted of the following:

	December 31, 2016	June 30, 2016
Receivables from oil and gas sales	\$ 3,095,155	\$ 2,637,593
Other	6,014	595
Total receivables	<u>\$ 3,101,169</u>	<u>\$ 2,638,188</u>

**Note 3 — Prepaid Expenses and Other Current Assets**

As of December 31, 2016 and June 30, 2016, our prepaid expenses and other current assets consisted of the following:

	December 31, 2016	June 30, 2016
Prepaid insurance	\$ 126,663	\$ 168,681
Retainers and deposits	7,553	30,568
Prepaid federal and state income taxes	426,713	—
Other prepaid expenses	57,859	52,500
Prepaid expenses and other current assets	<u>\$ 618,788</u>	<u>\$ 251,749</u>



**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

**Note 4 — Property and Equipment**

As of December 31, 2016 and June 30, 2016, our oil and natural gas properties and other property and equipment consisted of the following:

	December 31, 2016	June 30, 2016
<b>Oil and natural gas properties</b>		
Property costs subject to amortization	\$ 83,869,552	\$ 77,408,353
Less: Accumulated depreciation, depletion, and amortization	(20,037,180)	(17,437,890)
Unproved properties not subject to amortization	—	—
Oil and natural gas properties, net	<u>\$ 63,832,372</u>	<u>\$ 59,970,463</u>
<b>Other property and equipment</b>		
Furniture, fixtures, office equipment and other, at cost	\$ 134,964	\$ 235,752
Less: Accumulated depreciation	(86,868)	(207,103)
Other property and equipment, net	<u>\$ 48,096</u>	<u>\$ 28,649</u>

During the six months ended December 31, 2016, the Company incurred capital expenditures of \$6.5 million for the Delhi field, including approximately \$4.5 million for the NGL plant project. We have incurred approximately \$26.0 million on a cumulative basis for the NGL plant.

**Note 5 — Other Assets**

As of December 31, 2016 and June 30, 2016, other assets consisted of the following:

	December 31, 2016	June 30, 2016
Royalty rights	\$ 108,512	\$ 108,512
Less: Accumulated amortization of royalty rights	(13,564)	(6,782)
Investment in Well Lift Inc., at cost	108,750	108,750
Deferred loan costs	168,972	168,972
Less: Accumulated amortization of deferred loan costs	(42,370)	(13,963)
Other assets, net	<u>\$ 330,300</u>	<u>\$ 365,489</u>

The Company accounts for its investment in Well Lift Inc. using the cost method under which any return of capital reduces cost and any dividends paid are recorded as income. Investment value will be evaluated for impairment at least quarterly or when management identifies any events or changes in circumstances that might have a significant adverse effect on the fair value of the investment. There is no published market value for this private investment, so it is not practicable to value it at fair market value on a periodic basis.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

**Note 6 — Accrued Liabilities and Other**

As of December 31, 2016 and June 30, 2016, our other current liabilities consisted of the following:

	December 31, 2016	June 30, 2016
Accrued incentive and other compensation	\$ 275,260	\$ 999,172
Asset retirement obligations due within one year	49,050	201,896
Accrued royalties, including suspended accounts	40,870	49,580
Accrued franchise taxes	77,151	62,834
Accrued restructuring costs	212,013	419,488
Payables for settled derivatives	—	318,708
Other accrued liabilities	46,687	46,273
Accrued liabilities and other	<u>\$ 701,031</u>	<u>\$ 2,097,951</u>

**Accrued Restructuring Costs**

On December 31, 2015 we terminated three employees of the Company in connection with the separation of our artificial lift technology operations and recorded a \$1,257,433 restructuring charge which consisted of \$569,228 for the impairment of technology assets, \$59,339 of stock-based compensation from accelerated vesting of terminated employees' equity awards and \$628,866 of accrued salary and benefit continuation expenses. The separation agreements included releases from liabilities and other provisions including agreements not to compete.

Our current estimate of remaining restructuring obligations as of December 31, 2016 is as follows:

Type of Cost	December 31, 2015	Payments (1)	December 31, 2016
Salary expense	\$ 530,387	\$ (353,591)	\$ 176,796
Payroll taxes and benefits expense	98,479	(63,262)	35,217
Accrued liability for restructuring costs	<u>\$ 628,866</u>	<u>\$ (416,853)</u>	<u>\$ 212,013</u>

(1) During the six months ended December 31, 2016, we paid \$176,795 of salary continuation and \$30,680 of related payroll taxes and benefits.

**Note 7 — 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 obligations for the six months ended December 31, 2016 and for the year ended June 30, 2016:

	December 31, 2016	June 30, 2016
Asset retirement obligations — beginning of period	\$ 962,196	\$ 772,990
Liabilities incurred	—	28,505
Liabilities settled	(107,412)	—
Liabilities sold (a)	(47,817)	—
Accretion of discount	26,330	49,054
Revision of previous estimates	—	111,647
Asset retirement obligations — end of period	<u>\$ 833,297</u>	<u>\$ 962,196</u>
Less current portion in accrued liabilities (b)	(49,050)	(201,896)
Long-term portion of asset retirement obligations	<u>\$ 784,247</u>	<u>\$ 760,300</u>

(a) We conveyed our interest in a well to the previous operator in exchange for the assumption of our asset retirement obligation.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

(b) We expect to retire our one remaining operated well before the end of our fiscal year. Once this retirement occurs, our asset retirement obligations will consist entirely of our working interest obligations in the Delhi field.

**Note 8 — Stockholders' Equity**

**Common Stock**

As of December 31, 2016, we had 33,062,297 shares of common stock outstanding.

Commencing in December 2013, the Board of Directors initiated a quarterly cash dividend on our common stock at a quarterly rate of \$0.10 per share. This rate was subsequently adjusted to \$0.05 per share during the quarter ended March 31, 2015. The Board of Directors increased the quarterly cash dividend to \$0.065 per share effective with the December 2016 dividend payment. During the six months ended December 31, 2016, the Company declared two quarterly dividends on its common stock and paid \$3,801,962 to its common stockholders.

On May 12, 2015, the Board of Directors approved a share repurchase program covering up to \$5 million of the Company's common stock. Since commencing in June 2015, 265,762 shares have been repurchased at an average price of \$6.05 per share (totaling \$1,609,008). There has been no shares repurchased in the open market since mid-December 2015. Under the program's terms, shares are repurchased only on the open market and in accordance with the requirements of the Securities and Exchange Commission. Such shares are initially recorded as treasury stock, then subsequently canceled. The timing and amount of repurchases depends upon several factors, including financial resources and market and business conditions. There is no fixed termination date for this repurchase program, and it may be suspended or discontinued at any time.

During the six months ended December 31, 2016, the Company acquired 73,455 shares of treasury stock at an average cost of \$6.26 per share (totaling \$459,858) from holders of newly vested stock-based awards to fund the recipients' payroll taxes paid in the quarter. The treasury shares were subsequently canceled.

During the six months ended December 31, 2015, the Company purchased 202,390 shares of treasury stock at an average cost of \$5.80 per share (totaling \$1,173,899) under its share repurchase program and also acquired 2,001 shares of treasury stock at an average cost of \$5.28 per share (totaling \$10,561) from holders of newly vested stock-based awards to fund the recipients' payroll taxes paid in the quarter. All treasury shares were subsequently canceled.

**Series A Cumulative Perpetual Preferred Stock Called for Redemption**

On September 30, 2016, the Company declared the preferred dividend for the month of October 2016 and elected to redeem all 317,319 outstanding shares of the Company's 8.5% Series A Cumulative (perpetual) Preferred Stock. The redemption occurred on November 14, 2016 at the issue's \$25.00 per share liquidation value plus all accumulated and unpaid distributions from October 31, 2016 (the last dividend payment date before the redemption date) through the redemption date, for an aggregate redemption price of approximately \$25.082639 per share:

Consideration paid to preferred shareholders at redemption at liquidation preference	\$	7,932,975
Payments for dividends accrued at September 30, 2016 (1)	\$	82,415

(1) Includes the monthly dividend for October 2016 declared by the Company.

On September 30, 2016, in connection with the planned redemption, the Company recorded a deemed dividend of \$1,002,440, representing the difference between the redemption consideration paid and the historical net issuance proceeds of the preferred shares. Accordingly, net income was adjusted for this deemed dividend to determine net income attributable to common shareholders and earnings per common share.

The Series A Cumulative Preferred Stock was not convertible into our common stock and there were no sinking fund or redemption rights available to the holders thereof. With respect to dividend rights and rights upon our liquidation, winding-up or dissolution, the Series A Preferred Stock ranked senior to our common stockholders, but subordinate to any of our existing and future debt. Dividends on the Series A Cumulative Preferred Stock accrued and accumulated at a fixed rate of 8.5% per annum on the \$25.00 per share liquidation preference, payable monthly at \$0.177083 per share, as, if and when declared by our Board of Directors through its Dividend Committee. We paid cash dividends of \$250,990 and \$337,151 to holders of our Series A Preferred Stock during the six months ended December 31, 2016 and 2015, respectively.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

**Expected Tax Treatment of Dividends**

For the fiscal year ended June 30, 2016, we expect all preferred and common dividends to be treated for tax purposes as qualified dividend income to recipients. Based on our current projections for the fiscal year ending June 30, 2017, we also expect all common and remaining preferred dividends for such period will be treated as qualified dividend income.

**Note 9 — Stock-Based Incentive Plan**

At the December 8, 2016 annual meeting, the stockholders approved the adoption of the Evolution Petroleum Corporation 2016 Equity Incentive Plan (the "2016 Plan"), which replaced the Evolution Petroleum Corporation Amended and Restated 2004 Stock Plan (the "2004 Plan"). The 2016 Plan authorizes the issuance of 1,100,000 shares of common stock prior to its expiration on December 8, 2026. Incentives under the 2016 Plan may be granted to employees, directors and consultants of the Company in any one or a combination of the following forms: incentive stock options and non-statutory stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards, performance share awards, performance cash awards, and other forms of incentives valued in whole or in part by reference to, or otherwise based on, our common stock, including its appreciation in value. As of December 31, 2016, 1,100,000 shares were available for grant under the 2016 Plan.

At December 31, 2016, there were no shares remaining available for grant under the 2004 Plan. We were authorized to issue 6,500,000 shares of common stock under the 2004 Plan prior to its scheduled expiration on October 24, 2017. In connection with the adoption of the 2016 Plan, the Board terminated the 2004 Plan on December 8, 2016 and 32,146 remaining reserved shares were released to the Company's authorized but unissued and unreserved shares. All outstanding awards granted under the 2004 Plan continue to be subject to the terms and conditions as set forth in the agreements evidencing such awards and the terms of the 2004 Plan. Under these agreements, we have granted option awards to purchase common stock (the "Stock Options"), restricted common stock awards ("Restricted Stock"), contingent restricted common stock awards ("Contingent Restricted Stock") and/or unrestricted fully vested common stock, to employees, directors, and consultants of the Company.

**Stock Options**

No Stock Options have been granted since August 2008 and all compensation costs attributable to Stock Options have been recognized in prior periods. The following summary presents information regarding outstanding Stock Options as of December 31, 2016, and the changes during the period:

	Number of Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Weighted Average Remaining Contractual Term (in years)
Stock Options outstanding at July 1, 2016	35,231	\$ 2.19		
Exercised	—	—		
Expired	—	—		
Stock Options outstanding at December 31, 2016	35,231	\$ 2.19	\$ 275,154	0.7
Vested and exercisable at December 31, 2016	35,231	\$ 2.19	\$ 275,154	0.7

(1) Based upon the difference between the market price of our common stock on the last trading date of the period (\$10.00 as of December 31, 2016) and the Stock Option exercise price of in-the-money Stock Options.

**Restricted Stock and Contingent Restricted Stock**

Prior to August 28, 2014, all Restricted Stock grants contained a four-year vesting period based solely on service. Restricted Stock which vests based solely on service is valued at the fair market value on the date of grant and amortized over the service period.

In August 2014, December 2015 and September 2016, the Company awarded grants of both Restricted Stock and Contingent Restricted Stock as part of its long-term incentive plan. Such grants, which expire after four years if unvested, contain service-based, performance-based and market-based vesting provisions. The common shares underlying the Restricted Stock grants were issued on the date of grant, whereas the Contingent Restricted Stock are reserved from the Plan, but will be issued only upon the attainment of specified performance-based or market-based vesting provisions.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

Performance-based grants vest upon the attainment of earnings, revenue and other operational goals and require that the recipient remain an employee of the Company through the vesting date. The Company recognizes compensation expense for performance-based awards ratably over the expected vesting period based on the grant date fair value when it is deemed probable, for accounting purposes, that the performance criteria will be achieved. The expected vesting period may be deemed to be shorter than the four-year term. As of December 31, 2016, certain contingent performance-based awards were not considered probable of vesting for accounting purposes and no compensation expense has been recognized with regard to these awards. If these awards are later determined to be probable of vesting, cumulative compensation expense will be recorded at that time and amortization would continue over the remaining expected vesting period.

Market-based awards granted in 2014 and 2015 entitle employees to vest in a fixed number of shares when the three-year trailing total return on the Company's common stock exceeds the corresponding total returns of various quartiles of companies comprising the SIG Exploration and Production Index (NASDAQ EPX) during defined measurement periods. Market-based awards granted in 2016 entitle employees to vest in a fixed number of shares when the three-year trailing total return on the Company's common stock exceeds the corresponding total returns of various quartiles of an index consisting of designated peer companies during defined measurement periods. The fair value and expected vesting period of these awards were determined using a Monte Carlo simulation based on the historical volatility of the Company's total return compared to the historical volatilities of the other companies in the index. During the six months ended December 31, 2016, we granted market-based awards with grant date fair values ranging from \$3.42 to \$5.62 per share, all with an expected vesting period of 2.83 years, based on the various quartiles of comparative market performance. During the fiscal year ended June 30, 2016, we granted market-based awards with grant date fair values ranging from \$2.93 to \$5.07 per share, all with an expected vesting period of 3.83 years, based on the various quartiles of comparative market performance. During the fiscal year ended June 30, 2015, we granted market-based awards with grant date fair values ranging from \$4.26 to \$8.40 per share and with expected vesting periods of 3.30 years to 2.55 years, based on the various quartiles of comparative market performance. Compensation expense for market-based awards is recognized over the expected vesting period using the straight-line method, so long as the award holder remains an employee of the Company. Total compensation expense is based on the fair value of the awards at the date of grant and is independent of vesting or expiration of the awards, except for termination of service.

Unvested Restricted Stock awards at December 31, 2016 consisted of the following:

Award Type	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Service-based awards	221,956	\$ 7.12
Performance-based awards	54,475	5.67
Market-based awards	119,227	4.97
Unvested Restricted Stock at December 31, 2016	395,658	\$ 6.28

The following table sets forth the Restricted Stock transactions for the six months ended December 31, 2016:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value	Unamortized Compensation Expense at December 31, 2016	Weighted Average Remaining Amortization Period (Years)
Unvested at July 1, 2016	406,848	\$ 6.74		
Service-based shares granted	86,563	7.02		
Performance-based shares granted	54,475	5.67		
Market-based shares granted	54,475	5.44		
Vested	(206,703)	7.11		
Unvested Restricted Stock at December 31, 2016	395,658	\$ 6.28	\$ 2,194,326	2.4

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

Unvested Contingent Restricted Stock awards at December 31, 2016 consisted of the following:

Award Type	Number of Contingent Restricted Shares	Weighted Average Grant-Date Fair Value
Performance-based awards	39,403	\$ 7.02
Market-based awards	73,867	3.37
Unvested contingent shares at December 31, 2016	113,270	\$ 4.64

The following table sets forth Contingent Restricted Stock transactions for the six months ended December 31, 2016:

	Number of Contingent Restricted Shares	Weighted Average Grant-Date Fair Value	Unamortized Compensation Expense at December 31, 2016 (1)	Weighted Average Remaining Amortization Period (Years)
Unvested at July 1, 2016	91,172	\$ 5.21		
Performance-based awards granted	27,237	5.67		
Market-based awards granted	27,237	3.42		
Vested	(32,376)	6.09		
Unvested contingent shares at December 31, 2016	113,270	\$ 4.64	\$ 167,781	2.4

(1) Excludes \$276,702 of potential future compensation expense for contingent performance-based awards for which vesting is not considered probable at this time for accounting purposes.

Stock-based compensation expense related to Restricted Stock and Contingent Restricted Stock grants for the three months ended December 31, 2016 and 2015 was \$275,184 and \$272,063, respectively. For the corresponding six month periods, non-cash stock compensation expense was \$586,872 and \$490,178, respectively.

#### **Note 10 — Derivatives**

In early June 2015, the Company began using derivative instruments to reduce its exposure to crude oil price volatility for a substantial portion of its near-term forecasted production. The Company's objectives for this program are to achieve a more predictable level of cash flows to support the Company's capital expenditure program and to provide better financial visibility for the payment of dividends on common stock. The Company may use both fixed price swap agreements and costless collars to manage its exposure to crude oil price risk. While these derivative instruments are intended to limit the downside risk of adverse price movements, they may also limit future revenues from favorable price movements.

The Company does not intend to enter into derivative instruments for speculative or trading purposes.

The Company accounts for derivatives under the provisions of ASC 815 *Derivatives and Hedging* ("ASC 815") under which the Company records the fair value of the instruments on the balance sheet at each reporting date, with changes in fair value recognized in income. Given cost and complexity considerations, the Company did not elect to use cash flow hedge accounting provided under ASC 815. Under cash flow hedge accounting, the effective portion of the change in fair value of the derivative instruments would be deferred in other comprehensive income and not recognized in earnings until the underlying hedged item impacts earnings.

These derivative instruments can result in both fair value asset and liability positions held with each counterparty. These positions are offset to a single net fair value asset or liability at the end of each reporting period. The Company nets its fair value amounts of derivative instruments executed with the same counterparty pursuant to ISDA master agreements, which provide for net settlement over the term of the contract and in the event of default or termination of the contract. The Company monitors the credit rating of its counterparties and believes it does not have significant credit risk. Accordingly, we do not currently require our counterparties to post collateral to support the net asset positions of our derivative instruments. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties to its derivative instruments.

The Company held no crude oil derivative instruments as of December 31, 2016 and has not subsequently acquired any crude oil derivative positions.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

For the six months ended December 31, 2016, the Company recorded in the consolidated statement of operations a loss on derivative instruments of \$14,042 consisting of a realized gain of \$90 on settled derivatives and an unrealized net loss of \$14,132 on unsettled derivatives. For the six months ended December 31, 2015, the Company recorded in its consolidated statement of operations a gain on derivative instruments of \$3,598,351 consisting of a realized gain of \$2,164,628 on settled positions and an unrealized net gain of \$1,433,723 on open positions.

**Note 11 — Fair Value Measurement**

Accounting guidelines for measuring fair value establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

The three levels are defined as follows:

Level 1—Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

The fair values of the Company's derivative assets and liabilities are based on a third-party industry-standard pricing model that uses market data obtained from third-party sources, including quoted forward prices for oil and gas, discount rates and volatility factors. The fair values are also compared to the values provided by the counterparty for reasonableness and are adjusted for the counterparty's credit quality for derivative assets and the Company's credit quality for derivative liabilities. To date, adjustments for credit quality have not had a material impact on the fair values.

**Note 12 — 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 during the six months ended December 31, 2016. We believe we have appropriate support for the income tax positions taken and to be taken on our tax returns and that the accruals for tax liabilities are adequate for all open years based on our assessment of various factors including past experience and interpretations of tax law applied to the facts of each matter. The Company's federal and state income tax returns are open to audit under the statute of limitations for the years ended June 30, 2013 through June 30, 2016 for federal tax purposes and for the years ended June 30, 2011 through June 30, 2016 for state tax purposes. To the extent we utilize net operating losses generated in earlier years, such earlier years may also be subject to audit.

We recognized income tax expense of \$2,250,273 and \$2,123,858 for the six months ended December 31, 2016 and 2015, respectively, with corresponding effective tax rates of 35% and 35%. Our effective tax rate will typically differ from the statutory federal rate as a result of state income taxes, primarily in the State of Louisiana, and differences related to percentage depletion in excess of basis, stock-based compensation and other permanent differences. The effective tax rate for the six months ended December 31, 2016 was slightly higher than the statutory federal rate as a result of state income taxes and the tax effects of stock-based compensation, offset by percentage depletion in excess of basis.

**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

**Note 13 — Net Income Per Share**

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
<i>Numerator</i>				
Net income available to common shareholders	\$ 2,307,634	\$ 654,697	\$ 2,870,979	\$ 3,578,349
<i>Denominator</i>				
Weighted average number of common shares — Basic	33,047,166	32,741,166	33,002,088	32,729,705
Effect of dilutive securities:				
Contingent restricted stock grants	9,836	9,795	10,909	9,322
Stock options	26,025	51,479	24,272	50,434
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	33,083,027	32,802,440	33,037,269	32,789,461
Net income per common share — Basic	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.11
Net income per common share — Diluted	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.11

Outstanding potentially dilutive securities as of December 31, 2016 were as follows:

<b>Outstanding Potentially Dilutive Securities</b>	<b>Weighted Average Exercise Price</b>	<b>At December 31, 2016</b>
Contingent Restricted Stock grants	\$ —	113,270
Stock Options	2.19	35,231
<b>Total outstanding potentially dilutive securities</b>	<b>\$ 0.52</b>	<b>148,501</b>

Outstanding potentially dilutive securities as of December 31, 2015 were as follows:

<b>Outstanding Potentially Dilutive Securities</b>	<b>Weighted Average Exercise Price</b>	<b>At December 31, 2015</b>
Contingent Restricted Stock grants	\$ —	106,826
Stock Options	2.40	85,231
<b>Total outstanding potentially dilutive securities</b>	<b>\$ 1.07</b>	<b>192,057</b>

**Note 14 — Senior Secured Credit Agreement**

On April 11, 2016, the Company entered into a new three-year, senior secured reserve-based credit facility ("Facility") in an amount up to \$50 million. The Facility replaces the Company's previous unsecured credit facility which expired in April 2016. The initial borrowing base under the Facility was set at \$10,000,000. As of December 31, 2016, the Company was in compliance with all covenants contained in the Facility, and no amounts were outstanding under the Facility.

Proceeds from the Facility may be used for the acquisition and development of oil and gas properties and for letters of credit and other general corporate purposes. Availability of borrowings under the Facility is subject to semi-annual borrowing base redeterminations.

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



**Evolution Petroleum Corporation And Subsidiaries**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

(c) a consolidated tangible net worth of not less than \$40 million, all as defined under the Facility.

In connection with this agreement, the Company incurred \$168,972 of debt issuance costs. Such costs were capitalized in Other Assets and are being amortized to expense. The unamortized balance in debt issuance costs related to the Facility was \$126,602 as of December 31, 2016.

**Note 15 — Commitments and Contingencies**

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

On December 3, 2013, our wholly owned subsidiary, NGS Sub Corp., was served with a lawsuit filed in the 8th Judicial District Court of Winn Parish, Louisiana by Cecil M. Brooks and Brandon Hawkins, residents of Louisiana, alleging that in 2006 a former subsidiary of NGS Sub Corp. improperly disposed of water from an off-lease well into a well located on the plaintiffs' lands in Winn Parish. The plaintiffs requested monetary damages and other relief. The plaintiffs subsequently filed an amended petition joining the Company as defendants in its capacity as parent company of NGS Sub Corp. NGS Sub Corp. divested its ownership of the property in question along with its ownership of the subsidiary in 2008 to a third party. NGS Sub Corp. and the Company have denied the plaintiffs' claims. The district court dismissed the claim of Brooks against NGS Sub Corp. and the Company because Brooks purchased the land where the well is located subsequent to the divestiture of the property by NGS Sub. Corp. The claim of Hawkins is still being defended. Trial is currently scheduled for late November 2017. We will continue to vigorously defend the claims and based on the input of our legal counsel, we consider the likelihood of a material loss to the Company in this matter to be remote.

**Lease Commitments.** We have a non-cancelable operating lease for office space that expires on May 31, 2019. Future minimum lease commitments as of December 31, 2016 under this operating lease are as follows:

Twelve months ended December 31,		
2017	\$	73,073
2018	\$	73,073
2019	\$	30,447

Rent expense for the three months ended December 31, 2016 and 2015 was \$18,569 and \$45,857, respectively. Rent expense for the corresponding six month periods was \$53,425 and \$90,900, respectively.

**Note 16 — Subsequent Event**

On February 7, 2017, the Company announced that its Board of Directors increased the quarterly cash dividend to common shareholders to \$0.07 per share. The dividend will payable on March 31, 2017 to shareholders of record on March 15, 2017.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto contained herein and in our Annual Report on Form 10-K for the year ended June 30, 2016 (the "Form 10-K"), along with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Form 10-K. Any terms used but not defined herein have the same meaning given to them in the Form 10-K.

*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 (the "Securities Act") 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 2016 Annual Report on Form 10-K for the year ended June 30, 2016 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 and its wholly owned subsidiaries.

### Executive Overview

#### General

We are engaged primarily in the development and production of oil and gas reserves within known oil and gas resources utilizing conventional technology with a focus on creating value on a per share basis. In doing so, we depend on a conservative capital structure, allowing us to maintain control of our assets for the benefit of our stockholders, and a substantial stock ownership by our directors, officers and staff. By policy, every employee and director maintains a beneficial ownership in our common stock.

Our strategy is to maximize the value realized by our stockholders from our assets, particularly our core Delhi asset.

We are currently funding our fiscal 2017 capital program from working capital and net cash flows from our properties.

#### Highlights for our Second Quarter of Fiscal 2017 and Operations Update

"Current quarter" refers to the three months ended December 31, 2016, the Company's second quarter of fiscal 2017.

"Prior quarter" refers to the three months ended September 30, 2016, the Company's first quarter of fiscal 2017.

"Year-ago quarter" refers to the three months ended December 31, 2015, the Company's second quarter of fiscal 2016.

#### Highlights

- We reported net income of \$2.3 million in the current quarter, or \$0.07 per common share.
- We paid our thirteenth consecutive quarterly cash dividend on common shares, in the amount of \$0.065 per share, which reflected a 30% increase over the prior quarter. We set the March 2017 dividend at \$0.07 per share, a further increase of 8%.
- Gross production in the Delhi field was 2.8% higher than the prior quarter, increasing to 7,580 barrels of oil per day ("BOPD") from 7,371 BOPD, primarily from conformance and production enhancement operations. This production consisted entirely of crude oil as first sales of natural gas liquids ("NGL") occurred after the end of the quarter.

## [Table of Contents](#)

- Our net production increased to 1,987 BOPD, from 1,935 BOPD in the prior quarter. Our average realized price per barrel increased 9.4% to \$46.66, up from \$42.66 per barrel in the prior quarter.
- Our per unit lifting cost at Delhi was \$12.54 per barrel, which represents a 4.8% decline from the prior quarter and was 6.7% lower than the year-ago quarter.
- The Delhi NGL plant started operating in December 2016 and first NGL sales occurred in mid-January 2017 following line and storage tank fill.
- We completed the redemption of all of our 8.5% Series A Cumulative Preferred Stock at a cost of \$7.9 million utilizing working capital. This will increase cash available to common stockholders by \$674,302 per year, or \$0.02 per common share.
- We ended the quarter with \$18.6 million of working capital, substantially all of which was cash, with the capital expenditures related to the NGL plant completed.
- We remain debt free.

### **Projects**

Additional property and project information is included under Item 1. Business, Item 2. Properties, Notes to the Financial Statements and Exhibit 99.4 of our Form 10-K for the year ended June 30, 2016.

#### ***Delhi Field - Enhanced Oil Recovery Project***

Gross production at Delhi in the second quarter of fiscal 2017 averaged 7,580 BOPD, an increase of 11.3% from the year-ago quarter, and a 2.8% increase from the prior quarter. The year-over-year increase in production volumes was primarily the result of conformance projects and other production enhancement operations. Our interests in the Delhi field consist of a 23.9% working interest (with associated 19.0% net revenue interest) and separate royalty interests of 7.2%. This yields a total net revenue interest of 26.2%.

Field operating expenses were \$12.54 per barrel in the current quarter compared to \$13.14 in the prior quarter. Our net share of second quarter lease operating expenses in the Delhi field were \$2.3 million in the current quarter, which was unchanged from the prior quarter despite a slightly higher cost per Mcf of CO<sub>2</sub>, and up slightly from \$2.2 million a year ago. Purchased CO<sub>2</sub> volumes were 67.0 MMcf per day, down 9% from 73.7 MMcf in the prior quarter. However, lower purchased CO<sub>2</sub> volumes were offset by the increase in the cost per Mcf, which is tied directly to higher realized oil prices in the field. Calculated on total net production volumes, our total CO<sub>2</sub> costs were \$5.70 in the current quarter compared to \$6.06 per barrel in the prior quarter. (Under our contract with the operator, purchased CO<sub>2</sub> is priced at 1% of the realized oil price in the field per thousand cubic feet ("Mcf") plus sales taxes of 8% plus transportation costs of \$0.20 per Mcf.)

The NGL plant started up in late December 2016 with only nominal production of NGLs in the second quarter. The first sales of NGL products occurred in mid-January 2017. Production has been ramping up during an optimization period in January and full production is expected during the third fiscal quarter. In the current quarter, we incurred \$2.2 million related to the NGL plant, net to the Company, and have incurred approximately \$26.0 million from inception to date as of December 31, 2016. The methane removed by the plant will be converted to electricity to supply power for the NGL plant and reduce electricity costs for the recycling facility. The NGL plant is also expected to increase the sweep efficiency and recovery of the CO<sub>2</sub> flood by removing hydrocarbons for the recycle stream.

During the past eighteen months, there have been multiple conformance and re-entry projects as well as workovers to convert idle wells into producers that were primarily responsible for the increased production rates. We will continue to seek similar projects within the field in order to optimize production and increase ultimate reserve recoveries.

#### ***Liquidity and Capital Resources***

We had \$19.2 million and \$34.1 million in cash and cash equivalents at December 31, 2016 and June 30, 2016, respectively. In addition, we had \$10 million of availability under our senior secured reserve-based credit facility.

On April 11, 2016, the Company entered into a new three-year, senior secured reserve-based credit facility ("Facility") with MidFirst Bank. The Facility provides a senior secured revolving credit facility with an initial borrowing base of \$10 million (the "Borrowing Base") and a maximum borrowing amount of \$50 million. The Facility matures on April 11, 2019, and is secured by substantially all of the Company's assets.

The Borrowing Base is subject to periodic redeterminations and further adjustments from time to time. The Borrowing Base will be redetermined semi-annually on May 15 and November 15 of each year. The Borrowing Base will also be reduced in certain circumstances such as the sale or disposition of certain oil and gas properties of the Company or its subsidiaries and changes to certain hedging positions. With volatility in commodity prices, our borrowing base and related commitments under the Facility could be reduced in the future. The Facility bears interest, at the Company's option, at either LIBOR plus 2.75% or the Prime Rate, as defined, plus 1.0%. In November 2016, as part of our semiannual borrowing base redetermination, the lenders commitment was reaffirmed at \$10 million, with our next borrowing base redetermination scheduled for May 2017.

During the six months ended December 31, 2016, we funded our operations with cash generated from operations and cash on hand. At December 31, 2016, our working capital was \$18.6 million, compared to working capital of \$28.6 million at June 30, 2016. The \$10.0 million decrease in working capital is primarily attributable to the \$7.9 million payment for the redemption of all of our preferred stock outstanding and \$4.5 million in capital expenditures on the Delhi NGL plant.

Our liquidity is highly dependent on the realized prices we receive for the oil, natural gas and natural gas liquids we produce. Commodity prices are market driven and historically volatile, and they are likely to continue to be volatile. In June 2015, the Company began using derivative instruments to reduce its exposure to oil price volatility with the goal to achieve a more predictable level of cash flows to support the Company's capital expenditure and dividend programs. The Company has used both fixed price swap agreements and costless collars to manage its exposure to crude oil price risk. We have no derivative commitments beyond December 31, 2016 at this time, and no derivatives were utilized during the current quarter. While the use of these derivative instruments limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. Our future revenues, cash flow, profitability, access to capital and future rate of growth are significantly impacted by the prices we receive for our production.

Payment of free cash flow in excess of our operating and capital requirements through cash dividends and potential repurchases of our common stock remains a priority of our financial strategy, and it is our long term goal to increase our dividends over time as appropriate. With the NGL plant capital expenditures then substantially completed, the Company had previously announced an increase in the common stock cash dividend to \$0.065 per share, effective with the dividend payment in December 2016. Following the redemption of our preferred stock and the end of its dividend requirement, the Company announced a further increase in the common stock dividend to \$0.07 per share, effective with the dividend payment in March 2017. The Board of Directors intends to revisit the dividend rate later in fiscal 2017 based on results from the Delhi field, the timing of further expansion of Delhi development and the outlook for crude oil prices.

In May 2015, we established a stock repurchase plan to allow us to acquire up to \$5.0 million of our common stock over time, of which we have approximately \$3.4 million remaining. The actual timing and amount of repurchases will depend upon several factors, including financial resources and market conditions. In general, our share repurchase program is limited to discretionary funds and is of lesser importance than our primary objectives related to our development capital spending at Delhi and our common stock dividend program. There is no fixed termination date for the repurchase program, and the repurchase program may be suspended or discontinued at any time.

Our preference is to remain debt free under our current operating plans, but we have access to a senior secured credit facility for oil and gas development if required. In addition, we have \$500 million available under an effective shelf registration statement on file with the Securities and Exchange Commission under which we may sell securities from time to time in one or more offerings. We may choose to evaluate new growth opportunities through acquisitions or other transactions. In that event, we would expect to use our internal resources of cash, working capital and borrowing capacity under our credit facility. It may also be advantageous for us to consider issuing additional equity as part of any potential transaction, but we have no specific plans to do so at this time.

#### **Capital Budget - Delhi Field**

During the six months ended December 31, 2016, we incurred \$6.5 million of capital expenditures, which included \$4.5 million for the NGL plant and \$2.0 million in capital workovers for conformance projects and production enhancement operations and capital for drilling a new water injection well.

As of December 31, 2016, we believe we have incurred and recorded substantially all of the costs for the NGL plant, totaling approximately \$26.0 million. Our current expectations for capital spending during the remainder of our fiscal year ended June 30, 2017 include a few additional conformance and workover operations totaling less than \$1 million net to

Evolution. Based on recent meetings with the field operator, we have identified new opportunities to invest in the Delhi field during the second half of this calendar year, which is part of our fiscal 2018. The majority of this capital is planned for an infill drilling program to enhance production in the current developed area of the flood. This program will consist of up to five new CO<sub>2</sub> injection wells and seven new production wells and will target productive oil zones which are not being swept effectively by the current CO<sub>2</sub> flood. This infill program is expected to both add production and increase ultimate recoveries above the current proved oil reserves. There are other capital projects proposed to add infrastructure for the Phase Five expansion of the Delhi field so that it can be developed in a safe and responsible manner. We currently expect this expansion to occur during calendar 2018. Funding for our anticipated capital expenditures at Delhi over the next two fiscal years is expected to be met from cash flows from operations and current working capital.

#### **Overview of Cash Flow Activities**

Net cash provided by operating activities from operations was \$5.9 million and \$4.5 million for the six months ended December 31, 2016 and 2015, respectively. The \$1.4 million increase in cash provided by operations between these two six month periods was due to \$0.2 million of higher net income and \$5.1 million increase in non-cash expenses and other adjustments to reconcile net income to net cash provided by operations partially offset by \$4.0 million of cash used by operating assets and liabilities. The change in non-cash expenses and adjustments was primarily due to deferred income taxes, which increased in the current period and declined in the prior period, and a significant decrease in derivatives activities between the periods. The change in operating assets and liabilities was primarily attributable to an increase in receivables which reflected improved revenue in the current period and a reduction in accounts payable based on faster payment of operating and capital costs to the Delhi field operator as part of the June 2016 litigation settlement.

Net cash used in investing activities was \$8.3 million and \$7.2 million for the six months ended December 31, 2016 and 2015, respectively. The increase between the periods in cash used was primarily due to a \$1.9 million reduction in cash flow from derivative settlements partially offset by \$0.7 million of lower current year oil and gas capital expenditures and \$0.2 million of deferred loan cost expenditures during the six months ended December 31, 2015.

Net cash used by financing activities for the six months ended December 31, 2016 and 2015 was \$12.4 million and \$1.1 million, respectively. The \$11.4 million increase was principally due to the recent \$7.9 million redemption of preferred shares, together with a \$3.9 million decrease in tax benefits related to stock-based compensation.

#### **New Accounting Pronouncements Adopted**

As discussed in Note 1 "Organization and Basis of Preparation," the Company early adopted two new accounting pronouncements, effective for the three months ended September 30, 2016, the first quarter of fiscal year 2017.

ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. Under previous guidance excess tax benefits were recognized as paid in capital to the extent they reduced cash taxes otherwise payable, and tax deficiencies were recognized as an offset to accumulated excess benefits, if any, or in the statement of operations. The new guidance requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statements of operations when the awards vest or are settled. Under the required modified retrospective transition, the Company had no cumulative-effect adjustment to retained earnings at the beginning of the period of adoption, as its accumulated excess tax benefits had been completely used in reducing taxable income for the year ended June 30, 2016. The Company elected to prospectively adopt the presentation of excess tax benefits in the operating section of the statements of cash flows. Accordingly, such statements for pre-adoption periods will continue to present excess tax benefits in the financing section. For vestings that occurred in the six months ended December 31, 2016, a related tax deficiency of \$22,574 was included in the operating section of the statements of cash flows as income tax expense and for the six months ended December 31, 2015, \$3.9 million of cash provided by tax benefits related to stock-based compensation was included in the financing section of such statements. Except for the accounting for income taxes discussed above, none of the other provisions in this amended guidance had a material impact on our condensed consolidated financial statements.

*Balance Sheet Classification of Deferred Taxes*. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. As a result, current deferred tax assets of \$105,321 have been netted together with noncurrent deferred income tax liabilities on the December 31, 2016 consolidated condensed balance sheet. The prior period presented was not retrospectively adjusted.

#### **Full Cost Pool Ceiling Test and Proved Undeveloped Reserves**

As of December 31, 2016, our capitalized costs of oil and gas properties were substantially below the full cost valuation ceiling. We do not currently expect that a write-down of capitalized oil and gas property costs will be required in the

remaining quarters of fiscal 2017. However, persistent and substantially lower oil prices would have an effect on the excess, or cushion, of our valuation ceiling over our capitalized costs in the current quarter and could adversely impact our ceiling tests in future quarters. Under the full cost method of accounting, capitalized costs of oil and gas properties, net of accumulated DD&A and related deferred taxes, are limited to: the estimated future net cash flows from proved oil and gas reserves, discounted at 10%; plus the cost of any properties not being amortized; plus the lower of cost or fair value of unproved properties included in costs being amortized; less the income tax effect related to the differences between the book and tax basis of the properties (the full cost valuation “ceiling”). If capitalized costs exceed the full cost ceiling, the excess would be charged to expense as a write-down of oil and gas properties in the quarter in which the excess occurred. The quarterly ceiling test calculation requires that we use the average price received for our petroleum products during the twelve month period ending with the balance sheet date. If commodity prices drop below the average from the past twelve months, future ceiling test calculations would be adversely affected. We cannot give assurance that a write-down of capitalized oil and gas properties will not be required in the future.

Our proved undeveloped reserves at June 30, 2016 in the Delhi field consisted primarily of the NGL plant and development of the remaining eastern part of the field. Remaining estimated capital expenditures amount to \$8.12 per BOE for the Phase V expansion of the CO<sub>2</sub> flood in the undeveloped eastern part of the field, which is included in proved undeveloped reserves. Given the geology of the Delhi field, no remaining estimated capital expenditures are required to develop our probable or possible reserves as these reserves reflect incremental quantities associated with a greater percentage recovery of hydrocarbons in place than the recovery quantities assumed for proved reserves. The NGL plant is completed and we expect to achieve full production in our fiscal third quarter. The expanded development of the eastern part of the Delhi field was commenced upon the reversion of our working interest in November 2014. Shortly thereafter, the operator reduced its capital budget and temporarily postponed development of the eastern part of the Delhi field. Resumption of this development project is dependent, at least in part, on the operator's and our allocation of available capital to projects within their portfolio. At this time, despite lower commodity price levels, we continue to believe that these projects are economically viable and it is probable they will be executed within the next several years. We base our analysis on the current lifting costs in the field and the relatively low future development costs per BOE. Therefore, we believe these reserves remain properly classified as proved undeveloped reserves under SEC guidelines. See further discussion related to proved undeveloped reserves in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Three Months Ended December 31, 2016 and 2015

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

	Three Months Ended December 31,		Variance	Variance %
	2016	2015		
<b>Oil and gas production:</b>				
Crude oil revenues	\$ 8,529,817	\$ 6,565,804	\$ 1,964,013	29.9 %
NGL revenues	—	685	(685)	n.m.
Natural gas revenues	—	317	(317)	n.m.
Total revenues	\$ 8,529,817	\$ 6,566,806	\$ 1,963,011	29.9 %
Crude oil volumes (Bbl)	182,815	165,847	16,968	10.2 %
NGL volumes (Bbl)	—	42	(42)	n.m.
Natural gas volumes (Mcf)	—	182	(182)	n.m.
Equivalent volumes (BOE)	182,815	165,919	16,896	10.2 %
Equivalent volumes per day (BOE/D)	1,987	1,803	184	10.2 %
Crude oil price per Bbl	\$ 46.66	\$ 39.59	\$ 7.07	17.9 %
NGL price per Bbl	—	16.31	(16.31)	n.m.
Natural gas price per Mcf	—	1.74	(1.74)	n.m.
Equivalent price per BOE	\$ 46.66	\$ 39.58	\$ 7.08	17.9 %
CO <sub>2</sub> costs	\$ 1,041,741	\$ 1,017,664	\$ 24,077	2.4 %
All other lease operating expense	1,250,680	1,212,077	38,603	3.2 %
Production costs	\$ 2,292,421	\$ 2,229,741	\$ 62,680	2.8 %
Production costs per BOE	\$ 12.54	\$ 13.44	\$ (0.90)	(6.7)%
CO <sub>2</sub> volumes (Mcf per day, gross)	66,961	73,312	(6,351)	(8.7)%
Oil and gas DD&A (a)	\$ 1,299,813	\$ 1,254,350	\$ 45,463	3.6 %
Oil and gas DD&A per BOE	\$ 7.11	\$ 7.56	\$ (0.45)	(6.0)%
<b>Artificial lift technology services:</b>				
Services revenues	\$ —	\$ 56,121	\$ (56,121)	n.m.
Cost of service	—	50,131	(50,131)	n.m.
Depreciation and amortization expense	\$ —	\$ 213,091	\$ (213,091)	n.m.

n.m. Not meaningful.

(a) Excludes depreciation and amortization expense for artificial lift technology services and \$7,697 and \$4,130 of other depreciation and amortization expense for the three months ended December 31, 2016 and 2015, respectively.

Net Income Available to Common Stockholders. For the three months ended December 31, 2016, we generated net income to common shareholders of \$2.3 million, or \$0.07 per diluted share, on total revenues of \$8.5 million. This compares to net income of \$0.7 million, or \$0.02 per diluted share, on total revenues of \$6.6 million for the year-ago period. The \$1.5 million earnings increase reflects a \$1.9 million revenue increase, \$0.8 million lower general and administrative expense together with a \$1.3 million year-ago restructuring charge partially offset by a \$1.7 million decline in derivative gains and a \$1.0 million increase in income tax expense.

Oil and Gas Production. Revenues increased 30% to \$8.5 million primarily as a result of a 10% increase in production volumes from the year-ago period, together with an 18% increase in realized prices from \$39.58 per equivalent barrel to \$46.66 per barrel in the current period. Delhi oil production and revenues comprise virtually all of our revenues. Net Delhi production volumes of 1,987 BOPD increased from the year-ago period as a result of production enhancement and conformance operations in the field.

Production Costs. Production costs for the current quarter were \$2.3 million, a \$0.1 million increase from the year-ago quarter. The current quarter's cost includes \$1.0 million for CO<sub>2</sub> costs, a 2.4% increase from the year-ago quarter. Average gross injection volumes decreased 9% from 73,312 Mcf per day in the year-ago quarter to 66,961 Mcf per day for the current quarter. For the current quarter, production costs were \$12.54 per BOE on total production volumes. Calculated solely on our Delhi working interest volumes, production costs were \$17.27 per barrel of which \$7.85 per barrel was CO<sub>2</sub> cost. These latter production costs per barrel exclude production volumes from our royalty interests in the Delhi field, which bear no production costs, and are therefore higher than the rates per barrel on our total production volumes.

General and Administrative Expenses ("G&A"). G&A expenses decreased \$0.8 million, or 40%, to \$1.2 million for the three months ended December 31, 2016 primarily due to a \$0.7 million decrease in litigation costs and \$0.2 million of lower salary and benefit expenses.

Other Income and Expenses. For the three months ended December 31, 2016, aggregate other items decreased \$1.7 million from the year-ago quarter. We did not have any derivative positions during the current quarter.

Depreciation, Depletion & Amortization Expense ("DD&A"). DD&A decreased \$0.2 million, or 11%, to \$1.3 million for the current period compared to the year-ago period as a result of a \$0.2 million decrease attributable to artificial lift technology assets, partially offset by slightly higher amortization of the full cost pool. This increase in full cost pool amortization reflects a 10% increase in production to 182,815 BOE, substantially offset by a 6% lower amortization rate of \$7.11 per BOE. The rate decrease is primarily due to lower future development costs compared to the year-ago quarter as certain proved undeveloped reserves, particularly the Phase VI area, were considered to be uneconomic at June 30, 2016 based on lower oil prices under SEC guidelines.



Six Months Ended December 31, 2016 and 2015

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

	Six Months Ended December 31,		Variance	Variance %
	2016	2015		
<b><u>Oil and gas production:</u></b>				
Crude oil revenues	\$ 16,123,672	\$ 13,891,617	\$ 2,232,055	16.1 %
NGL revenues	89	1,735	(1,646)	(94.9)%
Natural gas revenues	(4)	1,021	(1,025)	n.m.
Total revenues	\$ 16,123,757	\$ 13,894,373	\$ 2,229,384	16.0 %
Crude oil volumes (Bbl)	360,817	322,763	38,054	11.8 %
NGL volumes (Bbl)	4	124	(120)	(96.8)%
Natural gas volumes (Mcf)	16	489	(473)	(96.7)%
Equivalent volumes (BOE)	360,824	322,968	37,856	11.7 %
Equivalent volumes per day (BOE/D)	1,961	1,755	206	11.7 %
Crude oil price per Bbl	\$ 44.69	\$ 43.04	\$ 1.65	3.8 %
NGL price per Bbl	22.25	13.99	8.26	59.0 %
Natural gas price per Mcf	(0.25)	2.09	(2.34)	n.m.
Equivalent price per BOE	\$ 44.69	\$ 43.02	\$ 1.67	3.9 %
CO <sub>2</sub> costs	\$ 2,119,874	\$ 2,406,591	\$ (286,717)	(11.9)%
All other lease operating expense	2,517,188	2,431,729	85,459	3.5 %
Production costs	\$ 4,637,062	\$ 4,838,320	\$ (201,258)	(4.2)%
Production costs per BOE	\$ 12.85	\$ 14.98	\$ (2.13)	(14.2)%
CO <sub>2</sub> volumes (Mcf per day, gross)	66,961	73,312	(6,351)	(8.7)%
Oil and gas DD&A (a)	\$ 2,565,450	\$ 2,443,222	\$ 122,228	5.0 %
Oil and gas DD&A per BOE	\$ 7.11	\$ 7.56	\$ (0.45)	(6.0)%
<b><u>Artificial lift technology services:</u></b>				
Services revenues	\$ —	\$ 107,960	\$ (107,960)	n.m.
Cost of service	—	59,999	(59,999)	n.m.
Depreciation and amortization expense	\$ —	\$ 238,475	\$ (238,475)	n.m.

n.m. Not meaningful.

(a) Excludes depreciation and amortization expense for artificial lift technology services and \$15,499 and \$8,147 of other depreciation and amortization expense for the six months ended December 31, 2016 and 2015, respectively.

**Net Income Available to Common Stockholders.** For the six months ended December 31, 2016, we generated net income to common shareholders of \$2.9 million, or \$0.09 per diluted share, on total revenues of \$16.1 million. This compares to net income of \$3.6 million, or \$0.11 per diluted share, on total revenues of \$14.0 million for the year-ago period. The \$0.7 million earnings decrease principally resulted from \$3.6 million decrease in derivative gains, \$1.1 million from a year-ago insurance recovery, and a \$0.9 million increase in allocated net income to holders of called preferred shares, partially offset by \$2.1 million of higher revenue, \$2.9 million of lower operating costs and \$0.1 million of higher income taxes.

**Oil and Gas Production.** Revenues increased 16.0% to \$16.1 million primarily as a result of an 11.7% increase in production volumes from the year-ago period together with a 3.9% increase in realized prices from \$43.02 per equivalent barrel to \$44.69 per barrel in the current period. Delhi oil production and revenues comprise virtually all of our revenues. Net Delhi production of 1,961 BOPD was higher compared to the year-ago period as a result of production enhancement and conformance operations in the field.

**Production Costs.** Production costs for the six months ended December 31, 2016 were \$4.6 million, a 4% decrease from the year-ago period. CO<sub>2</sub> costs for the current period were \$2.1 million, or 12% lower than the year-ago period, primarily due to reduced purchase volumes as a result of operational efficiencies. The current period's average gross injection rate was 70,354 Mcf per day compared to 81,508 Mcf per day in the year-ago period. For the current period, production costs were \$12.85 per barrel on total production volumes. Calculated solely on our Delhi working interest volumes, production costs were \$17.71 per barrel of which \$8.10 per barrel was CO<sub>2</sub> cost. These latter production costs per barrel exclude production volumes from our royalty interests in the Delhi field, which bear no production costs, and are therefore higher than the rates per BOE on our total production volumes.

**General and Administrative Expenses (“G&A”).** G&A expenses decreased \$1.3 million, or 34%, to \$2.5 million for the six months ended December 31, 2016 from the year-ago period primarily due to a \$1.0 million decrease in litigation costs and \$0.4 million of lower salary and benefit expenses.

**Other Income and Expenses.** For the six months ended December 31, 2016, aggregate other items decreased \$4.7 million from the year-ago period due to a \$3.6 million decrease in derivative gains and a year-ago \$1.1 million gain from an insurance recovery at the Delhi field.

**Depreciation, Depletion & Amortization Expense (“DD&A”).** DD&A decreased \$0.1 million, or 4%, to \$2.6 million for the current period compared to the year-ago period as a result of \$0.1 million of higher amortization of the full cost pool, partially offset by lower depreciation on fixed assets. Compared to the year-ago period, the slight increase in full cost pool amortization reflects a 12% production increase to 360,824 BOE substantially offset by a 6% lower amortization rate of \$7.11 per BOE. The rate decrease is primarily due to lower future development costs compared to the year-ago period as certain proved undeveloped reserves, particularly Phase VI area, were considered to be uneconomic at June 30, 2016 based on lower oil prices under SEC guidelines.

#### **Other Economic Factors**

**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 volatile price movements in commodity prices, vendor goods and oilfield services. Prices for drilling and oilfield services, oilfield equipment, tubulars, labor, expertise and other services greatly impact our lease operating expenses and our capital expenditures. During fiscal 2016 and fiscal 2017 to date, we have seen some declines in operating and capital costs as a result of lower demand and excess supply of goods and services in the industry. Product prices, operating costs and development costs may not always move in tandem.

**Known Trends and Uncertainties.** General worldwide economic conditions, as well as economic conditions for the oil and gas industry specifically, continue to be uncertain and volatile. Concerns over uncertain future economic growth are affecting numerous industries and companies, as well as consumers, which impact demand for crude oil and natural gas. If the supply of crude oil and natural gas continues to exceed demand in the future, it may put downward pressure on crude oil and natural gas prices, thereby lowering our revenues, profits, cash flow and working capital going forward.

**Seasonality.** Our business is generally not directly seasonal, except for 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, driven by summer cooling and driving, winter heating, and extremes in seasonal weather, including hurricanes, that may substantially affect oil and natural gas production and imports.

## **Off Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements to report during the quarter ended December 31, 2016.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

Information about market risks for the three months ended December 31, 2016, did not change materially from the disclosures in Item 7A of our Annual Report on Form 10-K for the year ended June 30, 2016.

### *Commodity Price Risk*

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

### *Interest Rate Risk*

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

## **ITEM 4. CONTROLS AND PROCEDURES**

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

As required by Securities and Exchange Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(e)) as of the end of the quarter covered by this report. In designing and evaluating our disclosure controls and procedures, our management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2016 our disclosure controls and procedures are effective in ensuring that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, during the quarter ended December 31, 2016 we have determined 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**

We are involved in certain legal proceedings that are described in Part I. Item 3. "Legal Proceedings" and Note 18 — *Commitments and Contingencies* under Part II. Item 8. "Financial Statements" in our 2016 Annual Report. Material developments in the status of those proceedings during the quarter ended December 31, 2016 are described in Part I. Item 1. "Financial Information" under Note 15 — *Commitments and Contingencies* in this Quarterly Report and incorporated herein by reference. We believe that the ultimate liability, if any, with respect to these claims and legal actions will not have a material effect on our financial position or on our results of operations.

**ITEM 1A. RISK FACTORS**

Our Annual Report on Form 10-K for the year ended June 30, 2016 includes a detailed description of our risk factors. There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 30, 2016.

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

During the quarter ended December 31, 2016, the Company did not sell any equity securities that were not registered under the Securities Act.

**Issuer Purchases of Equity Securities**

During the quarter ended December 31, 2016, the Company received shares of common stock from employees of the Company to pay their share of payroll taxes arising from vestings of restricted stock and/or exercises of stock options. The acquisition cost per share reflected the weighted-average market price of the Company's shares of capital stock at the dates of exercise or restricted stock vesting. During the quarter ended December 31, 2016, the Company did not purchase any common stock in the open market under the previously announced share repurchase program. The table below summarizes information about the Company's purchases of its equity securities during the quarter ended December 31, 2016.

Period	(a) Total Number of Shares (or Units) Purchased (1) (2) (3)	(b) Average Price Paid per Share (or Units) (2) (3)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (3)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2016 to October 31, 2016	None	Not applicable	Not applicable	\$3.4 million
November 1, 2016 to November 30, 2016	323,438	\$24.75	317,319	\$3.4 million
December 1, 2016 to December 31, 2016	9,189	\$9.30	Not applicable	\$3.4 million
<b>Total</b>	<b>332,627</b>	<b>\$24.32</b>	<b>317,319</b>	<b>3.4 million</b>

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

(2) During current quarter the Company received 6,119 shares of common stock in November at an average price of \$7.25 and 9,189 shares of common stock in December at an average price of \$9.30, for a total of 15,308 shares of common stock, from certain of its employees which were surrendered in exchange for their payroll tax liabilities arising from vestings of restricted stock. The acquisition cost per share reflects the weighted-average market price of the Company's shares on the dates vested.

(3) On October 4, 2016, the Company announced it had elected to redeem all 317,319 outstanding shares of the Company's 8.5% Series A Cumulative (perpetual) Preferred Stock. The redemption occurred on November 14, 2016 at the issue's \$25.00 per share liquidation value plus all accumulated and unpaid distributions from October 31, 2016 (the last dividend payment date before the redemption date) through the redemption date, for an aggregate redemption price of approximately \$25.082639 per share.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

A. Exhibits

10.1	Evolution Petroleum Corporation 2016 Equity Incentive Plan, adopted December 8, 2016.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**EVOLUTION PETROLEUM CORPORATION**  
(Registrant)

By:           /s/ RANDALL D. KEYS            
Randall D. Keys  
President and Chief Executive Officer

Date: February 8, 2017

**EVOLUTION PETROLEUM CORPORATION  
2016 EQUITY INCENTIVE PLAN**

1. Purpose; Eligibility.

i. General Purpose. The name of this plan is the Evolution Petroleum Corporation 2016 Equity Incentive Plan (the "**Plan**"). The purposes of the Plan are to (a) enable Evolution Petroleum Corporation, a Nevada corporation (the "**Company**"), and any Affiliate to attract and retain the types of Employees, Consultants and Directors who will contribute to the Company's long range success; (b) provide incentives that align the interests of Employees, Consultants and Directors with those of the shareholders of the Company; and (c) promote the success of the Company's business.

ii. Eligible Award Recipients. The persons eligible to receive Awards are the Employees, Consultants and Directors of the Company and its Affiliates and such other individuals designated by the Committee who are reasonably expected to become Employees, Consultants and Directors after the receipt of Awards.

iii. Available Awards. Awards that may be granted under the Plan include: (a) Incentive Stock Options, (b) Non-qualified Stock Options, (c) Stock Appreciation Rights, (d) Restricted Awards, (e) Performance Share Awards, and (f) Performance Compensation Awards.

2. Definitions.

"**Affiliate**" means a corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company.

"**Applicable Laws**" means the requirements related to or implicated by the administration of the Plan under applicable state corporate law, United States federal and state securities laws, the Code, any stock exchange or quotation system on which the shares of Common Stock are listed or quoted, and the applicable laws of any foreign country or jurisdiction where Awards are granted under the Plan.

"**Award**" means any right granted under the Plan, including an Incentive Stock Option, a Non-qualified Stock Option, a Stock Appreciation Right, a Restricted Award, a Performance Share Award or a Performance Compensation Award.

"**Award Agreement**" means a written agreement, contract, certificate or other instrument or document evidencing the terms and conditions of an individual Award granted under the Plan which may, in the discretion of the Company, be transmitted electronically to any Participant. Each Award Agreement shall be subject to the terms and conditions of the Plan.

"**Beneficial Owner**" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" shall be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"**Board**" means the Board of Directors of the Company, as constituted at any time.

"**Cause**" means:

(a) With respect to any Employee or Consultant:

(i) If the Employee or Consultant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition contained therein; or

(ii) If no such agreement exists, or if such agreement does not define Cause: (A) a plea of guilty or no contest to a felony or the commission of any other act involving material willful malfeasance or material fiduciary breach with respect to the Company or an Affiliate; (B) conduct that results in



material harm to the reputation or business of the Company or any of its Affiliates; (C) gross negligence or willful misconduct with respect to the Company or an Affiliate; or (D) material violation of state or federal securities laws.

(b) With respect to any Director, a determination by a majority of the disinterested Board members that the Director has engaged in any of the following:

- (i) malfeasance in office, including material undisclosed conflict of interest;
- (ii) gross misconduct or neglect;
- (iii) false or fraudulent misrepresentation inducing the director's appointment;
- (iv) willful conversion of corporate funds; or
- (v) repeated failure to participate in Board meetings on a regular basis despite having received proper notice of the meetings in advance.

The Committee, in its sole discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

**"Change in Control"** means:

(a) One person (or more than one person acting as a group) acquires ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company; *provided, that*, a Change in Control shall not occur if any person (or more than one person acting as a group) owns more than 50% of the total fair market value or total voting power of the Company's stock and acquires additional stock;

(b) One person (or more than one person acting as a group) acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition) ownership of the Company's stock possessing 30% or more of the total voting power of the stock of such corporation;

(c) A majority of the members of the Board are replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election; or

(d) One person (or more than one person acting as a group), acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately before such acquisition(s).

**"Code"** means the Internal Revenue Code of 1986, as it may be amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

**"Committee"** means a committee of one or more members of the Board appointed by the Board to administer the Plan in accordance with [Section 3.3](#) and [Section 3.4](#).

**"Common Stock"** means the common stock, \$0.001 par value per share, of the Company, or such other securities of the Company as may be designated by the Committee from time to time in substitution thereof.

**"Company"** means Evolution Petroleum Corporation, a Nevada corporation, and any successor thereto.

**"Consultant"** means any individual who is engaged by the Company or any Affiliate to render consulting or advisory services and is not an Employee or Director.

**"Continuous Service"** means that the Participant's service with the Company or an Affiliate, whether as an Employee, Consultant or Director, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders

such service, *provided that* there is no interruption or termination of the Participant's Continuous Service; *provided further that* if any Award is subject to Section 409A of the Code, this sentence shall only be given effect to the extent consistent with Section 409A of the Code. For example, a change in status from an Employee of the Company to a Director of an Affiliate will not constitute an interruption of Continuous Service. The Committee or its delegate, in its sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal or family leave of absence.

"**Covered Employee**" has the same meaning as set forth in Section 162(m)(3) of the Code, as interpreted by IRS Notice 2007-49, and related IRS guidance.

"**Director**" means a non-Employee member of the Board.

"**Disability**" means that the Participant is determined disabled by the Social Security Administration or under any long-term disability plan maintained by the Company or any Affiliate in which a Participant participates, provided that the long-term disability plan determines a Participant disabled if the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected result in death or can be expected to last for a period of not less than 12 months; *provided, however*, for purposes of determining the term of an Incentive Stock Option pursuant to **Section 6.10** hereof, the term Disability shall have the meaning ascribed to it under Section 22(e)(3) of the Code. The determination of whether an individual has a Disability shall be determined under procedures established by the Committee.

"**Disqualifying Disposition**" has the meaning set forth in **Section 14.12**.

"**Effective Date**" shall mean the date as of which this Plan is adopted by the Board.

"**Employee**" means any person, including an Officer or Director, employed by the Company or an Affiliate; *provided, that*, for purposes of determining eligibility to receive Incentive Stock Options, an Employee shall mean an employee of the Company or a parent or subsidiary corporation within the meaning of Section 424 of the Code. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Fair Market Value**" means, as of any date, the value of the Common Stock as determined below. If the Common Stock is listed on any established stock exchange or a national market system, including without limitation, the New York Stock Exchange or the NASDAQ Stock Market, the Fair Market Value shall be the closing price of a share of Common Stock (or if no sales were reported the closing price on the date immediately preceding such date) as quoted on such exchange or system on the day of determination, as reported by such exchange or in any reliable financial reporting service. In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee and such determination shall be conclusive and binding on all persons.

"**Good Reason**" means:

(a) If an Employee or Consultant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Good Reason, the definition contained therein; or

(b) If no such agreement exists or if such agreement does not define Good Reason, the occurrence of one or more of the following without the Participant's express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the Participant describing the applicable circumstances (which notice must be provided by the Participant within ninety (90) days of the Participant's knowledge of the applicable circumstances): (i) any material, adverse change in the Participant's duties, responsibilities, authority, title, status or reporting structure; (ii) a material reduction in the Participant's base salary or bonus opportunity; or (iii) a geographical relocation of the Participant's principal office location by more than fifty (50) miles from the Participant's residence. \*

"**Grant Date**" means the date on which the Committee adopts a resolution, or takes other appropriate action, expressly granting an Award to a Participant that specifies the key terms and conditions of the Award or, if a later date is set forth in such resolution, then such date as is set forth in such resolution.

"**Incentive Stock Option**" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

"**Negative Discretion**" means the discretion authorized by the Plan to be applied by the Committee to eliminate or reduce the size of a Performance Compensation Award in accordance with Section 7.4(d)(iv) of the Plan; *provided, that*, the exercise of such discretion would not cause the Performance Compensation Award to fail to qualify as "performance-based compensation" under Section 162(m) of the Code.

"**Non-Employee Director**" means a Director who is a "non-employee director" within the meaning of Rule 16b-3.

"**Non-qualified Stock Option**" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

"**Officer**" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

"**Option**" means an Incentive Stock Option or a Non-qualified Stock Option granted pursuant to the Plan.

"**Optionholder**" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

"**Option Exercise Price**" means the price at which a share of Common Stock may be purchased upon the exercise of an Option.

"**Outside Director**" means a Director who is an "outside director" within the meaning of Section 162(m) of the Code and Treasury Regulations Section 1.162-27(e)(3) or any successor to such statute and regulation.

"**Participant**" means an eligible person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award.

"**Performance Compensation Award**" means any Award designated by the Committee as a Performance Compensation Award pursuant to Section 7.4 of the Plan.

"**Performance Criteria**" means the criterion or criteria that the Committee shall select for purposes of establishing the Performance Goal(s) for a Performance Period with respect to any Performance Compensation Award under the Plan. The Performance Criteria that will be used to establish the Performance Goal(s) shall be based on the attainment of specific levels of performance of the Company (or Affiliate, division, business unit or operational unit of the Company) and shall be limited to the following:

- (a) net earnings or net income (before or after taxes);
- (b) basic or diluted earnings per share (before or after taxes);
- (c) net revenue or net revenue growth;
- (d) gross revenue;
- (e) gross profit or gross profit growth;
- (f) net operating profit (before or after taxes);
- (g) return on assets, capital, invested capital, equity, or sales;
- (h) cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital);
- (i) earnings before or after taxes, interest, depreciation and/or amortization;
- (j) gross or operating margins;

- (k) improvements in capital structure;
- (l) budget and expense management;
- (m) productivity ratios;
- (n) economic value added or other value added measurements;
- (o) share price (including, but not limited to, growth measures and total shareholder return);
- (p) expense targets;
- (q) margins;
- (r) operating efficiency;
- (s) working capital targets;
- (t) enterprise value;
- (u) safety record;
- (v) completion of acquisitions or business expansion;
- (x) reserve growth;
- (y) reserve replacement;
- (z) production growth;
- (aa) finding and development costs;
- (bb) drilling programs commenced;
- (cc) drillable prospects, capabilities and critical path items established;
- (dd) acquisition cost efficiency;
- (ee) acquisitions of oil and gas interests; and
- (ff) third-party capital sourcing.

Any one or more of the Performance Criteria may be used on an absolute or relative basis to measure the performance of the Company and/or an Affiliate as a whole or any division, business unit or operational unit of the Company and/or an Affiliate or any combination thereof, as the Committee may deem appropriate, or as compared to the performance of a group of comparable companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Committee may select Performance Criterion (o) above as compared to various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of Performance Goals pursuant to the Performance Criteria specified in this paragraph. To the extent required under Section 162(m) of the Code, the Committee shall, within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period. In the event that applicable tax and/or securities laws change to permit the Committee discretion to alter the governing Performance Criteria without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval.

**"Performance Formula"** means, for a Performance Period, the one or more objective formulas applied against the relevant Performance Goal to determine, with regard to the Performance Compensation Award of a particular Participant, whether all, some portion but less than all, or none of the Performance Compensation Award has been earned for the Performance Period.

**"Performance Goals"** means, for a Performance Period, the one or more goals established by the Committee for the Performance Period based upon the Performance Criteria. The Committee is authorized at any time during the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), or at any time thereafter (but only to the extent the exercise of such authority after such period would not cause the Performance Compensation Awards granted to any Participant for the Performance Period to fail to qualify as "performance-based compensation" under Section 162(m) of the Code), in its sole and absolute discretion, to adjust or modify the calculation of a Performance Goal for such Performance Period to the extent permitted under Section 162(m) of the Code in order to prevent the dilution or enlargement of the rights of Participants based on the following events:

- (a) asset write-downs;
- (b) litigation or claim judgments or settlements;
- (c) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results;
- (d) any reorganization and restructuring programs;
- (e) extraordinary, unusual or infrequently occurring items as described in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year;
- (f) acquisitions or divestitures;
- (g) any other specific unusual or nonrecurring events, or objectively determinable category thereof;
- (h) foreign exchange gains and losses; and
- (i) a change in the Company's fiscal year.

**"Performance Period"** means the one or more periods of time not less than one fiscal quarter in duration, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Performance Compensation Award.

**"Performance Share Award"** means any Award granted pursuant to **Section 7.3** hereof.

**"Performance Share"** means the grant of a right to receive a number of actual shares of Common Stock or share units based upon the performance of the Company during a Performance Period, as determined by the Committee.

**"Permitted Transferee"** means: a member of the Optionholder's immediate family (child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships), any person sharing the Optionholder's household (other than a tenant or employee), a trust in which these persons have more than 50% of the beneficial interest, a foundation in which these persons (or the Optionholder) control the management of assets, and any other entity in which these persons (or the Optionholder) own more than 50% of the voting interests.

**"Plan"** means this Evolution Petroleum Corporation 2016 Equity Incentive Plan, as amended and/or amended and restated from time to time.

**"Related Rights"** has the meaning set forth in **Section 7.1(a)**.

**"Restricted Award"** means any Award granted pursuant to **Section 7.2(a)**.

**"Restricted Period"** has the meaning set forth in **Section 7.2(a)**.

"**Rule 16b-3**" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Stock Appreciation Right**" means the right pursuant to an Award granted under **Section 7.1** to receive, upon exercise, an amount payable in cash or shares equal to the number of shares subject to the Stock Appreciation Right that is being exercised multiplied by the excess of (a) the Fair Market Value of a share of Common Stock on the date the Award is exercised, over (b) the exercise price specified in the Stock Appreciation Right Award Agreement.

"**Ten Percent Shareholder**" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. Administration.

i. Authority of Committee. The Plan shall be administered by the Committee or, in the Board's sole discretion, by the Board. Subject to the terms of the Plan, the Committee's charter and Applicable Laws, and in addition to other express powers and authorization conferred by the Plan, the Committee shall have the authority:

- (a) to construe and interpret the Plan and apply its provisions;
- (b) to promulgate, amend, and rescind rules and regulations relating to the administration of the Plan;
- (c) to authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan;
- (d) to delegate its authority to one or more Officers of the Company with respect to Awards that do not involve Covered Employees or "insiders" within the meaning of Section 16 of the Exchange Act;
- (e) to determine when Awards are to be granted under the Plan and the applicable Grant Date;
- (f) from time to time to select, subject to the limitations set forth in this Plan, those Participants to whom Awards shall be granted;
- (g) to determine the number of shares of Common Stock to be made subject to each Award;
- (h) to determine whether each Option is to be an Incentive Stock Option or a Non-qualified Stock Option;
- (i) to prescribe the terms and conditions of each Award, including, without limitation, the exercise price and medium of payment and vesting provisions, and to specify the provisions of the Award Agreement relating to such grant;
- (j) to determine the target number of Performance Shares to be granted pursuant to a Performance Share Award, the performance measures that will be used to establish the performance goals, the performance period(s) and the number of Performance Shares earned by a Participant;
- (k) to designate an Award (including a cash bonus) as a Performance Compensation Award and to select the Performance Criteria that will be used to establish the Performance Goals;
- (l) to amend any outstanding Awards, including for the purpose of modifying the time or manner of vesting, or the term of any outstanding Award; provided, however, that if any such amendment impairs a Participant's rights or increases a Participant's obligations under his or her Award, such amendment shall also be subject to the Participant's consent;
- (m) to determine the duration and purpose of leaves of absences which may be granted to a Participant without constituting termination of their employment for purposes of the Plan, which periods shall be no shorter than the periods generally applicable to Employees under the Company's employment policies;
- (n) to make decisions with respect to outstanding Awards that may become necessary upon a Change of Control or an event that triggers anti-dilution adjustments;
- (o) to interpret, administer, reconcile any inconsistency in, correct any defect in and/or supply any omission in the Plan and any instrument or agreement relating to, or Award granted under, the Plan; and
- (p) to exercise discretion to make any and all other determinations which it determines to be necessary or advisable for the administration of the Plan.

The Committee also may modify the purchase price or the exercise price of any outstanding Award, *provided that* if the modification effects a repricing, shareholder approval shall be required before the repricing is effective.

ii. Committee Decisions Final. All decisions made by the Committee pursuant to the provisions of the Plan shall be final and binding on the Company and the Participants, unless such decisions are determined by a court having jurisdiction to be arbitrary and capricious.

iii. Delegation. The Committee or, if no Committee has been appointed, the Board may delegate administration of the Plan to a committee or committees of one or more members of the Board, and the term "**Committee**" shall apply to any person or persons to whom such authority has been delegated. The Committee shall have the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board or the Committee shall thereafter be to the committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan. The members of the Committee shall be appointed by and serve at the pleasure of the Board. From time to time, the Board may increase or decrease the size of the Committee, add additional members to, remove members (with or without cause) from, appoint new members in substitution therefor, and fill vacancies, however caused, in the Committee. The Committee shall act pursuant to a vote of the majority of its members or, in the case of a Committee comprised of only two members, the unanimous consent of its members, whether present or not, or by the written consent of the majority of its members and minutes shall be kept of all of its meetings and copies thereof shall be provided to the Board. Subject to the limitations prescribed by the Plan and the Board, the Committee may establish and follow such rules and regulations for the conduct of its business as it may determine to be advisable.

iv. Committee Composition. Except as otherwise determined by the Board, the Committee shall consist solely of two or more Non-Employee Directors who are also Outside Directors. The Board shall have discretion to determine whether or not it intends to comply with the exemption requirements of Rule 16b-3 and/or Section 162(m) of the Code. However, if the Board intends to satisfy such exemption requirements, with respect to Awards to any Covered Employee and with respect to any insider subject to Section 16 of the Exchange Act, the Committee shall be a compensation committee of the Board that at all times consists solely of two or more Non-Employee Directors who are also Outside Directors. Within the scope of such authority, the Board or the Committee may (a) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Awards to eligible persons who are either (i) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Award or (ii) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code or (b) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Awards to eligible persons who are not then subject to Section 16 of the Exchange Act. Nothing herein shall create an inference that an Award is not validly granted under the Plan in the event Awards are granted under the Plan by a compensation committee of the Board that does not at all times consist solely of two or more Non-Employee Directors who are also Outside Directors.

v. Indemnification. In addition to such other rights of indemnification as they may have as Directors or members of the Committee, and to the extent allowed by Applicable Laws, the Committee shall be indemnified by the Company against the reasonable expenses, including attorney's fees, actually incurred in connection with any action, suit or proceeding or in connection with any appeal therein, to which the Committee may be party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted under the Plan, and against all amounts paid by the Committee in settlement thereof (*provided, however*, that the settlement has been approved by the Company, which approval shall not be unreasonably withheld) or paid by the Committee in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee did not act in good faith and in a manner which such person reasonably believed to be in the best interests of the Company, or in the case of a criminal proceeding, had no reason to believe that the conduct complained of was unlawful; *provided, however*, that within 60 days after institution of any such action, suit or proceeding, such Committee shall, in writing, offer the Company the opportunity at its own expense to handle and defend such action, suit or proceeding.

#### 4. Shares Subject to the Plan.

i. Subject to adjustment in accordance with **Section 11**, a total of 1,100,000 (One million, one hundred thousand) shares of Common Stock shall be available for the grant of Awards under the Plan; *provided that*, no more than 330,000 (three hundred thirty thousand) shares of Common Stock may be granted as Incentive Stock Options. During the terms of the Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Awards.

ii. Shares of Common Stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner.

iii. Subject to adjustment in accordance with **Section 11**, no Participant shall be granted, during any one (1) year period, Options to purchase Common Stock and Stock Appreciation Rights with respect to more than 330,000 (three hundred thirty thousand) shares of Common Stock in the aggregate or any other Awards with respect to more than 165,000 (one hundred



sixty-five thousand) shares of Common Stock in the aggregate. If an Award is to be settled in cash, the number of shares of Common Stock on which the Award is based shall not count toward the individual share limit set forth in this Section 4.

iv. Any shares of Common Stock subject to an Award that is canceled, forfeited or expires prior to exercise or realization, either in full or in part, shall not become available for issuance under the Plan. Notwithstanding anything to the contrary contained herein: shares subject to an Award under the Plan shall not again be made available for issuance or delivery under the Plan if such shares are (a) shares tendered in payment of an Option, (b) shares delivered or withheld by the Company to satisfy any tax withholding obligation, or (c) shares covered by a cash or stock-settled Stock Appreciation Right or other Awards that were not issued upon the settlement of the Award.

5. Eligibility.

i. Eligibility for Specific Awards. Incentive Stock Options may be granted only to Employees. Awards other than Incentive Stock Options may be granted to Employees, Consultants and Directors and those individuals whom the Committee determines are reasonably expected to become Employees, Consultants and Directors following the Grant Date.

ii. Ten Percent Shareholders. A Ten Percent Shareholder shall not be granted an Incentive Stock Option unless the Option Exercise Price is at least 110% of the Fair Market Value of the Common Stock at the Grant Date and the Option is not exercisable after the expiration of five years from the Grant Date.

6. Option Provisions. Each Option granted under the Plan shall be evidenced by an Award Agreement. Each Option so granted shall be subject to the conditions set forth in this Section 6, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. All Options shall be separately designated Incentive Stock Options or Non-qualified Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. Notwithstanding the foregoing, the Company shall have no liability to any Participant or any other person if an Option designated as an Incentive Stock Option fails to qualify as such at any time or if an Option is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and the terms of such Option do not satisfy the requirements of Section 409A of the Code. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

i. Term. Subject to the provisions of **Section 5.2** regarding Ten Percent Shareholders, no Incentive Stock Option shall be exercisable after the expiration of 10 years from the Grant Date. The term of a Non-qualified Stock Option granted under the Plan shall be determined by the Committee; *provided, however*, no Non-qualified Stock Option shall be exercisable after the expiration of 10 years from the Grant Date.

ii. Exercise Price of an Incentive Stock Option. Subject to the provisions of **Section 5.2** regarding Ten Percent Shareholders, the Option Exercise Price of each Incentive Stock Option shall be not less than 100% of the Fair Market Value of the Common Stock subject to the Option on the Grant Date. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an Option Exercise Price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

iii. Exercise Price of a Non-qualified Stock Option. The Option Exercise Price of each Non-qualified Stock Option shall be not less than 100% of the Fair Market Value of the Common Stock subject to the Option on the Grant Date. Notwithstanding the foregoing, a Non-qualified Stock Option may be granted with an Option Exercise Price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 409A of the Code.

Except for either adjustments pursuant to Section 11, or reductions of the Option Exercise Price approved by the Company's stockholders, the Option Exercise Price for any outstanding Option may not be decreased after the Grant Date nor may an outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a replacement Option with a lower exercise price or for cash.

iv. Consideration. The Option Exercise Price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (a) in cash or by certified or bank check at the time the Option is exercised or (b) in the discretion of the Committee, upon such terms as the Committee shall approve, the Option Exercise Price may be paid: (i) by delivery to the Company of other Common Stock with a Fair Market Value on the date of delivery equal to the Option Exercise Price (or portion thereof) due for the number of shares being acquired, or by means of attestation whereby the Participant identifies for delivery specific shares of Common Stock that have an aggregate Fair Market Value on

the date of attestation equal to the Option Exercise Price (or portion thereof) and receives a number of shares of Common Stock equal to the difference between the number of shares thereby purchased and the number of identified attestation shares of Common Stock; (ii) a "cashless" exercise program established with a broker; (iii) by reduction in the number of shares of Common Stock otherwise deliverable upon exercise of such Option with a Fair Market Value equal to the aggregate Option Exercise Price at the time of exercise; (iv) any combination of the foregoing methods; or (v) in any other form of legal consideration that may be acceptable to the Committee. Unless otherwise specifically provided in the Option, the exercise price of Common Stock acquired pursuant to an Option that is paid by delivery (or attestation) to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). Notwithstanding the foregoing, during any period for which the Common Stock is publicly traded (i.e., the Common Stock is listed on any established stock exchange or a national market system) an exercise by a Director or Officer that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company, directly or indirectly, in violation of Section 402(a) of the Sarbanes-Oxley Act of 2002 shall be prohibited with respect to any Award under this Plan.

v. Transferability of an Incentive Stock Option. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

vi. Transferability of a Non-qualified Stock Option. A Non-qualified Stock Option may, in the sole discretion of the Committee, be transferable to a Permitted Transferee, upon written approval by the Committee to the extent provided in the Award Agreement. If the Non-qualified Stock Option does not provide for transferability, then the Non-qualified Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

vii. Vesting of Options. Unless otherwise provided in the Award Agreement, each Option shall vest and therefore become exercisable in annual installments over a four-year period beginning on the Grant Date. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Committee may deem appropriate. The vesting provisions of individual Options may vary. No Option may be exercised for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting and exercisability in the terms of any Award Agreement upon the occurrence of a specified event.

viii. Termination of Continuous Service. Unless otherwise provided in an Award Agreement or in an employment agreement, in the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (a) the date three months following the termination of the Optionholder's Continuous Service or (b) the expiration of the term of the Option as set forth in the Award Agreement; *provided that*, if the termination of Continuous Service is by the Company for Cause, all outstanding Options (whether or not vested) shall immediately terminate and cease to be exercisable. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Award Agreement, the Option shall terminate.

ix. Extension of Termination Date. An Optionholder's Award Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service for any reason would be prohibited at any time because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act or any other state or federal securities law or the rules of any securities exchange or interdealer quotation system, then the Option shall terminate on the earlier of (a) the expiration of the term of the Option in accordance with **Section 6.1** or (b) the expiration of a period after termination of the Participant's Continuous Service that is three months after the end of the period during which the exercise of the Option would be in violation of such registration or other securities law requirements.

x. Disability of Optionholder. Unless otherwise provided in an Award Agreement, in the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (a) the date 12 months following such termination or (b) the expiration of the term of the Option as set forth in the Award Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein or in the Award Agreement, the Option shall terminate.

xi. Death of Optionholder. Unless otherwise provided in an Award Agreement, in the event an Optionholder's Continuous Service terminates as a result of the Optionholder's death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death, but only within the period ending on the earlier of (a) the date 12 months following the date of death or (b) the expiration of the term of such Option as set forth in the Award Agreement. If, after the Optionholder's death, the Option is not exercised within the time specified herein or in the Award Agreement, the Option shall terminate.

xii. Incentive Stock Option \$100,000 Limitation. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds \$100,000, the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Non-qualified Stock Options.

7. Provisions of Awards Other Than Options.

i. Stock Appreciation Rights.

(a) General

Each Stock Appreciation Right granted under the Plan shall be evidenced by an Award Agreement. Each Stock Appreciation Right so granted shall be subject to the conditions set forth in this Section 7.1, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. Stock Appreciation Rights may be granted in tandem with an Option granted under the Plan ("**Related Rights**") or alone.

(b) Grant Requirements

Any Related Right that relates to a Non-qualified Stock Option may be granted at the same time the Option is granted or at any time thereafter but before the exercise or expiration of the Option. Any Related Right that relates to an Incentive Stock Option must be granted at the same time the Incentive Stock Option is granted.

(c) Term of Stock Appreciation Rights

The term of a Stock Appreciation Right granted under the Plan shall be determined by the Committee; *provided, however*, no Stock Appreciation Right shall be exercisable later than the tenth anniversary of the Grant Date.

(d) Vesting of Stock Appreciation Rights

Unless otherwise provided in the Award Agreement, each Stock Appreciation Right shall vest and therefore become exercisable in annual installments over a four-year period beginning on the Grant Date. The Stock Appreciation Right may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Committee may deem appropriate. The vesting provisions of individual Stock Appreciation Rights may vary. No Stock Appreciation Right may be exercised for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting and exercisability in the terms of any Award Agreement upon the occurrence of a specified event.

(e) Exercise and Payment

Upon exercise of a Stock Appreciation Right, the holder shall be entitled to receive from the Company an amount equal to the number of shares of Common Stock subject to the Stock Appreciation Right that is being exercised multiplied by the excess of (i) the Fair Market Value of a share of Common Stock on the date the Award is exercised, over (ii) the exercise price specified in the Stock Appreciation Right or related Option. Payment with respect to the exercise of a Stock Appreciation Right shall be made on the date of exercise. Payment shall be made in the form of shares of Common Stock (with or without restrictions as to substantial risk of forfeiture and transferability, as determined by the Committee in its sole discretion), cash or a combination thereof, as determined by the Committee.

(f) Exercise Price

The exercise price of a stand-alone Stock Appreciation Right shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of one share of Common Stock on the Grant Date of such Stock Appreciation Right. A Related Right granted simultaneously with or subsequent to the grant of an Option and in conjunction therewith or in the alternative thereto shall have the same exercise price as the related Option, shall be transferable only upon the same terms and conditions as the related Option, and shall be exercisable only to the same extent as the related Option; *provided, however*, that a Stock Appreciation Right, by its terms, shall be exercisable only when the Fair Market Value per share of Common Stock subject to the Stock Appreciation Right and related Option exceeds the exercise price per share thereof and no Stock Appreciation Rights may be granted in tandem with an Option unless the Committee determines that the requirements of **Section 7.1(b)** are satisfied.

(g) Reduction in the Underlying Option Shares

Upon any exercise of a Related Right, the number of shares of Common Stock for which any related Option shall be exercisable shall be reduced by the number of shares for which the Stock Appreciation Right has been exercised. The number of shares of Common Stock for which a Related Right shall be exercisable shall be reduced upon any exercise of any related Option by the number of shares of Common Stock for which such Option has been exercised.

ii. Restricted Awards.

(a) General

A Restricted Award is an Award of actual shares of Common Stock ("**Restricted Stock**") or hypothetical Common Stock units ("**Restricted Stock Units**") having a value equal to the Fair Market Value of an identical number of shares of Common Stock, which may, but need not, provide that such Restricted Award may not be sold, assigned, transferred or otherwise disposed of, pledged or hypothecated as collateral for a loan or as security for the performance of any obligation or for any other purpose for such period (the "**Restricted Period**") as the Committee shall determine. Each Restricted Award granted under the Plan shall be evidenced by an Award Agreement. Each Restricted Award so granted shall be subject to the conditions set forth in this Section 7.2, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement.

(b) Restricted Stock and Restricted Stock Units

(i) Each Participant granted Restricted Stock shall execute and deliver to the Company an Award Agreement with respect to the Restricted Stock setting forth the restrictions and other terms and conditions applicable to such Restricted Stock. If the Committee determines that the Restricted Stock shall be held by the Company or in escrow rather than delivered to the Participant pending the release of the applicable restrictions, the Committee may require the Participant to additionally execute and deliver to the Company (A) an escrow agreement satisfactory to the Committee, if applicable and (B) the appropriate blank stock power with respect to the Restricted Stock covered by such agreement. If a Participant fails to execute an agreement evidencing an Award of Restricted Stock and, if applicable, an escrow agreement and stock power, the Award shall be null and void unless otherwise waived by the Committee. Subject to the restrictions set forth in the Award, the Participant generally shall have the rights and privileges of a shareholder as to such Restricted Stock, including the right to vote such Restricted Stock and the right to receive dividends.

(ii) The terms and conditions of a grant of Restricted Stock Units shall be reflected in an Award Agreement. No shares of Common Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside a fund for the payment of any such Award. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder. At the discretion of the Committee, each Restricted Stock Unit (representing one share of Common Stock) may be credited with cash and stock dividends paid by the Company in respect of one share of Common Stock ("**Dividend Equivalents**"). Unless the Committee determines otherwise, Dividend Equivalents shall be accrue and be paid upon settlement of the Restricted Stock Units in accordance with the terms of the Award Agreement. The Committee has the discretion to pay such Dividend Equivalents in cash or in shares of Common Stock having a Fair Market Value equal to the amount of such Dividend Equivalents and earnings, if applicable. To the extent that all or part of the Restricted

Stock Units subject to the Award are forfeited, the Dividend Equivalents that relate to such forfeited Restricted Stock Units shall also be forfeited.

(c) Restrictions

(i) Restricted Stock awarded to a Participant shall be subject to the following restrictions until the expiration of the Restricted Period, and to such other terms and conditions as may be set forth in the applicable Award Agreement: (A) if an escrow arrangement is used, the Participant shall not be entitled to delivery of the stock certificate; (B) the shares shall be subject to the restrictions on transferability set forth in the Award Agreement; (C) the shares shall be subject to forfeiture to the extent provided in the applicable Award Agreement; and (D) to the extent such shares are forfeited, the stock certificates shall be returned to the Company, and all rights of the Participant to such shares and as a shareholder with respect to such shares shall terminate without further obligation on the part of the Company.

(ii) Restricted Stock Units awarded to any Participant shall be subject to (A) forfeiture until the expiration of the Restricted Period, and satisfaction of any applicable Performance Goals during such period, to the extent provided in the applicable Award Agreement, and to the extent such Restricted Stock Units are forfeited, all rights of the Participant to such Restricted Stock Units shall terminate without further obligation on the part of the Company and (B) such other terms and conditions as may be set forth in the applicable Award Agreement.

(iii) The Committee shall have the authority to remove any or all of the restrictions on the Restricted Stock and Restricted Stock Units whenever it may determine that, by reason of changes in Applicable Laws or other changes in circumstances arising after the date the Restricted Stock or Restricted Stock Units are granted, such action is appropriate.

(d) Restricted Period

Unless otherwise provided in the Award Agreement, the Restricted Period shall be a four-year period beginning on the Grant Date over which the Restricted Award shall vest with respect to 1/4 of the Award on each anniversary of the Grant Date. The Restricted Award may be subject to such other terms and conditions (which may be based on performance or other criteria) as the Committee may deem appropriate. The vesting provisions of individual Restricted Awards may vary. No Restricted Award may be granted or settled for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting in the terms of any Award Agreement upon the occurrence of a specified event.

(e) Delivery of Restricted Stock and Settlement of Restricted Stock Units

Upon the expiration of the Restricted Period with respect to any shares of Restricted Stock, the restrictions set forth in **Section 7.2(c)** and the applicable Award Agreement shall be of no further force or effect with respect to such shares, except as set forth in the applicable Award Agreement. If an escrow arrangement is used, upon such expiration, the Company shall deliver to the Participant, or his or her beneficiary, without charge, the stock certificate evidencing the shares of Restricted Stock which have not then been forfeited and with respect to which the Restricted Period has expired (to the nearest full share) and any cash dividends or stock dividends credited to the Participant's account with respect to such Restricted Stock and the interest thereon, if any. Upon the expiration of the Restricted Period with respect to any outstanding Restricted Stock Units, the Company shall deliver to the Participant, or his or her beneficiary, without charge, one share of Common Stock for each such outstanding vested Restricted Stock Unit ("**Vested Unit**"); *provided, however*, that, if otherwise provided in the applicable Award Agreement, the Committee may, in its sole discretion, elect to pay cash or part cash and part Common Stock in lieu of delivering only shares of Common Stock for Vested Units. If a cash payment is made in lieu of delivering shares of Common Stock, the amount of such payment shall be equal to the Fair Market Value of the Common Stock as of the date on which the Restricted Period lapsed in the case of Restricted Stock Units with respect to each Vested Unit.

(f) Stock Restrictions

Each certificate representing Restricted Stock awarded under the Plan shall bear a legend in such form as the Company deems appropriate.

iii. Performance Share Awards.

(a) Grant of Performance Share Awards

Each Performance Share Award granted under the Plan shall be evidenced by an Award Agreement. Each Performance Share Award so granted shall be subject to the conditions set forth in this Section 7.3, Section 7.4, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. The Committee shall have the discretion to determine: (i) the number of shares of Common Stock or stock-denominated units subject to a Performance Share Award granted to any Participant; (ii) the performance period applicable to any Award; (iii) the conditions that must be satisfied for a Participant to earn an Award; and (iv) the other terms, conditions and restrictions of the Award.

(b) Earning Performance Share Awards

The number of Performance Shares earned by a Participant will depend on the extent to which the performance goals established by the Committee are attained within the applicable Performance Period, as determined by the Committee. No payout shall be made with respect to any Performance Share Award except upon written certification by the Committee that the minimum threshold performance goal(s) have been achieved.

iv. Performance Compensation Awards.

(a) General

The Committee shall have the authority, at the time of grant of any Award described in this Plan (other than Options and Stock Appreciation Rights granted with an exercise price equal to or greater than the Fair Market Value per share of Common Stock on the Grant Date), to designate such Award as a Performance Compensation Award in order to qualify such Award as "performance-based compensation" under Section 162(m) of the Code. In addition, the Committee shall have the authority to make an Award of a cash bonus to any Participant and designate such Award as a Performance Compensation Award in order to qualify such Award as "performance-based compensation" under Section 162(m) of the Code.

(b) Eligibility

The Committee will, in its sole discretion, designate within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code) which Participants will be eligible to receive Performance Compensation Awards in respect of such Performance Period. However, designation of a Participant eligible to receive an Award hereunder for a Performance Period shall not in any manner entitle the Participant to receive payment in respect of any Performance Compensation Award for such Performance Period. The determination as to whether or not such Participant becomes entitled to payment in respect of any Performance Compensation Award shall be decided in accordance with the Plan and the applicable Award Agreement. Moreover, designation of a Participant eligible to receive an Award hereunder for a particular Performance Period shall not require designation of such Participant eligible to receive an Award hereunder in any subsequent Performance Period and designation of one person as a Participant eligible to receive an Award hereunder shall not require designation of any other person as a Participant eligible to receive an Award hereunder in such period or in any other period.

(c) Discretion of Committee with Respect to Performance Compensation Awards

With regard to a particular Performance Period, the Committee shall have full discretion to select the length of such Performance Period (provided any such Performance Period shall be not less than one fiscal quarter in duration), which Award will also be a Performance Compensation Award, the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goal(s) that is (are) to apply to the Company and the Performance Formula. Within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), the Committee shall, with regard to the Performance Compensation Awards to be issued for such Performance Period, exercise its discretion with respect to each of the matters enumerated in the immediately preceding sentence of this Section 7.4(c) and record the same in writing.

(d) Payment of Performance Compensation Awards

(i) Condition to Receipt of Payment

Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company on the last day of a Performance Period to be eligible for payment in respect of a Performance Compensation Award for such Performance Period.

(ii) Limitation

Unless otherwise provided in an Award Agreement, a Participant shall be eligible to receive payment in respect of a Performance Compensation Award only to the extent that: (A) the Performance Goals for such period are achieved; and (B) the Performance Formula as applied against such Performance Goals determines that all or some portion of such Participant's Performance Compensation Award has been earned for the Performance Period.

(iii) Certification

Following the completion of a Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Goals for the Performance Period have been achieved and, if so, calculate and certify in writing the amount of the Performance Compensation Awards earned for the period based upon the Performance Formula. The Committee shall then determine the actual size of each Participant's Performance Compensation Award for the Performance Period and, in so doing, may apply Negative Discretion in accordance with Section 7.4(d)(iv) hereof, if and when it deems appropriate.

(iv) Use of Discretion

In determining the actual size of an individual Performance Compensation Award for a Performance Period, the Committee may reduce or eliminate the amount of the Performance Compensation Award earned under the Performance Formula in the Performance Period through the use of Negative Discretion if, in its sole judgment, such reduction or elimination is appropriate. The Committee shall not have the discretion to (A) grant or provide payment in respect of Performance Compensation Awards for a Performance Period if the Performance Goals for such Performance Period have not been attained or (B) increase a Performance Compensation Award above the maximum amount payable under Section 7.4(d)(vi) of the Plan.

(v) Timing of Award Payments

Performance Compensation Awards granted for a Performance Period shall be paid to Participants as soon as administratively practicable following completion of the certifications required by this Section 7.4, but in no event later than the short-term deferral deadline under Section 409A of the Code.

(vi) Maximum Award Payable

Notwithstanding any provision contained in this Plan to the contrary, the maximum Performance Compensation Award payable to any one Participant under the Plan for a Performance Period (excluding any Options and Stock Appreciation Rights) is 165,000 shares of Common Stock or, in the event such Performance Compensation Award is paid in cash, the equivalent cash value thereof on the first or last day of the Performance Period to which such Award relates, as determined by the Committee. The maximum amount that can be paid in any calendar year to any Participant pursuant to a cash bonus Award described in the last sentence of Section 7.4(a) shall be \$500,000.

8. Securities Law Compliance. Each Award Agreement shall provide that no shares of Common Stock shall be purchased or sold thereunder unless and until (a) any then applicable requirements of state or federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel and (b) if required to do so by the Company, the Participant has executed and delivered to the Company a letter of investment intent in such form and containing such provisions as the Committee may require. The Company shall use reasonable efforts to seek to obtain from each regulatory

commission or agency having jurisdiction over the Plan such authority as may be required to grant Awards and to issue and sell shares of Common Stock upon exercise of the Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Awards unless and until such authority is obtained.

9. Use of Proceeds from Stock.

- i. Proceeds from the sale of Common Stock pursuant to Awards, or upon exercise thereof, shall constitute general funds of the Company.

10. Miscellaneous.

- i. Acceleration of Exercisability and Vesting. The Committee shall have the power to accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

- ii. Shareholder Rights. Except as provided in the Plan or an Award Agreement, no Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Award unless and until such Participant has satisfied all requirements for exercise of the Award pursuant to its terms and no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions of other rights for which the record date is prior to the date such Common Stock certificate is issued, except as provided in **Section 11** hereof.

- iii. No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (a) the employment of an Employee with or without notice and with or without Cause or (b) the service of a Director pursuant to the By-laws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

- iv. Transfer; Approved Leave of Absence. For purposes of the Plan, no termination of employment by an Employee shall be deemed to result from either (a) a transfer of employment to the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another, or (b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the Employee's right to reemployment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing, in either case, except to the extent inconsistent with Section 409A of the Code if the applicable Award is subject thereto.

- v. Withholding Obligations. To the extent provided by the terms of an Award Agreement and subject to the discretion of the Committee, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, *provided, however*, that no shares of Common Stock are withheld with a value exceeding the maximum marginal income tax rates, including federal, state and local, as applicable; or (c) delivering to the Company previously owned and unencumbered shares of Common Stock of the Company.

11. Adjustments Upon Changes in Stock.

- i. In the event of changes in the outstanding Common Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, an extraordinary corporate transaction such as any recapitalization, reorganization, merger, consolidation, combination, exchange, or other relevant change in capitalization occurring after the Grant Date of any Award, Awards granted under the Plan and any Award Agreements, the exercise price of Options and Stock Appreciation Rights, the maximum number of shares of



Common Stock subject to all Awards stated in **Section 4** and the maximum number of shares of Common Stock with respect to which any one person may be granted Awards during any period stated in **Section 4** and Section 7.4(d)(vi) will be equitably adjusted or substituted, as to the number, price or kind of a share of Common Stock or other consideration subject to such Awards to the extent necessary to preserve the economic intent of such Award. In the case of adjustments made pursuant to this Section 11, unless the Committee specifically determines that such adjustment is in the best interests of the Company or its Affiliates, the Committee shall, in the case of Incentive Stock Options, ensure that any adjustments under this Section 11 will not constitute a modification, extension or renewal of the Incentive Stock Options within the meaning of Section 424(h)(3) of the Code and in the case of Non-qualified Stock Options, ensure that any adjustments under this Section 11 will not constitute a modification of such Non-qualified Stock Options within the meaning of Section 409A of the Code. Any adjustments made under this Section 11 shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. Further, with respect to Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, any adjustments or substitutions will not cause the Company to be denied a tax deduction on account of Section 162(m) of the Code. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

12. Effect of Change in Control.

i. In the event of a Change in Control, the Committee may in its discretion and upon at least 10 days' advance notice to the affected persons, cancel any outstanding Awards and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Awards based upon the price per share of Common Stock received or to be received by other shareholders of the Company in the event. In the case of any Option or Stock Appreciation Right with an exercise price (or SAR Exercise Price in the case of a Stock Appreciation Right) that equals or exceeds the price paid for a share of Common Stock in connection with the Change in Control, the Committee may cancel the Option or Stock Appreciation Right without the payment of consideration therefor.

ii. The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its Affiliates, taken as a whole.

13. Amendment of the Plan and Awards.

i. Amendment of Plan. The Board at any time, and from time to time, may amend or terminate the Plan. However, except as provided in **Section 11** relating to adjustments upon changes in Common Stock and **Section 13.3**, no amendment shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy any Applicable Laws. At the time of such amendment, the Board shall determine, upon advice from counsel, whether such amendment will be contingent on shareholder approval.

ii. Shareholder Approval. The Board may, in its sole discretion, submit any other amendment to the Plan for shareholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

iii. Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees, Consultants and Directors with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options or to the nonqualified deferred compensation provisions of Section 409A of the Code and/or to bring the Plan and/or Awards granted under it into compliance therewith.

iv. No Adverse Affect. Rights under any Award granted before amendment of the Plan shall not be adversely affected by any amendment of the Plan unless (a) the Company requests the consent of the Participant and (b) the Participant consents in writing.

v. Amendment of Awards. The Committee at any time, and from time to time, may amend the terms of any one or more Awards; *provided*, however, that the Committee may not adversely affect any material rights under any Award unless (a) the Company requests the consent of the Participant and (b) the Participant consents in writing.

14. General Provisions.

i. Forfeiture Events. The Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in the Award Agreement or otherwise applicable to the Participant, a termination of the Participant's Continuous Service for Cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates.

ii. Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

iii. Other Compensation Arrangements. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

iv. Sub-plans. The Committee may from time to time establish sub-plans under the Plan for purposes of satisfying blue sky, securities, tax or other laws of various jurisdictions in which the Company intends to grant Awards. Any sub-plans shall contain such limitations and other terms and conditions as the Committee determines are necessary or desirable. All sub-plans shall be deemed a part of the Plan, but each sub-plan shall apply only to the Participants in the jurisdiction for which the sub-plan was designed.

v. Unfunded Plan. The Plan shall be unfunded. Neither the Company, the Board nor the Committee shall be required to establish any special or separate fund or to segregate any assets to assure the performance of its obligations under the Plan.

vi. Recapitalizations. Each Award Agreement shall contain provisions required to reflect the provisions of Section 11.

vii. Delivery. Upon exercise of a right granted under this Plan, the Company shall issue Common Stock or pay any amounts due within a reasonable period of time thereafter. Subject to any statutory or regulatory obligations the Company may otherwise have, for purposes of this Plan, 30 days shall be considered a reasonable period of time.

viii. No Fractional Shares. No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan. The Committee shall determine whether cash, additional Awards or other securities or property shall be issued or paid in lieu of fractional shares of Common Stock or whether any fractional shares should be rounded, forfeited or otherwise eliminated.

ix. Other Provisions. The Award Agreements authorized under the Plan may contain such other provisions not inconsistent with this Plan, including, without limitation, restrictions upon the exercise of the Awards, as the Committee may deem advisable.

x. Section 409A. The Plan is intended to comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance therewith. Any payments described in the Plan that are due within the "short-term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless Applicable Laws require otherwise. Notwithstanding anything to the contrary in the Plan, to the extent required to avoid accelerated taxation and tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6) month period immediately following the Participant's termination of Continuous Service shall instead be paid on the first payroll date after the six-month anniversary of the Participant's separation from service (or the Participant's death, if earlier). Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Participant under Section 409A of the Code and neither the Company nor the Committee will have any liability to any Participant for such tax or penalty.

xi. Disqualifying Dispositions. Any Participant who shall make a "disposition" (as defined in Section 424 of the Code) of all or any portion of shares of Common Stock acquired upon exercise of an Incentive Stock Option within two years from the Grant Date of such Incentive Stock Option or within one year after the issuance of the shares of Common Stock

acquired upon exercise of such Incentive Stock Option (a "**Disqualifying Disposition**") shall be required to immediately advise the Company in writing as to the occurrence of the sale and the price realized upon the sale of such shares of Common Stock.

xii. Section 16. It is the intent of the Company that the Plan satisfy, and be interpreted in a manner that satisfies, the applicable requirements of Rule 16b-3 as promulgated under Section 16 of the Exchange Act so that Participants will be entitled to the benefit of Rule 16b-3, or any other rule promulgated under Section 16 of the Exchange Act, and will not be subject to short-swing liability under Section 16 of the Exchange Act. Accordingly, if the operation of any provision of the Plan would conflict with the intent expressed in this Section 14.13, such provision to the extent possible shall be interpreted and/or deemed amended so as to avoid such conflict.

xiii. Section 162(m). To the extent the Committee issues any Award that is intended to be exempt from the deduction limitation of Section 162(m) of the Code, the Committee may, without shareholder or grantee approval, amend the Plan or the relevant Award Agreement retroactively or prospectively to the extent it determines necessary in order to comply with any subsequent clarification of Section 162(m) of the Code required to preserve the Company's federal income tax deduction for compensation paid pursuant to any such Award.

xiv. Beneficiary Designation. Each Participant under the Plan may from time to time name any beneficiary or beneficiaries by whom any right under the Plan is to be exercised in case of such Participant's death. Each designation will revoke all prior designations by the same Participant, shall be in a form reasonably prescribed by the Committee and shall be effective only when filed by the Participant in writing with the Company during the Participant's lifetime.

xv. Expenses. The costs of administering the Plan shall be paid by the Company.

xvi. Severability. If any of the provisions of the Plan or any Award Agreement is held to be invalid, illegal or unenforceable, whether in whole or in part, such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby.

xvii. Plan Headings. The headings in the Plan are for purposes of convenience only and are not intended to define or limit the construction of the provisions hereof.

xviii. Non-Uniform Treatment. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who are eligible to receive, or actually receive, Awards. Without limiting the generality of the foregoing, the Committee shall be entitled to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award Agreements.

15. Effective Date of Plan.

i. The Plan shall become effective as of the Effective Date, but no Award shall be exercised (or, in the case of a stock Award, shall be granted) unless and until the Plan has been approved by the shareholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

16. Termination or Suspension of the Plan.

i. The Plan shall terminate automatically on the tenth anniversary of the date on which shareholders approve the Plan. No Award shall be granted pursuant to the Plan after such date, but Awards theretofore granted may extend beyond that date. The Board may suspend or terminate the Plan at any earlier date pursuant to Section 13.1 hereof. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated. Unless the Company determines to submit Section 7.4 of the Plan and the definition of "Performance Goal" and "Performance Criteria" to the Company's shareholders at the first shareholder meeting that occurs in the fifth year following the year in which the Plan was last approved by shareholders (or any earlier meeting designated by the Board), in accordance with the requirements of Section 162(m) of the Code, and such shareholder approval is obtained, then no further Performance Compensation Awards shall be made to Covered Employees under Section 7.4 after the date of such annual meeting, but the Plan may continue in effect for Awards to Participants not in accordance with Section 162(m) of the Code.

17. Choice of Law.

i. The law of the State of Nevada shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of law rules.

As adopted by the Board of Directors of Evolution Petroleum Corporation on October 25, 2016 and amended on December 1, 2016.

As approved by the shareholders of Evolution Petroleum Corporation on December 8, 2016.

## CERTIFICATION

I, Randall D. Keys, Chief Executive Officer of Evolution Petroleum Corporation, certify that:

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

Date: February 8, 2017

/s / RANDALL D. KEYS

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Randall D. Keys  
Chief Executive Officer

## CERTIFICATION

I, David Joe, 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: February 8, 2017

/s / DAVID JOE

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David Joe  
Chief Financial Officer

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

The undersigned, Randall D. Keys, Chief Executive Officer of Evolution Petroleum Corporation (the "Company"), certifies in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 (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 8<sup>th</sup> day of February, 2017.

/s/ RANDALL D. KEYS

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Randall D. Keys

Chief Executive Officer

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

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

The undersigned, David Joe, 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 December 31, 2016 (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 8<sup>th</sup> day of February, 2017.

/s / DAVID JOE

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David Joe  
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.