

**EVOLUTION PETROLEUM CORPORATION**  
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FOR IMMEDIATE RELEASE

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**Evolution Reports Third Quarter and Nine Month Fiscal 2007 Financial Results**

**Houston, TX**, May 16, 2007. Evolution Petroleum Corporation (AMEX: EPM), announced today that operating revenue and interest income sources increased 7% to \$950,407 for the three months ended March 31, 2007 as compared to \$886,228 for the comparable quarter in 2006. For the nine month period operating revenue and interest income sources increased 26% to \$2,880,989 from \$2,293,939 in the nine month period of fiscal 2006.

Evolution's net loss in fiscal third quarter 2007 decreased 34% to \$454,585, including \$376,008 of non-cash stock compensation expense, or (\$0.02) per share based on 26.7 million weighted average shares outstanding. This compares to a net loss of \$608,132 including \$112,034 of non-cash stock compensation expense, or (\$0.02) per share based on 25.0 million weighted average shares outstanding for the comparable three month period in 2006. The improvement in the net loss was primarily attributable to a significant increase in interest income to \$487,456 and no interest expense in the current three month period, as compared to \$7,626 of interest income and \$221,694 of interest expense in the comparable 2006 three month period. The improvement was partially offset by additional stock based compensation expense resulting from the adoption SFAS 123(R) in the current period.

The net loss for the nine month period in fiscal 2007 decreased 32% to \$1,336,279 or (\$0.05) per share, including \$1,237,485 of non-cash stock compensation expense. This compares to \$1,950,074 or (\$0.08) per share, including \$381,385 of non-cash stock compensation expense in the comparable nine month period of fiscal 2006. The improvement in the net loss was primarily attributable to a significant increase in interest income to \$1,521,570 and no interest expense in

the current nine month period, as compared to \$41,517 of interest income and \$634,388 of interest expense in the comparable 2006 nine month period. The improvement was partially offset by additional stock based compensation expense resulting from the adoption of SFAS 123(R) in the current period.

At March 31, 2007, the Company had more than \$32 million in cash and no debt, other than the remaining \$4.8 million income tax obligation resulting from the sale of the Delhi Farmout in 2006.

Robert Herlin, President and Chief Executive Officer of Evolution Petroleum, commented, “We are expanding our focus into new development drilling projects, while our Delhi CO2 flood project progresses on schedule. During the last quarter, we began to expend capital to lease development drilling locations within our bypassed resource initiative and, late last month, our Board of Directors also authorized us to proceed with leasehold acquisitions in unconventional resource projects that we believe are very attractive.” He further commented, “We are being very selective in redeploying the substantial cash proceeds from our Delhi farm-out. Our objective is to seed a number of attractive, high potential projects and take them to a lower risk stage appropriate for large scale outside financing, with minimal dilution to our shareholders.”

#### **OPERATIONS UPDATE:**

The operator of Evolution’s planned CO2-EOR project at its 13,626 acre Delhi Holt Bryant Unit has stated that the CO2 supply line to Delhi is underway through right-of-way purchases and that they believe that CO2 injection will commence in 2008. The Company believes that production response to CO2 injection should occur shortly thereafter.

Evolution currently has seven development projects underway. Five are Initiative II bypassed resource projects, targeting development drilling locations offsetting substantial historic production, and two are Initiative III unconventional gas resource projects. During fiscal 2007, the Company expended approximately \$295,000 on leasehold acquisition costs on these projects, of which 90% occurred in the recent quarter and essentially all of which was spent on the bypassed resource projects. Evolution has engaged four land brokerage groups to lease the parcels required to establish each drilling unit. The Company expects to begin development drilling before the end of 2007.

Evolution also has implemented an Initiative II capital program in the Tullos Field, aimed at

capturing bypassed oil reserves utilizing recently developed completion technology. The Company initially planned to test the technology by re-entering one existing shut-in well with casing sufficiently large to accommodate the test equipment, but the condition of the well casing was not adequate. The Company now plans to test the technology on a newly drilled well. If successful, the Company envisions broad applications for this method across Tullos and other oil fields with similar formation and production characteristics.

The Company is also moving ahead with its Initiative III unconventional gas resource plays through leasehold acquisitions in two project areas. These major projects require the acquisition of large, fairly contiguous land parcels and a longer time period of development, but represent substantial opportunities for Evolution.

### **Operating Highlights - Third Quarter Fiscal 2007 versus 2006**

- Sales Volumes:
  - Oil (bbls) – 7,164 versus 14,496 in comparable period of 2006
  - Gas (Mcf) – 0 versus 10,003 in comparable period of 2006
- Average Realized Prices (including price risk activities):
  - Oil – \$64.62 versus \$54.83
  - Gas - \$0 versus \$8.37

### **FISCAL THIRD QUARTER 2007 REVIEW**

#### **Revenue**

Oil and gas revenues for the third quarter of fiscal 2007 decreased 47% to \$462,951 from \$878,602 for the third quarter of fiscal 2006. This decrease was primarily due to a 56% decrease in total production reflecting both the sale of the Delhi Farmout and an 18% decline in production from the Tullos Field. In the current quarter, production in the Tullos Area was curtailed due to three saltwater disposal wells temporarily shut down for casing leaks and high surface water caused by heavy rain in the area. The decrease in production was offset by a 18% increase in net realized oil prices from approximately \$55 per barrel in the third quarter fiscal 2006, to approximately \$65 per barrel in the third quarter of fiscal 2007.

#### **Costs and Expenses**

Lease operating expenses (including production severance taxes) of \$414,365 were approximately 24% lower than the third quarter of fiscal 2006 and reflect fewer wells operated due to sale of the Delhi Farm-out. On a barrel of oil equivalent (BOE) basis, lease operating expenses increased during the quarter by 71% over the same period in the prior year, primarily

due to lower oil production at the Tullos Field area, higher costs for oil field services, and sale of lower operating cost production from the Delhi Field.

General and administrative expenses were \$934,055 for the third quarter of fiscal 2007 as compared to \$593,271 in the third quarter of fiscal 2006. Higher non-cash stock compensation expense resulting from the adoption of SFAS 123(R) during the current quarter was primarily responsible for the increase, in addition to the cost of additional staff brought on to implement ongoing development projects. Non-cash stock compensation expense was approximately \$376,000 in the third fiscal quarter of 2007 as compared to \$112,000 for the same period in the prior year, again due mostly to our adoption of SFAS 123(R) and added staff.

#### **Other Income and Expense**

For the quarter ended March 31, 2007, interest income was \$487,456 as compared to interest income of approximately \$8,000 for the comparable period fiscal 2006. The increase in interest income was due to our substantial short-term investments in the amount of approximately \$40 million and absence of funded debt, as compared to cash of less than \$250,000 available for investment in the prior comparable quarter and about \$5 million face value of funded debt. The Company had no funded debt and, therefore, no interest costs in the current quarter, as compared to \$221,694 in the comparable 2006 quarter.

#### **About Evolution Petroleum**

Evolution Petroleum Corporation (<http://www.evolutionpetroleum.com>) acquires mature oil and gas resources and applies conventional and specialized technology to accelerate production and develop incremental reserves and value. The Company currently owns 7.4% in overriding royalty interests and a 25% reversionary working interest in the 13,636 acre Delhi Field Holt Bryant Unit, a 25% working interest in certain other depths in the Delhi Field and 100% working interests in smaller fields, all located onshore in Louisiana. Having already produced 190 million barrels of oil through primary and secondary recovery methods, the Delhi Holt Bryant Unit is scheduled for redevelopment using CO2 enhanced oil recovery technology. The Company is actively engaged in other development projects.

Additional information, including the Company's annual report on Form 10-KSB for fiscal 2006 and its quarterly reports on Form 10-QSB can be accessed on its website at [www.evolutionpetroleum.com](http://www.evolutionpetroleum.com).

#### **Safe Harbor Statement**

All statements contained in this press release regarding potential results and future plans and objectives of the Company are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update or review any forward-looking statement, whether as a result of new information, future events, or otherwise. Important factors that could cause actual results to differ materially from our expectations

include, but are not limited to, those factors that are disclosed under the heading "Risk Factors" and elsewhere in our documents filed from time to time with the United States Securities and Exchange Commission and other regulatory authorities. Statements regarding our ability to complete transactions, successfully apply technology applications in the re-development of oil and gas fields, realize future production volumes, realize success in our drilling and development activity, prices, future revenues and income and cash flows and other statements that are not historical facts contain predictions, estimates and other forward- looking statements. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved and these statements will prove to be accurate. Important factors could cause actual results to differ materially from those included in the forward-looking statements.

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**EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES**  
**Condensed Consolidated Income Statement**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Oil sales	\$ 462,951	\$ 801,036
Gas sales	-	83,730
Price risk management activities	-	(6,164)
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Total revenues	462,951	878,602
<b>Operating Costs:</b>		
Production expenses	400,408	506,093
Production taxes	13,957	40,936
Depreciation, depletion and amortization	56,572	132,366
General and administrative	<u>934,055</u>	<u>593,271</u>
Total operating costs	1,404,992	1,272,666
<b>Loss from operations</b>	(942,041)	(394,064)
<b>Other income and expense:</b>		
Interest income	487,456	7,626
Interest expense	-	(221,694)
Gain/(loss) on sale of assets	-	-
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Total other income and expense	487,456	(214,068)
	-	-
<b>Net loss</b>	\$ <u>(454,585)</u>	\$ <u>(608,132)</u>
<b>Net loss per common share</b>		
Basic and Diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares</b>		
Basic and Diluted	<u>26,720,444</u>	<u>25,309,557</u>

**EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES**  
**Condensed Consolidated Income Statement**  
**(Unaudited)**

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

	Nine Months Ended	
	March 31,	
	2007	2006
<b>Revenues:</b>		
Oil sales	\$ 1,358,433	\$ 1,844,870
Gas sales	0	420,618
Price risk management activities	(14)	(13,066)
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Total revenues	1,358,419	2,252,422
<b>Operating Costs:</b>		
Production expenses	1,052,001	1,368,967
Production taxes	44,260	76,956
Depreciation, depletion and amortization	164,793	324,047
General and administrative	2,933,761	1,839,655
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Total operating costs	4,194,815	3,609,625
<b>Loss from operations</b>	(2,836,396)	(1,357,203)
<b>Other income and expense:</b>		
Interest income	1,521,570	41,517
Interest expense	0	(634,388)
Gain/(loss) on sale of assets	(21,453)	-
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Total other income and expense	1,500,117	(592,871)
<b>Net loss</b>	\$ (1,336,279)	\$ (1,950,074)
<b>Net loss per common share</b>		
Basic and Diluted	\$ (0.05)	\$ (0.08)
<b>Weighted average number of common shares</b>		
Basic and Diluted	26,685,612	24,864,403

**EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**

	<b>March 31, 2007</b>	<b>June 30, 2006</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 32,273,816	\$ 9,893,547
Accounts receivable, trade	168,797	132,371
Inventories	219,518	76,917
Prepaid expenses	112,797	157,629
Retainers and deposits	106,625	60,895
Total current assets	32,881,553	10,321,359
Cash in qualified intermediary account for "like-kind" exchanges	-	34,662,368
Oil & Gas properties - full cost	4,093,446	3,878,551
Oil & Gas properties - not amortized	344,989	52,098
Less: accumulated depletion	(531,374)	(371,624)
Net oil & gas properties	3,907,061	3,559,025
Furniture, fixtures and equipment, at cost	86,874	16,561
Less: accumulated depreciation	(13,041)	(7,998)
Net furniture, fixtures, and equipment	73,833	8,563
Restricted deposits	301,835	326,835
Other assets	75,116	79,808
<b>Total assets</b>	<b>\$ 37,239,398</b>	<b>\$ 48,957,958</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 302,839	\$ 310,272
Accrued liabilities	152,725	473,782
Income taxes payable	4,820,000	2,978,650
Royalties payable	6,713	47,054
Total current liabilities	5,282,277	3,809,758
<b>Long term liabilities:</b>		
Deferred income taxes payable	-	13,101,350
Deferred rent payable	11,822	-
Asset retirement obligations	136,453	123,679
Total liabilities	5,430,552	17,034,787
<b>Common Stock, totaling 351,333 shares subject to demand registration rights</b>	<b>790,500</b>	<b>790,500</b>
<b>Stockholders' equity:</b>		
Common Stock, par value \$0.001 per share; 100,000,000 shares authorized, 26,407,906 and 26,300,664, issued and outstanding as of March 31, 2007 and June 30, 2006, respectively, net of 351,333 shares of common stock subject to demand registration rights	26,408	26,300
Additional paid-in capital	11,311,427	10,274,555
Deferred stock based compensation	(80,194)	(265,167)
Retained earnings	19,760,705	21,096,983
Total stockholders' equity	31,018,346	31,132,671
<b>Total liabilities and stockholders' equity</b>	<b>\$ 37,239,398</b>	<b>\$ 48,957,958</b>

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