EVOLUTION PETROLEUM (NYSE: EPM)

Acquisitions Add Scale to Support Growth

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Jeff Robertson

Natural Resources

jeff@watertowerresearch.com

+1 (469) 343 9962

KEY POINTS

- Evolution's business is built on two pillars: I) delivering a consistent sustainable dividend to shareholders, and II) maintaining a balance sheet with low leverage. To execute the strategy, management focuses on acquiring non-operated oil and natural gas assets characterized by mature long-lived production profiles that generate excess cash flow above reinvestment requirements.
- Recent acquisitions in the Williston Basin and Jonah Field put Evolution on a growth path heading into fiscal-year 2023 (FY23). The two recent asset purchases combined with the May 2021 acquisition of Barnett Shale assets provide scale and increased diversity of commodity, producing area, and operator.
- The pro forma asset base consists of 37.3 MMBOE of proved reserves (76% proved developed, 61% liquids). Pro forma production for 1HFY22 was ~8.0 MBOE/d compared to actual 1HFY22 production of 5.4 MBOE/d. With the addition of Jonah Field, the pro forma liquids/natural gas production mix is 38%/62%.
- The Williston Basin acquisition adds a key growth element through the addition of ~400 gross development drilling locations targeting the Pronghorn/Three Forks formations. A joint development agreement allows Evolution to propose drilling new wells to opportunistically augment its production profile.
- Evolution is trading at 3.6x our FY23 EBITDAX estimates, which include a full-year contribution from the Williston Basin and Jonah Field assets. At current strip pricing, our estimates suggest Evolution could reduce outstanding borrowings to zero in FY23, providing capacity for incremental accretive acquisitions.
- With 3QFY22 (ended March 31,2022), the quarterly dividend was restored to $0.10/share. The current yield is 6.0%. Evolution's value proposition combines income with future growth potential.

KEY STATISTICS

Price	$6.62
52-Week Range	$3.28 - $8.17
Avg. Daily Vol. (30 day)	192,365
Shares Out (MM)	33.7
Market Cap ($MM)	$223.0
Enterprise Value ($MM)	$213.4
Revenue TTM ($MM)	$62.6
Annual Dividend / Yield	$0.40/6.0%
Fiscal Year End	June

Source: YCharts, as of April 28, 2022

COMPANY OVERVIEW

Evolution Petroleum Corporation is an oil and natural gas company focused on delivering a sustainable dividend yield to its shareholders through the ownership, management, and development of producing oil and natural gas properties onshore in the United States. The company's long-term goal is to build a diversified portfolio of oil and natural gas assets primarily through acquisition, while seeking opportunities to maintain and increase production through selective development, production enhancement, and other exploitation efforts on its properties.

Evolution's asset base consists of a diverse mix of producing assets across five operating areas. The company owns non-operated interests in the Barnett Shale in North Texas, Jonah Field in Wyoming's Green River Basin, Delhi Field, a CO_2 enhanced oil recovery project in northeast Louisiana, North Dakota's Williston Basin, and Hamilton Dome in Wyoming's Big Horn Basin. Evolution closed its latest property acquisition, non-operated properties in the Jonah field, on April 1, 2022 for $27.5 million. The company's homepage is www.evolutionpetroleum.com.

A FOUNDATION TO SUPPORT A CONSISTENT DIVIDEND

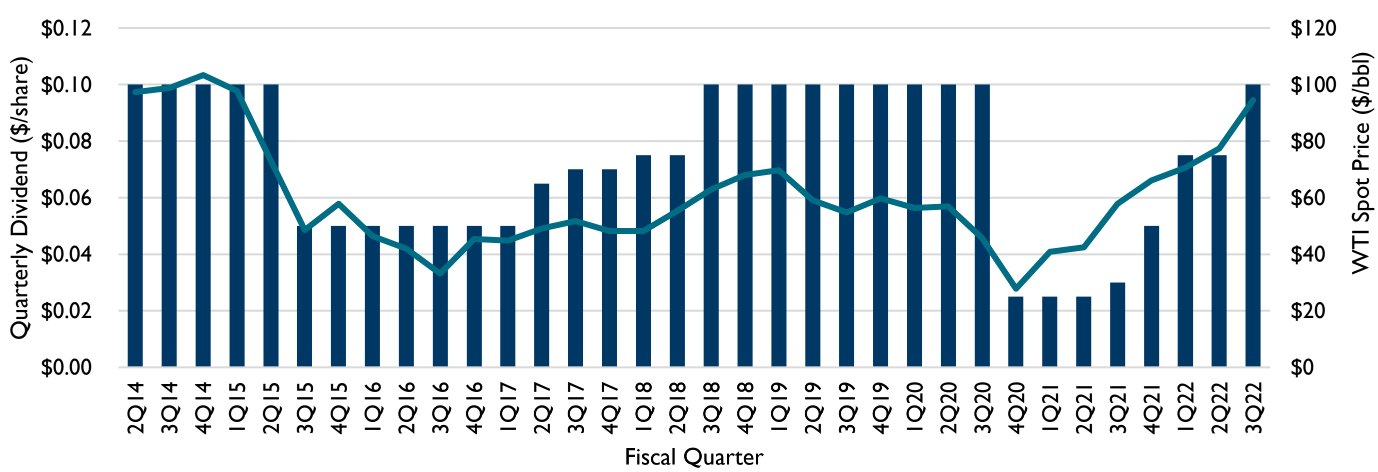
Evolution's business model is built around two core concepts. First, the company is committed to returning capital to shareholders through a sustainable dividend. Evolution has paid a dividend for 34 consecutive quarters, declaring its first payout in the December quarter of fiscal year 2014. The most recent dividend paid on March 31, 2022 was returned to the pre-pandemic level of $0.10 per share (see Figure 1). Dividend reductions in fiscal years 2015 and 2020 were in response to significant downdrafts in the oil markets. As Figure 1 shows, the dividend was restored to prior levels as oil prices recovered.

Management has assembled an asset base geared to deliver on the goal of sustainable cash returns to shareholders. Evolution concentrates on long-lived, mature, non-operated property acquisition opportunities. A desirable asset is one with a well-established predictable production profile requiring limited maintenance capital and providing free cash flow visibility to support future dividends.

Management seeks a balance reinvesting cash flow into a combination of producing-property acquisitions and development drilling opportunities. and distributing cash flow to shareholders through dividends and, occasionally, buybacks. Management targets a dividend payout ratio of less than 50%–60% of free cash flow over a multi-year period. Since the capital return plan was adopted in 4QFY14, Evolution has returned ~$88 million to shareholders through dividends and buybacks.

The second core concept, which is imperative to support the first, is to maintain a strong balance sheet with a targeted leverage ratio of <1.0x annualized EBITDA. To execute the model, the management team is building an asset base of long-life, mature, producing properties that generate free cash flow above minimal capital expenditure requirements aimed at flattening the natural decline.

Figure 1: Dividend History



Source: Company reports

Evolution was founded in 2003 and went public in 2004 as Natural Gas Systems. Until 2019, the company's sole producing asset was a non-operated interest in the Delhi Field in northeast Louisiana. Delhi is a CO_2 enhanced oil recovery project operated by a subsidiary of Denbury Inc. Delhi is emblematic of the type of assets that fit Evolution's model. It has a long predictable production profile with minimal capital requirements that provides cash flow visibility to support the dividend.

Evolution began to transform from a one-asset company in 2019. Management recognized the need to decrease its asset concentration risk as the Delhi Field had become a smaller part of Denbury's asset base, competing for scarce capital as it grappled with a levered balance sheet in a low oil price environment. Since then, Evolution has completed four acquisitions, including two in fiscal 2022 (see Figure 2). In May 2021 (4QFY21), Evolution closed an acquisition of non-operated interests in the Barnett Shale and added substantial volumes of natural gas to the reserve and production mix. Since the beginning of 2022, the company has closed separate acquisitions in the Williston Basin and the Jonah Field. Evolution now owns five assets in five operating areas with five primary operators. The active acquisition pace coincides with Jason Brown (President & CEO) and Ryan Stash (SVP, CFO & Treasurer) taking their roles at the company in 2019 and 2020, respectively.

Figure: 2: Acquisition Summary

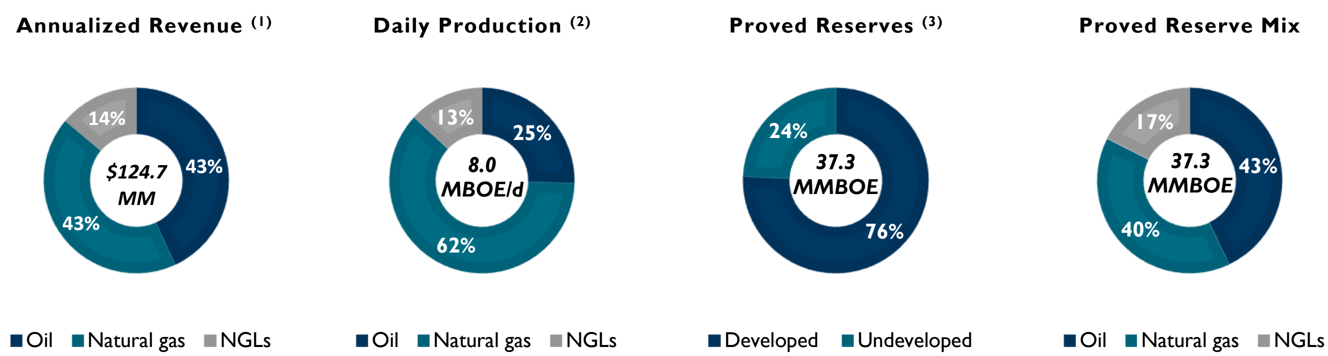
Asset	Evolution	Hamilton Dome	Barnett Shale	Williston Basin	Jonah Field (1)	Evolution
Date announced		11/6/19	3/30/21	1/14/22	2/9/22	FY22E
Acquisition price	-	$9.5 MM	$18.2 MM	$25.9 MM	$27.5 MM	-
Operator	Denbury	Merit Energy Co.	Diversified Energy Co.	Foundation Energy Mgmt.	Jonah Energy LLC	-
1HFY22 Production (BOE/d) (2)	1,231	409	3,630	571	2,141	7,982
Commodity mix (production) (3)	Oil-80% NGL-20%	Oil-100%	Oil-1% Gas-73% NGL-26%	Oil-76% Gas-10% NGL-14%	Oil-6% Gas-88% NGL-6%	Oil-43% Gas-40% NGL-17%
Pro forma proved reserves (MMBOE)	8.2 (3)	1.8 (3)	11.3 (4)	9.7 (5)	6.3 (6)	37.3
Net acreage	~3,600	~620	~21,000	~47,500	~950	~73,670
Working interest / revenue interest	23.9%/26.2%	25.5%/19.7%	17.0%/14.0%	38.7%/32.5%	19.6%/14.9%	-
Average 5-year forward strip at acquisition	n/a	Oil-$51.97 Gas-$2.55	Oil-$51.21 Gas-$2.62	Oil-$68.11 Gas-$3.38	Oil-$73.46 Gas-$3.46	Oil-$82.12 (7) Gas-$4.33 (7)

1) Jonah Field acquisition price of $27.5 million reflects preferential rights exercised and is subject to customary closing adjustment including a deposit of $1.5 million paid at PSA signing. The effective date of the transaction is February 1, 2022 with a closing date of April 1, 2022.
2) Estimated average net production 1HFY22 (six months ended December 31, 2021) excluding 130 BOE/d from past royalties in the Giddings Field that accumulated over a period of approximately three years and were received in 2QFY22..
3) Evolution reserves as of July 1, 2021 using June 30, 2021 SEC prices of $49.72/bbl for oil and $2.47/MMBtu for natural gas, less 1HFY22 production.
4) Barnett Shale reserves as of July 1, 2021 using June 31, 2021 SEC prices of $49.72/bbl for oil and $2.47/MMBtu for natural gas less 1HFY22 production. Barnett Shale proved reserves have been adjusted by Evolution for ethane rejection, which is expected to continue for the foreseeable future.
5) Williston Basin reserves engineered by Evolution as of January 1, 2022 using December 31, 2021 SEC prices of $66.55/bbl for oil and $3.64/MMBtu for natural gas.
6) Jonah Field reserves engineered by Evolution as of February 1, 2022 using December 31, 2021 SEC prices of $66.55/bbl for oil and $3.64/MMBtu for natural gas.
7) Strip pricing as of April 4, 2022

Source: Evolution Petroleum April 2022 Corporate Presentations

The Barnett Shale, Williston Basin, and Jonah Field acquisitions have added scale and balance to Evolution's asset base (see Figure 3). Pro forma proved reserves, for the impact of the Williston Basin and Jonah Field assets, are 37.3 MMBOE, up 67% from 22.3 MMBOE at FYE21. The FYE21 reserves included the Barnett Shale assets and were adjusted by management for the expectation that ethane rejection across the North Texas assets will continue for the foreseeable future. Pro forma daily production of 8.0 MBOE/d compares to 2QFY22 actual output of ~5.0 MBOE/d of production and the annualized 2QFY22 revenue of $125 million versus actual annualized 2QFY22 revenue of $89 million. The asset base now has more balance across reserve categories. Management estimates that the Williston Basin acquisition added ~400 gross undeveloped drilling locations. Evolution could direct some portion of capital to drilling new wells to manage the production profile and augment ongoing acquisition efforts.

Figure 3: Pro Forma Profile



1) Pro forma revenue is October 2021 through December 2021 including the Williston Basin and Jonah Field acquisitions as if they had been owned during that time.

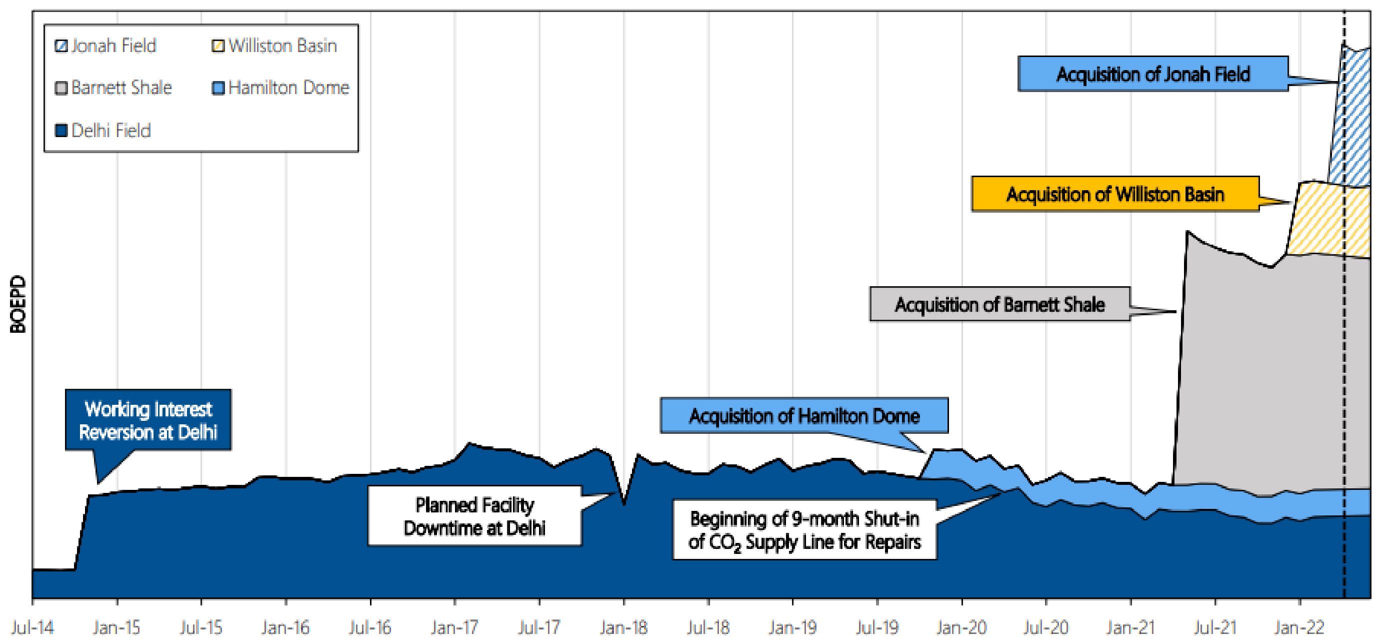
2) Estimated average net production for six months ended December 31, 2021 excluding 130 BOE/d associated with the Giddings Field accumulated royalties received in 2Q FY2022. Pro forma daily production includes the Williston Basin and Jonah Field acquisitions.

3) Evolution proved reserves as of July 1, 2021 using June 30, 2021 SEC prices less 1H FY2022 production. Evolution adjusted Barnett Shale reserves for ethane rejection. Williston Basin reserves engineered by Evolution as of January 1, 2022 using December 31, 2021 SEC prices of $3.64/MMBtu for natural gas and $65.55/bbl for oil. Jonah Field reserves engineered by Evolution as of February 1, 2022 using December 31, 2021 SEC prices of $3.64/MMBtu for natural gas and $65.55/bbl for oil.

Source: Company reports

Prior to closing the Barnett Shale acquisition in May 2021, all of Evolution's production and reserves were derived from the Delhi Field and Hamilton Dome. The Barnett Shale contributed 71% of 1QFY22 production and Delhi Field represented 22% of total company production. For FY21, the Delhi Field and Barnett Shale assets represented a combined 84% and 92%, respectively, of annual production and year-end proved reserves. Figure 4 illustrates the pro forma production contribution from the company's five operating areas. The Delhi Field and Barnett Shale now account for 52% of pro forma proved reserves. The Williston Basin and Jonah Field hold 26% and 17%, respectively, of pro forma proved reserves. Diversity across commodity and operators decreases concentration risk and exposes the company to broader markets for its production. The Williston Basin assets diversify the company's reserve categories through the addition of meaningful probable and possible reserves, the conversion of which adds a growth element to the capital program. Having its corporate flag planted in multiple operating areas could also increase Evolution's exposure to asset acquisition opportunities.

Figure 4: Acquisitions Drive Step-Change Production Growth



Source: Company reports. The vertical dashed line represents where projected volumes begin

Asset Base

Jonah Field

Evolution closed an acquisition of non-operated natural gas producing assets in the prolific Jonah Field from Exaro Energy III, LLC on April 1, 2022 for purchase price of $27.5 million. At closing, the purchase was funded with $17 million of borrowings on Evolution's RBL facility and $9.2 million of cash, net of preliminary adjustments and a $1.5 million deposit The assets are 100% proved developed producing and have a natural decline rate below 10%. Natural gas production can access markets in the Pacific Northwest, Southern California, and the Mid Continent. Pricing is based on the Opal, Wyoming hub.

The first well in Jonah Field was drilled in 1939. The field passed through several owners whose attempts to develop commercial reserves were unsuccessful until privately owned McMurry Oil purchased three wells in 1991 and began to build a lease position. The field was commercialized by the completion of the Kern River Pipeline in 1992 and improved hydraulic fracturing techniques to coax natural gas from vertical wells drilled into the Lance formation, a tight-gas sandstone. Thickness of the Lance formation ranges from 3,000 feet to 5,000 feet with a gross-to-net pay ratio of 45%. Jonah Energy acquired its position in the field through the 2014 purchase of interests from Encana and subsequently the purchase of interests from LINN Energy in 2017.

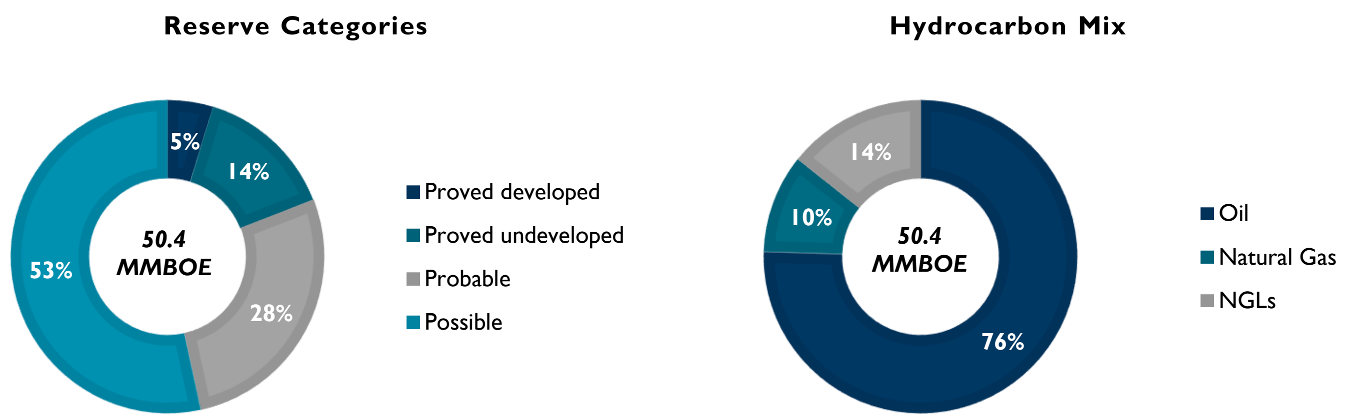
Williston Basin

Evolution closed an acquisition of oil-weighted, non-operated oil and natural gas assts in the Williston basin on January 14, 2022. The company acquired 50% of certain interests from privately-owned Foundation Energy Management for $25.9 million, net of preliminary purchase price adjustments. The purchase price was funded with $16 million of RBL borrowings and $9.9 million of cash. The acquired interests are in Billings, Golden Valley, and McKenzie Counties, North Dakota.

Evolution purchased 50% of Foundation's interest, equating to a ~39% working interest in 73 producing wells. Foundation acquired its stake in the assets from a private seller in October 2021. The transaction includes ~47,500 net acres with an identified inventory of ~440 gross potential drilling locations.

The undeveloped drilling locations add an important upside growth element to Evolution's asset base. Williston Basin proved reserves as of January 1, 2022 were company-estimated at ~9.7 MMBOE and included proved developed reserves of 2.4 MMBOE and 7.4 MMBOE of proved undeveloped reserves. The recognized proved undeveloped reserves consist of 50 gross Pronghorn/Three Forks two-mile horizontal locations. Most of the proved undeveloped locations can be drilled from existing pads and produced through existing infrastructure. Management estimates the drilling and completion costs for a two-mile lateral are ~$7.0–7.5 million per well, and that the IRRs could exceed 50% at prevailing strip pricing on April 4, 2022. Figure 5 highlights the reserve category diversification embedded in the Williston Basin assets. The 3P (proved, probable, and possible) Williston Basin total reserve exposure of 50.4 MMBOE compares to current proved reserves of ~27.6 MMBOE for Evolution's other four operating areas.

Figure 5: Williston Basin Reserve Upside (1)



(1) Williston Basin reserves are engineered by Evolution as of January 1, 2022 using December 31, 2021 SEC pricing of $66.55/bbl for oil and $3.64/MMBtu for natural gas.

Source: Evolution Petroleum Presentation April 2022.

Concurrent with closing the acquisition, Evolution and Foundation entered into a joint development agreement (JDA). The JDA allows Evolution to propose and execute drilling and completion activity on the assets with or without Foundation's financial participation. If one party does not participate in a proposed well, the working interest can be assumed by the other party until 300% payout. The JDA also outlines that following the completion of any new drill well, Foundation will operate the well under COPAS, whether they participate or not. For its part, Evolution could propose a capital program averaging ten gross wells per year. This type of program, layered on top of a natural 10%-12% existing natural field decline, could expose the company to a modicum of organic growth.

Evolution and Foundation have begun to outline a work program to carry through FY23. Low risk recompletions are expected to be executed early in FY23. Permitting is expected to begin in 4QFY22 on several workovers that could be included in the FY23 capital program. The partners are also working to high grade locations in the Three Forks/Pronghorn formation with a goal of spudding their first development well mid-FY23. Evolution expects its net share of capital will be ~$2.1 million through 1HFY23.

Barnett Shale

On May 7, 2021, Evolution acquired non-operated interests in the Barnet Shale play from a wholly-owned subsidiary of Tokyo Gas Americas, Ltd. The assets consist of ~21,000 net acres across nine counties in North Texas. Most of the acreage is concentrated in Hood and Somervell Counties southwest of Fort Worth. The assets are primarily operated by Diversified Energy. Diversified is a Birmingham, Alabama-based company which concentrates on acquiring interests in mature long-lived oil and natural gas assets. Diversified acquired the operated interest from Blackbeard Operating LLC in July, 2021.

The Barnett Shale was the original shale gas resource play. Horizontal drilling and improved completion techniques kicked off aggressive development of the play in 1998. Most of the horizontal wells Evolution owns interests in were completed between 2007 and 2010. The wells primarily produce natural gas and associated NGLs sold into Gulf Coast markets. Proved reserves as of FYE21 (June 30) were ~13.1 MMBOE. High natural gas prices have led Diversified to operate the field in ethane rejection (leaving ethane in the gas stream to enhance the BTU content and, therefore, received pricing). To reflect ethane rejection for the foreseeable future under current gas market conditions, Evolution shifted ethane to natural gas from the NGLs category. The result is a reduction in estimated proved reserves to ~12.0 MMBOE (73% natural gas); however, ethane rejection is expected to improve gas pricing and overall field margins. Fully 100% of the proved reserves are in the developed category.

The Barnett Shale capital program consists of well workovers, returning idle wells to production, and upgrades to the field saltwater disposal system. Since fall 2021, 25 workovers added ~2.9 MMcf/d of incremental gross gas production. The workover average payout of the projects, which were completed ~38% under budget, was ~1.5 months. A further 20 wells were returned to sales, adding ~2.65 MMcf/d of gross incremental production. Management expects 1HFY23 capital outlays will approximate $0.5 million.

Hamilton Dome

Evolution acquired a non-operated interest in the Hamilton Dome Field on November 1, 2019 from Merit Energy. Merit owns most of the remaining working interest in the field. Hamilton Dome is in the southwest portion of the Big Horn Basin in northwest Wyoming. Evolution owns a 23.5% working interest (19.7% net revenue interest, including a minor overriding royalty interest) in a ~3,160 acre field unit. The field was discovered in 1918 and has produced more than 160 MMbbls of oil.

Merit has operated Hamilton Dome since 1995. Merit is a large private oil and gas operator focused on acquiring, operating, and developing mature oil and natural gas assets. Oil is recovered from the field through a waterflood relying on a combination of electric submersible pumps and rod pumps. Capital projects include well workovers to repair pumps, perform injector acid jobs, and wellbore cleanouts. The field produces from the Tensleep and Phosphoria formations at depths of ~3,000 feet. Oil pricing is tied to the Western Canadian Select reference pricing.

Capital projects at Hamilton Dome include well workovers, consolidation of tank batteries, and identifying production potential that could be added through recompletions into shallower zones. Tank battery consolidation would allow for the installation of a vapor recovery system to reduce emissions below State and Federal standards. Management expects 1HFY23 capital outlays will be ~$1.2 million.

Delhi Field

The Delhi Field, located in northeast Louisiana, was Evolution's foundational asset until 2019. The company owns a 23.9% working interest and a 7.2% royalty interest with a total net revenue interest of 26.2%. The field was discovered in the mid-1940s and produced ~195 MMbbls of oil through primary and limited secondary recovery operations. The current operator, a subsidiary of Denbury Inc., installed an enhanced oil recovery (EOR) project using CO_2 to recover incremental oil. Since EOR production commenced in March 2012, the field has produced >23 MMbbls of oil. Evolution's total proved reserves in the Delhi Field were 8.5 MMBOE at FYE21. Proved undeveloped reserves were 1.8 MMBOE which could be recovered with additional CO_2 injection.

Denbury has initiated a capital program to install three new heat exchangers at the Delhi Central Facility to increase operational efficiency in the field. The exchangers will allow for improved management of CO_2 temperatures, which will help increase CO_2 injection rates in the summer months and reduce the risk of winter downtime. The upgrade is also expected to lower lease operating costs. Evolution's net share of the project is estimated to be $1.2 million, $0.1 million of which should be spend in FY22. The balance of the spending is expected in 1HFY23. The new exchangers are expected to come into service in 3QFY23.

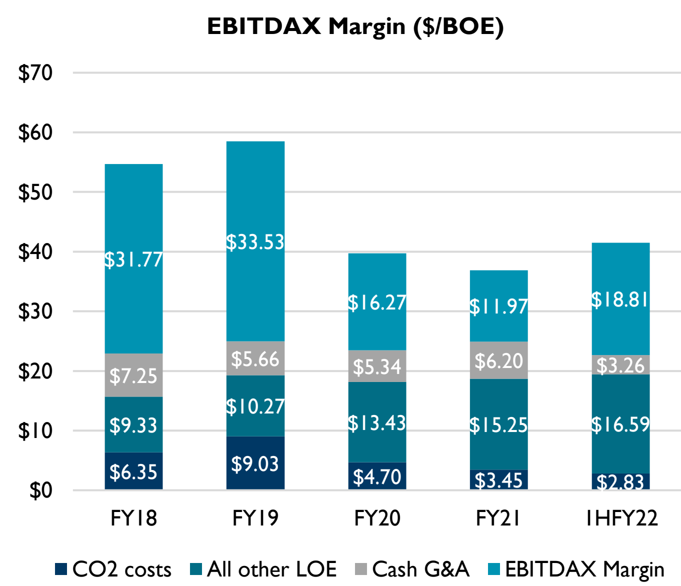
FINANCIAL IMPACT

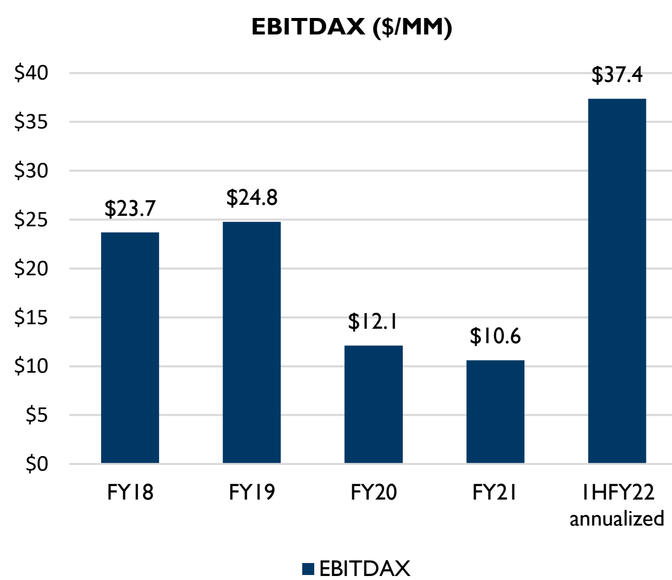
Acquisitions Improve Margins

The impact of the Barnett Shale, Williston Basin, and Jonah Field acquisitions is felt on Evolution's cost structure and margin profile (see Figure 6). For the first half of FY22, Evolution's EBITDA margin averaged $18.81/BOE. Adding volumes from the non-operated property acquisition in the Barnett shale contributed to a reduction in cash general and administrative expense of $2.83/BOE compared to the FY21 average of $3.45. Delhi Field volumes represented 23% of 1HFY22 total company production compared to 77% in 3QFY21 before the Barnett Shale assets were added to the company's commodity mix. Delhi CO_2 costs, which are tied to oil prices, have declined as a share of total lease operating expenses. The increase in other lease operating expense reflects a pickup in workover expenses to enhance production in a higher price environment.

Annualized EBITDA for 1HFY22 was $37.4 million. The increase compared to pre-pandemic levels in FY19 is attributed to the addition of the Barnett Shale assets in May 2021 coupled with a stronger gas price environment. Management estimates pro forma 1HFY21 EBITDA was ~$62 million, including the impact of the Williston Basin and Jonah Field assets.

Figure 6: EBITDAX Margin and Annualized EBITDAX





Source: Company reports and Water Tower Research estimates

EBITDAX Estimates and Valuation

Our summary EBITDAX model and valuation are shown in Figures 7 and 8, respectively. We estimate FY22 EBITDAX of $48.9 million assuming a full-year production average of 5,685 BOE/d. Our estimates layer in a contribution from the Williston Basin assets beginning mid-January 2022 and a contribution from the Jonah Field assets from April 1, 2022. We have formulated FY23 EBITDAX estimates based on 6.952 BOE/d of production.

Figure 7: Summary EBITDAX Model ($000s)

	3QFY21A	4QFY21A	1QFY22A	2QFY22A	3QFY22E	4QFY22E	FY21E*	FY22E*	FY23E*
Production									
Oil (b/d)	1,469	1,498	1,456	1,636	1,750	1,825	1,520	1,666	1,875
Natural gas (Mcf/d)	1	10,585	16,047	19,816	19,850	29,000	2,640	21,164	29,500
NGLs (b/d)	239	1,116	1,713	18	75	150	470	492	160
Total (BOE/d)	1,708	4,378	5,843	4,957	5,133	6,808	2,430	5,685	6,952
Product Pricing									
NYMEX Reference									
WTI Oil ($/bbl)	$57.84	$66.07	$70.56	$77.36	$94.29	$100.00	$51.87	$85.55	$91.25
Natural gas ($/MMBtu)	$2.73	$2.97	$4.32	$4.85	$4.57	$6.50	$2.65	$5.06	$5.25
Wellhead Differentials									
Oil ($/bbl)	($4.32)	($3.77)	($4.42)	($7.07)	($5.00)	($5.00)	($4.27)	($4.51)	($5.00)
Natural gas ($/MMBtu)	($0.38)	($0.24)	($0.62)	$0.70	$0.20	$0.20	$0.08	$0.35	$0.20
NGLs (% of WTI)	45%	39%	41%	53%	45%	45%	41%	36%	45%
Wellhead Pricing									
Oil ($/bbl)	$53.52	$62.30	$66.14	$70.29	$89.29	$95.00	47.60	$81.05	$86.25
Natural gas ($/Mcf)	$2.35	$2.73	$3.70	$5.55	$4.77	$6.70	2.73	$5.41	$5.45
NGLs ($/bbl)	$25.99	$25.44	$28.95	$41.25	$42.43	$45.00	21.36	$30.79	$41.06
Costs & Expenses									
Lease operating expense ($/BOE)	$23.46	$19.02	$16.04	$23.40	$23.00	$21.00	$18.70	$20.69	$22.00
Cash general & admin. ($M)	$1,511	$1,479	$1,742	$1,494	$1,500	$1,500	$5,497	$6,236	$6,500
Non-cash general & admin. ($M)	$320	$320	$198	$330	$325	$325	$1,258	$1,178	$1,200
Depr., depl., & amort. ($/BOE)	$6.97	$3.33	$2.84	$2.68	$2.50	$2.50	$5.83	$2.63	$2.75
Effective income tax rate	-23%	25%	23%	20%	23%	23%	23%	22%	23%
% Income taxes deferred	428%	215%	-8%	4%	10%	10%	102%	6%	10%
Shares Outstanding (MM)									
Average basic	33,496	33,510	33,534	33,646	33,700	33,700	33,264	33,645	33,700
Average diluted	33,496	33,510	33,534	33,646	33,700	33,700	33,264	33,645	33,700
Period end	33,507	33,515	33,515	33,689	33,700	33,700	33,515	33,700	33,700
EBITDAX ($M)									
EBITDAX, excl hedge settlements	$2,518	$4,647	$8,512	$10,174	$10,739	$19,562	$10,618	$48,987	$57,786
Hedge settlements	0	0	0	0	0	0	(2,526)	0	0
EBITDAX	$2,518	$4,647	$8,512	$10,174	$10,739	$19,562	$8,092	$48,987	$57,786
Cash Margin ($/BOE)									
Production revenue	$49.67	$34.40	$35.12	$48.98	$49.49	$55.00	$36.87	$47.30	$47.34
Cash costs	33.29	22.73	19.29	26.67	26.25	23.42	24.90	23.69	24.56
Margin	$16.38	$11.66	$15.83	$22.31	$23.25	$31.57	$11.97	$23.61	$22.77
Capital expenditures ($M)	$1	$289	$390	$136	$200	$700	$472	$1,426	$6,000
Net debt ($M)	($17,040)	($1,277)	($3,955)	($9,597)	$9,249	$20,237	($1,277)	$20,237	($17,190)
Leverage ratio (annualized)	-1.7x	-0.1x	-0.1x	-0.2x	0.2x	0.3x	-0.2x	0.4x	-0.3x
*Fiscal year end June 30									

Source: Company reports and Water Tower Research estimates

The FY23 production estimate represents a ~2% increase from projected 4Q22E output. Based on average NYMEX prices of $91.25/bbl for oil and $5.25/MMBtu for natural gas, respectively, our FY23 EBITDAX estimate is $57.8 million. Our estimates suggest Evolution could reduce RBL borrowings to zero in FY23.

The company is well-positioned to execute on incremental acquisitions while keeping strong support for the dividend. On an EV / EBITDAX basis, Evolution is trading at 3.6x our FY23 estimates. The current dividend yield is 6.0%.

Figure 8: Valuation (millions, except share amounts)

Common shares outstanding	33.7
Share price as of April 28, 2022	$6.62
Equity capitalization	$223.0
Estimated net debt (1)	
FYE22	$20.2
FYE23	($17.2)
Estimated EBITDAX	
FY22	$49.0
FY23	$57.8
EV / EBITDAX	
FY22E	5.0x
FY23E	3.6x
Annualized dividend	$0.40
Dividend yield	6.0%

(1) Estimated net debt as of June 30 fiscal year end.
Source: Company reports and Water Tower Research estimates

Capitalization

As of December 31, 2021, Evolution had $13.6 million of cash and $4.0 million of RBL borrowings. The RBL had a borrowing base of $50 million and an elected commitment amount of $40 million. On a combined basis, Evolution funded the Williston Basin and Jonah Field with $19.1 million of cash and $33 million of borrowings. The commitment amount increased to $50 million with the Jonah Field closing on April 1, 2022. We estimate Evolution's pro forma liquidity for both acquisitions is ~$34 million (see Figure 9.)

Figure 9: Capitalization (millions, except share amount)

	12/31/21	Adjustments (1)	Pro Forma 12/31/21
Cash	$13.6	$7.3	$20.9
Long-Term Debt			
RBL borrowings	$4.0	$37.0	$37.0
Net debt	($9.6)	$25.7	$16.1
Liquidity			
RBL borrowing base	$50.0	$-	$50.0
RBL elected commitment	$40.0	$10.0	$50.0
Amount outstanding	4.0	33.0	37.0
Available capacity	$36.0	($23.0)	$13.0
Available liquidity	$49.6	($15.7)	$33.9
Common shares outstanding	33.7	-	33.7
Share price as of April 28, 2022	$6.62		$6.62
Equity capitalization	$223.0	$-	$223.0

(1) Adjusted cash balance = estimated cash balance as of March 31, 2022 of $14.1 million less $9.2 million of cash to close the Jonah Field acquisition. Adjusted RBL borrowings include $16 million to close the Williston Basin acquisition on January 14, 2022 and $17 million to close the Jonah Field acquisition on April 2, 2022.

Source: Company reports and Water Tower Research Estimates

EXECUTIVE LEADERSHIP

Jason E. Brown, President and CEO

Jason E. Brown has served as the President and Chief Executive Officer for Evolution Petroleum since July 10, 2019. He has over 20 years of experience in the energy industry, primarily focused on upstream oil and natural gas operations, acquisitions, and value creation.

Before assuming his role at Evolution, he was the founder of LongBow Energy, a private upstream energy company. LongBow is a non-op producer which has interests in various wells across Texas and Louisiana and focuses on upstream value creation. He previously was a co-founder and officer of Halcon Resources, where he served as the VP of Corporate Development in charge of acquisitions and divestitures.

Earlier in his career, Jason was employed by RBC Richardson Barr as an Associate, focused on the business development and execution of sell-side engagements in the oil and gas space. Although his concentration at RBC was in acquisitions and divestitures, he passed both the Series 7 and Series 63 exams required by FINRA for investment bankers dealing in transactions. Prior to RBC, Jason was the Team Leader and Asset Manager of Petrohawk Energy for East Texas, Arkansas, and North Louisiana, where he was responsible for operations, reservoir, planning, and budgeting for the region.

Jason began his engineering career with the Williams Companies in Tulsa, Oklahoma, and is a licensed professional engineer in the discipline of Petroleum Engineering. He earned his BS degree in chemical engineering from the University of Tulsa, and his MBA from the Mendoza School of Business at the University of Notre Dame.

Ryan Stash, Senior Vice President, CFO, and Treasurer

Ryan Stash has served as the senior vice president, chief financial officer, and treasurer for Evolution Petroleum since November 18, 2020. He has over 20 years of experience in the oil and natural gas industry focused on capital raising, mergers and acquisitions, and accounting and financial reporting. Before joining Evolution, Ryan served as vice president and chief financial officer of Harvest Oil & Gas Corporation from October 2018 to November 2020.

Prior to joining Harvest, he served as a managing director at Regions Securities focused on the energy sector. Before his time at Regions, Ryan spent 11 years in the energy investment banking group for Wells Fargo Securities in Houston, rising to the level of director. He began his career as an auditor and spend five years working at Hewlett-Packard and Ernst & Young, LLP.

Ryan is a Certified Public Accountant in the State of Texas. He received an MBA from the McCombs School of Business, a Masters in Professional Accounting, and a Bachelor of Business Administration, all from the University of Texas at Austin.

ABOUT THE ANALYST

Jeff Robertson
Managing Director

Natural Resources
Chemicals & Materials
Technology

Prior to Water Tower Research, Jeff was an 18-year equity research veteran at Lehman Brothers/Barclays where his coverage concentrated on mid- and small-capitalization companies in the oil & gas exploration and production sectors, and he also covered master limited partnerships (MLPs) and royalty companies.

Previously, Jeff worked in similar industry roles at Salomon Smith Barney and Wasserstein Perella. Jeff has worked on the sell-side for 28 years, gaining exposure to all facets of the oil & gas industry, and his tenure spans multiple industry cycles.

Jeff holds a BS degree in Geology from Centenary College of Louisiana, an MS degree in Geology from Texas A&M University, and an MBA from Southern Methodist University.

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