

EVOLUTION PETROLEUM CORP  
Form 10QSB  
February 14, 2007

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-QSB

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

For the quarterly period ended December 31, 2006

OR

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

For the transition period                      to

Commission File Number 000-27862

## EVOLUTION PETROLEUM CORPORATION

(Exact name of registrant as specified in charter)

**Nevada**

(State or other jurisdiction  
of incorporation or organization)

**41-1781991**

(I.R.S. employer identification no.)

**820 Gessner, Suite 1340, Houston, Texas 77024**

(Address of principal executive offices and zip code)

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(713) 935-0122

(Registrant's telephone number, including area code)

Check whether the registrant (1) 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:

Check 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 Registrant's common stock, par value \$0.001, as of February 12, 2007, was 26,702,006.

Transitional Small Business Disclosure Format (Check one): Yes:  No:

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EVOLUTION PETROLEUM CORPORATION, INC.

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

**Evolution Petroleum Corporation and Subsidiaries**  
**Condensed Consolidated Balance Sheets**

	December 31, 2006 (unaudited)	June 30, 2006
<b>Assets</b>		
<b>Current Assets:</b>		
Cash	\$ 40,129,711	\$ 9,893,547
Accounts receivable, trade	153,583	132,371
Inventories	177,420	76,917
Prepaid expenses	156,390	157,629
Retainers and deposits	60,595	60,895
<b>Total current assets</b>	<b>40,677,699</b>	<b>10,321,359</b>
Cash in qualified intermediary account for like-kind exchanges		34,662,368
Oil & Gas properties - full cost	4,022,938	3,878,551
Oil & Gas properties - not amortized	75,441	52,098
Less: accumulated depletion	(476,696)	(371,624)
<b>Net oil &amp; gas properties</b>	<b>3,621,683</b>	<b>3,559,025</b>
Furniture, fixtures and equipment, at cost	25,624	16,561
Less: accumulated depreciation	(11,147)	(7,998)
<b>Net furniture, fixtures, and equipment</b>	<b>14,477</b>	<b>8,563</b>
Restricted deposits	301,835	326,835
Other assets	76,675	79,808
<b>Total assets</b>	<b>\$ 44,692,369</b>	<b>\$ 48,957,958</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 123,752	\$ 310,272
Accrued liabilities	123,564	473,782
Income taxes payable	12,420,000	2,978,650
Royalties payable	5,635	47,054
<b>Total current liabilities</b>	<b>12,672,951</b>	<b>3,809,758</b>
<b>Long term liabilities:</b>		
Deferred income taxes payable		13,101,350
Asset retirement obligations	132,055	123,679
<b>Total liabilities</b>	<b>12,805,006</b>	<b>17,034,787</b>
Common Stock, totaling 351,333 shares subject to demand registration rights	790,500	790,500
<b>Stockholders equity:</b>		
Common Stock, par value \$0.001 per share; 100,000,000 shares authorized, 26,350,672 and 26,300,664, issued and outstanding as of December 31, 2006 and June 30, 2006, respectively, net of 351,333 shares of common stock subject to demand registration rights	26,350	26,300
Additional paid-in capital	10,969,785	10,274,555

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Deferred stock compensation	(114,562	) (265,167	)
Retained earnings	20,215,290	21,096,983	
Total stockholders' equity	31,096,863	31,132,671	
<b>Total liabilities and stockholders' equity</b>	<b>\$ 44,692,369</b>	<b>\$ 48,957,958</b>	

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Oil sales	\$ 426,459	\$ 557,439	\$ 895,483	\$ 1,043,834
Gas sales		278,955		336,888
Price risk management activities		(5,458 )	(14 )	(6,902 )
<b>Total revenues</b>	<b>426,459</b>	<b>830,936</b>	<b>895,469</b>	<b>1,373,820</b>
<b>Operating Costs:</b>				
Production expenses	327,473	398,686	651,592	862,876
Production taxes	(4,357 )	21,536	30,303	36,020
Depreciation, depletion and amortization	46,350	114,431	108,221	191,681
General and administrative *	960,515	662,106	1,999,706	1,246,384
<b>Total operating costs</b>	<b>1,329,981</b>	<b>1,196,759</b>	<b>2,789,822</b>	<b>2,336,961</b>
<b>Loss from operations</b>	<b>(903,522 )</b>	<b>(365,823 )</b>	<b>(1,894,353 )</b>	<b>(963,141 )</b>
<b>Other income and expense:</b>				
Interest income	503,318	14,955	1,034,113	33,892
Interest expense		(191,016 )		(412,694 )
Gain/(loss) on sale of assets	(21,453 )		(21,453 )	
<b>Total other income and expense</b>	<b>481,865</b>	<b>(176,061 )</b>	<b>1,012,660</b>	<b>(378,802 )</b>
<b>Net loss</b>	<b>\$ (421,657 )</b>	<b>\$ (541,884 )</b>	<b>\$ (881,693 )</b>	<b>\$ (1,341,943 )</b>
<b>Net Loss per common share</b>				
Basic and Diluted	\$ (0.02 )	\$ (0.02 )	\$ (0.03 )	\$ (0.05 )
<b>Weighted average number of common shares</b>				
Basic and Diluted	26,685,151	24,780,405	26,668,575	24,778,730

See accompanying notes to condensed consolidated financial statements.

\*General and administrative expenses include non cash stock compensation expense of \$371,604, \$156,277, \$861,477 and \$269,351 for the three months ended December 31, 2006 and 2005, and the six months ended December 31, 2006 and 2005, respectively.

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

	Six Months Ended December 31, 2006	Six Months Ended December 31, 2005
<b>Cash flows from operating activities:</b>		
<b>Net loss</b>	\$ (881,693 )	\$ (1,341,943 )
<b>Adjustments to reconcile net loss to net cash used by operating activities:</b>		
Depletion	105,072	189,348
Depreciation	3,149	2,333
Non-cash stock based compensation expense	861,477	269,351
Accretion of asset retirement obligations	8,376	14,065
Accretion of debt discount and non-cash loan costs		130,178
Other non cash items		50,232
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(21,212 )	(15,401 )
Inventories	(100,503 )	(232,777 )
Accounts payable	(186,520 )	159,772
Royalties payable	(41,419 )	33,873
Accrued liabilities	(350,218 )	(15,245 )