



# Mossberg's Investor Digest

## Best Idea Profile

### Evolution Petroleum Corporation (AMEX: EPM)

#### DESCRIPTION:

Headquartered in Houston, Texas, Evolution Petroleum Corporation is an independent oil and gas exploration and production company. The company specializes in applying engineering and technologies to extract additional oil and gas from mature fields or other fields that may have been bypassed by conventional drilling techniques.

#### KEY INVESTMENT CONSIDERATION:

**Riding the coat tails of Denbury, EPM's Delhi field interest could be worth \$4 to \$10 per share** - In 2006, EPM sold the Delhi Field in North Eastern Louisiana to Denbury Resources (NYSE: DNR) for \$50 million (EPM originally paid \$2.8 million). The company retained a 7.4% royalty interest and a 25% after-payout working interest in the field. The Delhi field is a mature field that has produced over 200 million barrels of oil in its lifetime. By pumping CO<sub>2</sub> under pressure into the field, CO<sub>2</sub> moves through the formation, mixes with oil droplets, expanding them and moving them to producing wells. By using this technique, DNR has been able to increase the production of mature fields, like Delhi, by approximately 17%. DNR is investing \$72MM in infrastructure for this project. They have essentially completed the pipeline that will bring in CO<sub>2</sub> from a source approximately 90 miles away in Mississippi. CO<sub>2</sub> injection is expected to begin this summer and production by the end of the year.

**Track record of increasing proven reserves** – Using horizontal drilling and other modern technologies, EPM has increased the size of its proven reserves by 133% to 4 million barrels. All of the improvement came from the company's Giddings field located in Central Texas. The company has completed 9 wells to date at Giddings, which are producing 240 gross barrels of oil per day at a stable rate. On the Giddings field, there are approximately 25 additional wells sites that the company can drill using the same techniques.

**Woodford Shale Project** – The company has leased 18,000 acres in Oklahoma that is part of the Woodford gas shale play. The company plans to drill vertical wells at shallow depths that can produce natural gas for as little as \$2.00/mmbtu.

**Strong financial position** – Unlike many of its independent E&P peers, Evolution has no debt and \$7.6 million in working capital. Without a need to service debt, the company has more flexibility to drill fields when the price of natural gas and oil can provide the highest returns. Given the decline in oil prices, management had cut their 2009 capital budget in half and used excess capital to buy back shares. During the second half of 2008, the company has used its balance sheet to repurchase approximately 700,000 shares at an average price of \$1.10 per share.

#### (AMEX: EPM)

Investment Data (as of 4/28/09)

<b>Recent Price</b>	<b>\$2.38</b>
52-Week Range	1.00 - 7.15
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	26.3 MM
Average Trading Volume (3 mos)	41,000
<b>Market Capitalization</b>	<b>63 MM</b>
Cash	10 MM
Long Term Debt	0
Enterprise Value (EV)	53MM
LT Debt/ Equity	N/A
BV/ Share	1.24
TTM Revenue	7.0 MM
<b>P/ Revenue</b>	<b>9.0x</b>
TTM EPS	-0.04
<b>P/ EPS</b>	<b>N/A</b>
TTM adjusted EBITDA	-180K
<b>EV/ TTM EBITDA</b>	<b>N/A</b>

#### RISK:

EPM is not profitable and its ability to generate profit can be affected by several factors outside of management's control including the price of gas and oil, success in profitably extracting the oil and gas from the ground and the ability to bring it to market. The company's Delhi project is being operated by Denbury Resources, which leaves the ultimate success of this project out of management control.

#### VALUATION:

As of November, the company calculates its intrinsic value at over \$9 per share.

Proven reserves - \$1.24  
 + Working Cap and option/warrant exercise - \$0.74  
 + Probable Reserves - \$0.31  
 + Probable Delhi Reserves - \$6.69  
 + Gas Shale Acreage - \$0.49

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