EVOLUTION PETROLEUM CORP
Form 10-K
September 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended June 30, 2014

o 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	41-1781991
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2500 CityWest Blvd., Suite 1300, Houston, Texas 77042
(Address of principal executive offices and zip code)
(713) 935-0122
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $0.001 par value	NYSE MKT
8.5% Series A Cumulative Preferred Stock, $0.001 par value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes: o No: ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes: o No: ý

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: ý No: o

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: ý No: o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes: o No: ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates on December 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of $12.34 on the NYSE MKT was $288,090,504.

The number of shares outstanding of the registrant's common stock, par value $0.001, as of September 10, 2014, was 32,793,414.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the proxy statement related to the registrant's 2014 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year covered by this report are incorporated by reference into Part III of this report.

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
2014 ANNUAL REPORT ON FORM 10-K
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This Form 10-K 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 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 this Annual Report on Form 10-K 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 unless the context otherwise requires, its wholly-owned subsidiaries.

PART I

Item 1. Business

Note: See Glossary of Selected Petroleum Industry Terms at the back of this document - refer to Table of Contents

General

We are a petroleum company engaged primarily in the acquisition, exploitation and development of properties for the production of crude oil and natural gas, onshore in the United States. We acquire known crude oil and natural gas resources and exploit them through the application of conventional and specialized technology, with the objective of increasing production, ultimate recoveries, or both. In 2013, our business was modified to include a second focus on applying our proprietary artificial lift technology for recovering incremental oil and gas from existing wells. In this document, we provide additional information about our business operations and plans for commercializing our artificial lift technology, but it is not currently a separate reportable segment of our operations.

Our petroleum operations began in September of 2003. On May 26, 2004, our predecessor, Natural Gas Systems, Inc. (Delaware, "Old NGS"), a private corporation formed in September 2003, merged into a wholly-owned subsidiary of Reality Interactive, Inc. (Nevada, "Reality"), an inactive public company, which was renamed Natural Gas Systems, Inc. The former officers and directors of Reality resigned and the officers, directors and business operations of Old NGS became the Company. Concurrently with the listing of NGS shares on the NYSE MKT (formerly the American Stock Exchange) in July 2006, NGS was renamed Evolution Petroleum Corporation. Our principal executive offices are located at 2500 City West Blvd, Suite 1300, Houston, Texas 77042, and our telephone number is (713) 935-0122. We maintain a website at www.evolutionpetroleum.com, but information contained on our website does not constitute part of this document.

Our stock is traded on the NYSE MKT under the ticker symbol "EPM". We also have preferred stock which trades under the symbol "EPM.A"

At June 30, 2014, we had eight full-time employees, not including contract personnel and outsourced service providers. Our team is broadly experienced in oil and gas operations, development, acquisitions and financing. We follow a strategy of outsourcing most of our property accounting, human resources, administrative and non-core functions.

Business Strategy

Our business strategy is to acquire known, underdeveloped oil and natural gas resources and exploit them through the application of capital, sound engineering and modern technology, including our patented artificial lift technology, to increase production, ultimate recoveries, or both. We also provide our artificial lift technology to other operators to improve recovery of long life, low decline production in otherwise mature wells.

Our principal assets include a CO_2 enhanced oil recovery project in Louisiana’s Delhi Field and our patented artificial lift technology. We are focused on increasing underlying asset values on a per share basis. In doing so, we depend on a conservative capital structure, allowing us to maintain financial control of our assets for the benefit of our shareholders.

Delhi Field—Louisiana

Our mineral interests in the Holt Bryant Unit in the Delhi Field, located in Northeast Louisiana, are currently our most significant asset. The Unit has had a prolific production history totaling approximately 190 million bbls of oil through primary and partial secondary recovery operations since its discovery in the mid-1940s. At the time of our $2.8 million purchase in 2003, the Unit had minimal production.

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The Unit is currently producing as an EOR project utilizing CO_2 flood technology following the sale of a majority of our interests to a subsidiary of Denbury Resources, Inc., the current operator, in 2006.

We own two types of interests in the Unit:

- 7.4% of overriding and mineral royalty interests that are in effect throughout the life of the project, free of all operating and capital cost burdens.
- A 23.9% reversionary working interest with an associated 19.1% net revenue interest. The working interest reverts to us when the operator has generated $200 million of net revenue from the 100% working interest less direct operating expenses and the cost of purchased CO_2. Upon reversion of the deemed payout, regardless of the operator's actual capital expenditures, we will begin bearing 23.9% of all future operating and capital expense and our net revenue interest will increase from 7.4% to an aggregate 26.5%. Our current independent reserves report dated June 30, 2014 assumes the deemed payout to occur during the fourth calendar quarter of 2014, based on information from and statements by the operator.

Our independent reservoir engineers, DeGolyer & MacNaughton, assigned the following estimated reserves net to our interests at Delhi as of June 30, 2014:

- 13.1 million bbls of proved oil equivalent reserves, with a PV-10* of $318.1 million
- 9.5 million bbls of probable** oil equivalent reserves, with a PV-10* of $135.9 million
- 3.0 million bbls of possible** oil equivalent reserves, with a PV-10* of $20.1 million

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* PV-10 of Proved reserves is a non-GAAP measure, reconciled to the Standardized Measure at "Estimated Oil and Natural Gas Reserves and Estimated Future Net Revenues" under Item 2. Properties of this Form 10-K. Probable and Possible reserves are not recognized by GAAP, and therefore the PV-10 of such reserves cannot be reconciled to a GAAP measure.

** With respect to the above reserve numbers, estimates of Probable and Possible reserves are inherently imprecise. When producing an estimate of the amount of oil and natural gas that is recoverable from a particular reservoir, Probable reserves are those additional reserves that are less certain to be recovered than Proved reserves but which, together with Proved reserves, are as likely as not to be recovered. Possible reserves are even less certain and generally require only a 10% or greater probability of being recovered. All categories of reserves are continually subject to revisions based on production history, results of additional exploration and development, price changes and other factors. Estimates of Probable and Possible reserves are by their nature much more speculative than estimates of Proved reserves and are subject to greater uncertainties, and accordingly the likelihood of recovering those reserves is subject to substantially greater risk.

The operator has planned multiple phases for the installation of the CO_2 flood.

Phase I began CO_2 injection in November 2009. First oil production response occurred in March 2010, about three to four months earlier than expected, and production in the field increased to approximately 2,000 gross BO per day.

Implementation of Phase II, which was more than double the size of Phase I, commenced with incremental CO_2 injection at the end of December 2010. First oil production response from Phase II occurred during March 2011, three or more months ahead of expectations, and field gross production increased to more than 4,000 BO per day.

Phase III was installed during calendar 2011, and was expanded twice during calendar 2011. Production subsequently increased to more than 6,000 BO per day.

Phase IV was substantially installed during the first six months of calendar 2012. Gross field production increased to more than 7,500 BO per day before the operator temporarily suspended CO_2 injection in a portion of the field due to the June 2013 fluid release event described in Item 7. "Management's Discussion and Analysis".

During early calendar 2013, the operator intensified development in the previously redeveloped western side of the field based on production results and new geological mapping that included the results of seismic data acquired over the last few years. During June 2013, a well fluids release occurred at Delhi which resulted in a temporary decline in production from 7,500 BBls/day to approximately 5,700 BBls per day and an attendant near term decrease in revenue from our royalty interests in the Delhi field. The operator has taken the position that these costs can be charged to our payout account and accordingly, this action has delayed our expected working interest reversion by approximately a year. We dispute the operator's position on the treatment of these costs and have filed suit against the operator over this matter and other issues related to the original 2006 agreements.

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Since the June 2013 fluids release, the operator has delayed further development of the field and has stated its intent not to resume significant capital spending until after reversion of our working interest has occurred. We expect that development activities will resume after reversion and that two of the three remaining phases will be installed over the next few years in the eastern part of the field. A third previously planned phase, part of which lies under the town of Delhi (population approximately 3,000), is being re-evaluated by the operator. The reserves in this phase have been reclassified from proved to probable. We further expect that probable reserves associated with three smaller reservoirs within the Unit in similar formations with similar production history will be developed as an additional phase of the EOR project early in the next decade.

During fiscal 2014, we realized an average price of $102.96 per BBL based on Delhi's Louisiana Light Sweet ("LLS") crude oil pricing, a 4% premium over the $99.25 per BBL sales price we received from our Texas production. This positive LLS price differential has narrowed significantly from past years and we do not currently expect a large positive market price differential for LLS going forward.

Artificial Lift Technology (GARP®)

Our artificial lift technology registered as GARP® (Gas Assisted Rod Pump) was developed internally by one of our officers. Its design is intended to extend the life of horizontal and vertical wells with gas, oil or associated water production with the expectation of recovering an additional 10-30% of cumulative recovery at a cost of less than $10 per BOE. We received a patent on our GARP® technology on August 30, 2011, which provides U.S. patent protection for the technology through early 2028. We have further filed for a continuation in part to our patent for recent improvements in the technology.

Prior to patent issuance, we tested the GARP® technology on certain marginal producers we owned and operated in the Giddings Field. The tests were successful in demonstrating that the process works; however, these candidates were unable to prove commercial viability due to their low primary recoveries as producers.

Subsequent to receiving our patent, we entered into demonstration JV projects with two different industry operators during fiscal 2012 to prove commercial application. We further expanded our commercial tests during fiscal 2013 with two additional installations and a third in fiscal 2014. All five of these installations were successful in re-establishing commercial production. One well subsequently ceased oil production when an offset well was hydraulically fractured and the water migrated to our well bore. During fiscal 2014, we entered into a commercial agreement to install our technology on at least five wells in the Giddings Field. Three installations were completed as of the end of fiscal 2014, all three of which were successful in increasing production. One of the three installations is being terminated and our technology removed for installation in another well due to an obstruction in the well bore that prevented economic production. A fourth attempted installation was halted early in the installation process due also to an undisclosed obstruction.

We are in discussions with multiple industry operators to further expand the business to other fields during fiscal 2015. With continued success and industry acceptance, we believe GARP® could be applicable to a large number of late stage horizontal and vertical wells worldwide.

Based on the significant amount of production history, DeGolyer & MacNaughton assigned proved reserves of 172 MBOE to three GARP® installations that we operate with PV-10 of $1.7 million. Recent installations during fiscal 2014 do not yet have sufficient history to estimate expected future performance. Our fees, though based on a percentage of net profits from the wells, will not generally result in the assignment of reserves by our petroleum engineers.

Other Projects

Giddings Field—Central Texas

We began leasing activities in the Giddings Field in December 2006. In late calendar 2007, we initiated a redevelopment drilling program in the Giddings Field targeting the Austin Chalk and Georgetown formations. During fiscal 2013, we began and completed a series of transactions that monetized all of our non-GARP® producing wells and drilling locations.

We retained a 3-5% overriding royalty interest on 2,094 acres on all depths below the base of the Austin Chalk in Brazos, Burleson and Fayette Counties, Texas. We also retained overriding royalty interests of approximately 5% in 900 net acres in the Woodbine formation and a 15% back-in working interest on approximately 258 net acres in Grimes County, Texas. We do not expect to assign any reserves to these residual interests until such time as there are successful drilling results.

Lopez Field—South Texas

We acquired leases covering approximately 782 net acres in the Lopez Field in South Texas as a first effort to test the concept of redeveloping old oil fields utilizing high flow rate production. While our development activity in the Lopez Field confirmed our concept and the potential for developing material oil reserves, the time and effort required to achieve reserves

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has lowered the attractiveness of the potential. Consequently, we elected to monetize this asset during fiscal 2013 and completed such monetization in fiscal 2014.

Mississippi Lime—Kay County, Oklahoma

In 2012, we acquired a 45% interest in a joint venture with Orion Exploration, a private company based in Tulsa, OK. The joint venture is operated by Orion and engaged in the horizontal development of the Mississippi Lime reservoir in Kay County, Oklahoma. Our leasehold position is located in the eastern, more oil-prone side of the play. With the objective reservoir less than 4,000 feet in depth, the cost of drilling, fracturing and completing a horizontal well with 4,000 feet of lateral length was estimated to be $3.2 million. The joint venture currently holds approximately 6,600 acres of undeveloped leasehold. To date, we have drilled one gross salt water disposal well and reached total depth on two horizontally drilled wells in the Mississippi Lime formation, the Sneath #1-24 and the Hendrickson #1-1. While both wells produced at the fluid rates expected, the quantities of oil and gas were far less than expected. We subsequently reworked both wells to test the role of structure in production, and have since determined that this play is a structural play requiring substantial geophysical and geological work and expertise in order to be successful, as opposed to a resource play in which engineering is the primary requirement. Since such business is not within our current strategy, we elected in fiscal 2013 to reduce our joint venture interest in undeveloped leases to 33.9%, resulting in a $1.2 million reduction in both our net property and accounts payable. We currently plan to divest of our remaining assets in this venture. Based on our drilling results and divestiture plans, we are no longer carrying any probable reserves for this asset.

Markets and Customers

We market our production to third parties in a manner consistent with industry practices. In the U.S. market where we operate, crude oil and natural gas liquids are readily transportable and marketable. We do not currently market our share of crude oil production from Delhi. Although we have the right to take our current interests in-kind, we are currently accepting terms under the Delhi operator's agreement with Plains Marketing LP for the delivery and pricing of our oil there. The oil from Delhi is currently transported from the field by pipeline, which results in better net pricing than the alternative of transportation by truck.

In January of 2008, we began selling crude oil from our Giddings properties (which includes our GARP® wells) to Enterprise Crude Oil LLC, a crude oil gathering, transportation, storage and marketing company. Our agreements with Enterprise Crude Oil LLC are under a normal "evergreen" sales contracts with a thirty day cancellation provision. In June 2014, we began selling crude oil from our Giddings properties to Sunoco Partners. Oil production from our Lopez Field was sold to Flint Hill Resources. We believe that other crude oil purchasers are readily available.

We sell our natural gas and natural gas liquids from our properties in the Giddings Field under the terms of normal evergreen sales contracts at competitive prices with DCP Midstream, LP, and ETC Texas Pipeline, LTD. Gas sold to DCP and ETC is processed for removal of natural gas liquids, and we receive the proceeds from the sale of the NGL products less a fee and certain operating expenses. We have no other business relationships with our crude oil, natural gas or natural gas liquids purchasers.

The following table sets forth purchasers of our oil and natural gas production for the years indicated:

	Year Ended June 30,					
Customer	2014		2013		2012	
Plains Marketing LP (includes Delhi production)	96	%	90	%	84	%
Enterprise Crude Oil LLC	2	%	4	%	7	%
Flint Hills Resources	1	%	2	%	1	%
ETC Texas Pipeline, Ltd.	1	%	—	%	3	%
All others	—	%	4	%	5	%
Total	100	%	100	%	100	%

The loss of any single purchaser (which we believe could readily be replaced) would not be expected to have a material adverse effect upon our operations; however, the loss of a large single purchaser could potentially reduce the competition in the market for our oil and natural gas production, which in turn could negatively impact the prices we receive. Additionally, if Delhi production were unable to be transported from the field by pipeline, our pricing and potentially our near term production levels could be adversely affected.

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Market Conditions

Marketing of crude oil, natural gas, and natural gas liquids is influenced by many factors that are beyond our control, the exact effect of which is difficult to predict. These factors include changes in supply and demand, market prices, government regulation and actions of major foreign producers.

Over the past 25 years, crude oil price fluctuations have been extremely volatile, with crude oil prices varying from less than $10 to in excess of $140 per barrel. Worldwide factors such as geopolitical, macroeconomic, supply and demand, refining capacity, petrochemical production and derivatives trading, among others, influence prices for crude oil. Local factors also influence prices for crude oil and include increasing or decreasing production trends, quality differences, regulation and transportation issues unique to certain producing regions and reservoirs. In particular, the price we received for our Delhi oil materially exceeded the price we received for our Texas oil production beginning in the second half of fiscal 2011. This positive price differential narrowed significantly during the past year and we do not currently expect a large positive price differential going forward.

Also over the past 25 years, domestic natural gas prices have been extremely volatile, ranging from $1 to $15 per MMBTU. The spot market for natural gas, changes in supply and demand, derivatives trading, pipeline availability, BTU content of the natural gas and weather patterns, among others, cause natural gas prices to be subject to significant fluctuations. Due to the practical difficulties in transporting natural gas, local and regional factors tend to influence product prices more for natural gas than for crude oil.

Competition

The oil and natural gas industry is highly competitive for prospects, acreage and capital. Our competitors include major integrated crude oil and natural gas companies and numerous independent crude oil and natural gas companies, individuals and drilling and income programs. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources than ours. Competitors are national, regional or local in scope and compete on the basis of financial resources, technical prowess or local knowledge. The principal competitive factors in our industry are expertise in given geographical and geological areas and the abilities to efficiently conduct operations, achieve technological advantages, identify and acquire economically producible reserves and obtain affordable capital.

Government Regulation

Numerous federal and state laws and regulations govern the oil and gas industry. These laws and regulations are often changed in response to changes in the political or economic environment. Compliance with this evolving regulatory burden is often difficult and costly, and substantial penalties may be incurred for noncompliance. To the best of our knowledge, we are in compliance with all laws and regulations applicable to our operations and we believe that continued compliance with existing requirements will not have a material adverse impact on us. The future annual capital cost of complying with the regulations applicable to our operations is uncertain and will be governed by several factors, including future changes to regulatory requirements which are unpredictable. However, we do not currently anticipate that future compliance with existing laws and regulations will have a materially adverse effect on our consolidated financial position or results of operations.

See "Government regulation and liability for environmental matters that may adversely affect our business and results of operations" under Item 1A. Risk Factors of this Form 10-K, for additional information regarding government regulation.

Insurance

We maintain insurance on our operated properties and operations for risks and in amounts customary in the industry. Such insurance includes general liability, excess liability, control of well, operators extra expense, casualty, fraud and directors & officer's liability coverage. Not all losses are insured, and we retain certain risks of loss through deductibles, limits and self-retentions. Furthermore, we are unable to insure against risks associated with our reversionary working interest until such reversion occurs. We do not carry lost profits coverage and we do not have coverage for consequential damages.

Additional Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports with the SEC. Our reports filed with the SEC are available free of charge to the general public through our website at www.evolutionpetroleum.com. These reports are accessible on our website as soon as reasonably practicable after being filed with, or furnished to, the SEC. This Annual Report on Form 10-K and our other filings can also be obtained by contacting: Corporate Secretary, 2500 City West Blvd, Suite 1300, Houston, Texas 77042, or calling (713) 935-0122. These reports are also available at the SEC Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a

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website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

Risks relating to the Company

Our revenues are concentrated in one asset and declines in production or other events beyond our control could have a material adverse effect on our results of operations.

Over 95% of our revenues come from our royalty interests in the Delhi field in Louisiana and our future revenues will be further concentrated in that field upon reversion of our working interest there, currently expected to occur during the fourth quarter of calendar year 2014. Any significant downturn in production, oil and gas prices, or other events beyond our control which impact the Delhi field could have a material adverse effect on our results of operations. We are not the operator of the Delhi property, and our revenues and future growth are heavily dependent on the success of operations which we do not control. In June 2013, a fluids release from one or more previously plugged wells occurred at the Delhi field that resulted in a significant temporary downturn in the daily oil production at the Delhi field, which has impacted the revenues received from our royalty interest and has delayed the reversion date of our working interest. In addition, the event has prompted the operator to pursue a more conservative development plan for the balance of the field that projects a lower peak production rate occurring at a later date, offset by a lower rate of decline.

Operating results from oil and natural gas production may decline; we may be unable to acquire and develop the additional oil and natural gas reserves that are required in order to sustain our business operations.

In general, the volumes of production from crude oil and natural gas properties decline as reserves are depleted, with the rate of decline depending on reservoir characteristics. Except to the extent we acquire properties containing proved reserves or conduct successful development activities, or both, our proved reserves will decline. In the near term, our production is heavily dependent on our 7.4% of royalty interests and the pending reversion to us of a 23.9% working interest in EOR production that began during March 2010 in the Delhi Field. In addition, our production will be impacted by the results of wells in which we have installed our GARP® technology and any future installations in which we are compensated with production or its equivalent. Although EOR production from proved reserves at Delhi has and is expected to grow over time and we expect to grow the number of GARP® installations, environmental or operating problems or lack of future investment at Delhi, lack of success in adding GARP® installations or a change in our GARP® compensation model without further development activities in new or existing projects or without acquisitions of producing properties, our net production of oil and natural gas could decline significantly over time, which could have a material adverse effect on our financial condition.

We have limited control over the activities on properties we do not operate.

Some of our properties, including our Delhi interests, are operated by other companies and involve third-party working interest owners. As a result, we have limited ability to influence or control the operation or future development of such properties, including compliance with environmental, safety and other regulations, or the amount of capital expenditures that we will be required to fund with respect to such properties. Operators of these properties may act in ways that are not in our best interest. Moreover, we are dependent on the other working interest owners of such projects to fund their contractual share of the capital expenditures of such projects. These limitations and our dependence on the operator and other working interest owners for these projects could cause us to incur unexpected future costs, result in lower production and materially and adversely affect our financial conditions and results of operations.

The types of resources we focus on have substantial operational risks.

Our business plan focuses on the acquisition and development of known resources in partially depleted reservoirs, naturally fractured or low permeability reservoirs, or relatively shallow reservoirs. Shallower reservoirs usually have lower pressure, which translates into fewer natural gas volumes in place. Low permeability reservoirs require more wells and substantial stimulation for development of commercial production. Naturally fractured reservoirs require penetration of sufficient undepleted fractures to establish commercial production. Depleted reservoirs require successful application of newer technology to unlock incremental reserves.

Our CO2-EOR project in the Delhi Field, operated by a subsidiary of Denbury Resources Inc., requires significant amounts of CO2 reserves, development capital and technical expertise, the sources of which to date have been committed by the operator. Although initial CO2 injection began at Delhi in November 2009, initial oil production response began in March 2010 and a large part of the capital budget has already been expended, substantial capital remains to be invested to fully develop the EOR project and further increase production. The operator's failure to manage these and other technical, environmental, operating, strategic, financial and logistical risks may cause ultimate enhanced recoveries from the planned

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CO2-EOR project to fall short of our expectations in volume and/or timing. Such occurrences would have a material adverse effect on the Company and its results of operations.

The existing well bores in which we are installing GARP® were originally drilled years or decades earlier. As such, they contain older casing or debris that could be more subject to failure, or the well files, if available, may be incomplete or incorrect. Such problems can result in the complete loss of a well or much higher costs. Expected results are based on theoretical estimates using historical data, which may not be complete or accurate, and thus such estimates may not prove accurate. Terms of compensation for installing GARP® may well change over time based on results achieved, industry acceptance, marketing efforts and other factors.

Our projects generally require that we acquire new leases in and around established fields or other known resources, and drill and complete wells, some of which may be horizontal, as well as negotiate the purchase of existing well bores and production equipment or install our proprietary artificial lift technology that has yet to be universally proven. Leases may not be available and required oil field services may not be obtainable on the desired schedule or at the expected costs. While the projected drilling results may be considered to be low to moderate in risk, there is no assurance as to what productive results may be obtained, if any.

Crude oil and natural gas development, re-completion of wells from one reservoir to another reservoir, restoring wells to production and drilling and completing new wells are speculative activities and involve numerous risks and substantial uncertain costs.

Our growth will be materially dependent upon the success of our future development program. Drilling for crude oil and natural gas and re-working existing wells involve numerous risks, including the risk that no commercially productive crude oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is substantial and uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors beyond our control, including:

- unexpected drilling conditions;
- pressure fluctuations or irregularities in formations;
- equipment failures or accidents;
- environmental events;
- inability to obtain or maintain leases on economic terms, where applicable;
- adverse weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs or crews and the delivery of equipment.

Drilling or re-working is a highly speculative activity. Even when fully and correctly utilized, modern well completion techniques such as hydraulic fracturing, horizontal drilling or CO2 injection or other injectants do not guarantee that we will find and produce crude oil and/or natural gas in our wells in economic quantities. Our future drilling activities may not be successful and, if unsuccessful, such failure would have an adverse effect on our future results of operations and financial condition. We cannot assure you that our overall drilling success rate or our drilling success rate for activities within a particular geographic area will not decline.

We may also identify and develop prospects through a number of methods, some of which do not include horizontal drilling, hydraulic fracturing or tertiary injectants, and some of which may be unproven. The drilling and results for these prospects may be particularly uncertain. We cannot assure you that these projects can be successfully developed or that the wells discussed will, if drilled, encounter reservoirs of commercially productive crude oil or natural gas.

The loss of a large single purchaser of our oil and natural gas could reduce the competition of our production.

For the year ended June 30, 2014, seven purchasers accounted for all of our oil and natural gas revenues, with one purchaser accounting for over 95% of our sales. The loss of a large single purchaser for our oil and natural gas production could negatively impact the revenue we receive.

Our patented GARP® technology may not achieve acceptance or widespread adoption by industry.

We have developed, field tested and initiated commercialization of our artificial lift technology, GARP® (Gas Assisted Rod Pump), though it may not generate substantial value. Our further success in commercializing the technology will depend upon additional positive field tests, additional customers, acceptance by industry and our ability to defend the technology from competitors through confidentiality, trade secret and patent protection.

We may be unable to continue licensing from third parties the technologies that we use in our business operations.

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As is customary in the crude oil and natural gas industry, we utilize a variety of widely available technologies in the crude oil and natural gas development and drilling process. We do not have any patents or copyrights for the technology we currently utilize, except for the registered trademark and issued patent on our GARP® artificial lift technology that is in the process of commercialization. We generally license or purchase services from the holders of such technology, or outsource the technology integral to our business from third parties. Our commercial success will depend in part on these sources of technology and assumes that such sources will not infringe on the proprietary rights of others. We cannot be certain whether any third-party patents will require us to utilize or develop alternative technology or to alter our business plan, obtain additional licenses, or cease activities that infringe on third-parties' intellectual property rights. Our inability to acquire any third-party licenses, or to integrate the related third-party products into our business plan, could result in delays in development unless and until equivalent products can be identified, licensed, and integrated. Existing or future licenses may not continue to be available to us on commercially reasonable terms or at all. Litigation, which could result in substantial cost to us, may be necessary to enforce any patents licensed to us or to determine the scope and validity of third-party obligations or to protect our patent rights on GARP®.

Our crude oil and natural gas reserves are only estimates and may prove to be inaccurate.

There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their estimated values. Our reserves are only estimates that may prove to be inaccurate because of these uncertainties. Reservoir engineering is a subjective and inexact process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. Estimates of economically recoverable crude oil and natural gas reserves depend upon a number of variable factors, such as historical production from the area compared with production from other producing areas and assumptions concerning effects of regulations by governmental agencies, future crude oil and natural gas product prices, future operating costs, severance and excise taxes, development costs and work-over and remedial costs. Some or all of these assumptions may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of crude oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected there from prepared by different engineers or by the same engineers but at different times, may vary substantially.

Accordingly, reserve estimates may be subject to downward or upward adjustment. Actual production, revenue and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material. The information regarding discounted future net cash flows included in this report should not be considered as the current market value of the estimated crude oil and natural gas reserves attributable to our properties. The estimated discounted future net cash flows from proved reserves are based on the 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, and costs as of the date of the estimate, while actual future prices and costs may be materially higher or lower. Actual future net cash flows also will be affected by factors such as the amount and timing of actual production, supply and demand for crude oil and natural gas, increases or decreases in consumption, and changes in governmental regulations or taxation. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the crude oil and natural gas industry in general. PV-10 does not necessarily correspond to market value.

Regulatory and accounting requirements may require substantial reductions in reporting proven reserves.

We review on a periodic basis the carrying value of our crude oil and natural gas properties under the applicable rules of the various regulatory agencies, including the SEC. Under the full cost method of accounting that we use, the after-tax carrying value of our oil and natural gas properties may not exceed the present value of estimated future net after-tax cash flows from proved reserves, discounted at 10%. Application of this "ceiling" test requires pricing future revenues at the previous 12-month average beginning-of-month price and requires a write down of the carrying value for accounting purposes if the ceiling is exceeded. We may in the future be required to write down the carrying value of our crude oil and natural gas properties when crude oil and natural gas prices are depressed or unusually volatile. Whether we will be required to take such a charge will depend in part on the prices for crude oil and natural gas during the previous period and the effect of reserve additions or revisions and capital expenditures during such period. If a write down is required, it would result in a current charge to our earnings but would not impact our current cash flow from operating activities.

Crude oil and natural gas prices are highly volatile in general and low prices will negatively affect our financial results.

Our revenues, operating results, profitability, cash flow, future rate of growth and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent upon prevailing prices of crude oil and natural gas. Lower crude oil and natural gas prices also may reduce the amount of crude oil and natural gas that we can produce economically. Historically, the markets for crude oil and natural gas have been very volatile, and such markets are likely to continue to be volatile in the future. Prices for crude oil and natural gas are subject to wide fluctuation in response to

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relatively minor changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control, including:

- worldwide and domestic supplies of crude oil, natural gas and NGLs;
- the level of consumer product demand;
- weather conditions;
- domestic and foreign governmental regulations;
- the price and availability of alternative fuels;
- political instability or armed conflict in oil-producing regions;
- the price and level of foreign imports; and
- overall domestic and global economic conditions.

It is extremely difficult to predict future crude oil and natural gas price movements with any certainty. Declines in crude oil and natural gas prices may materially adversely affect our financial condition, liquidity, ability to finance planned capital expenditures and results of operations. Further, crude oil and natural gas prices do not move in tandem. Because approximately 79% of our proved reserves at June 30, 2014 are crude oil reserves and 17% are natural gas liquids reserves, we are heavily impacted by movements in crude oil prices, which also influence natural gas liquids prices. To the extent that we have not hedged our production with derivative contracts or fixed-price contracts, any significant and extended decline in oil and natural gas prices may adversely affect our financial position.

We may have difficulty managing future growth and the related demands on our resources and may have difficulty in achieving future growth.

Although we hope to experience growth through acquisitions and development activity, any such growth may place a significant strain on our financial, technical, operational and administrative resources. Our ability to grow will depend upon a number of factors, including:

- our ability to identify and acquire new development or acquisition projects;
- our ability to develop existing properties;
- our ability to continue to retain and attract skilled personnel;
- the results of our development program and acquisition efforts;
- the success of our technologies;
- hydrocarbon prices;
- drilling, completion and equipment prices;
- our ability to successfully integrate new properties;
- our access to capital; and
- the Delhi Field operator's ability to: (i) deliver sufficient quantities of CO_2 from its reserves in the Jackson Dome, secure all of the development capital necessary to fund its and our cost interests and (ii) to successfully manage technical, operating, environmental, strategic and logistical development and operating risks, among other things.

We cannot assure you that we will be able to successfully grow or manage any such growth.

Our operations require significant amounts of capital and additional financing may be necessary in order for us to continue our exploration activities, including meeting potential future drilling obligations.

Our cash flow from our reserves may not be sufficient to fund our ongoing activities at all times. From time to time, we may require additional financing in order to carry out our oil and gas acquisitions, exploitation and development activities. Certain of our undeveloped leasehold acreage is subject to leases that will expire unless production is established. If our revenues from our reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect our ability to expend the necessary capital to replace our reserves or to maintain our current production. If our cash flow from operations is not sufficient to satisfy our capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available to us on favorable terms.

Government regulation and liability for environmental matters may adversely affect our business and results of operations.

Crude oil and natural gas operations are subject to extensive federal, state and local government regulations, which may be changed from time to time. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of crude oil and natural gas wells below actual production capacity in order to conserve supplies of crude oil and natural gas. There are federal,

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state and local laws and regulations primarily relating to protection of human health and the environment applicable to the development, production, handling, storage, transportation and disposal of crude oil and natural gas, by-products thereof and other substances and materials produced or used in connection with crude oil and natural gas operations. In addition, we may inherit liability for environmental damages, whether actual or not, caused by previous owners of property we purchase or lease or nearby properties. As a result, we may incur substantial liabilities to third parties or governmental entities. We are also subject to changing and extensive tax laws, the effects of which cannot be predicted. The implementation of new, or the modification of existing, laws or regulations could have a material adverse effect on us, such as diminishing the demand for our products through legislative enactment of proposed new penalties, fines and/or taxes on carbon that could have the effect of raising prices to the end user.
For example, currently proposed federal legislation, that, if adopted, could adversely affect our business, financial condition and results of operations, includes the following:

- Taxes. President Obama's Fiscal Year 2013 Budget Proposal includes provisions that would, if enacted , make significant changes to U.S. tax laws. These changes include, but are not limited to (i) eliminating the immediate deduction for intangible drilling and development costs, (ii) eliminating the deduction from income for certain domestic production activities, (iii) an extension of the amortization period for certain geological and geophysical expenditures, and (iv) the repeal of the percentage depletion allowance for oil and natural gas properties; and
- Hydraulic Fracturing. The U.S. Congress, the EPA and various states are currently considering legislation that could adversely affect the use of the hydraulic-fracturing process. Currently, regulation of hydraulic fracturing is primarily conducted at the state level through permitting and other compliance requirements. Any proposed legislation, if adopted, could establish an additional level of regulation, permitting and restrictions at the federal level that could adversely affect the development of unconventional oil and natural gas resources.

Our insurance may not protect us against all of the operating risks to which our business is exposed.
The crude oil and natural gas business involves numerous operating hazards such as well blowouts, mechanical failures, explosions, uncontrollable flows of crude oil, natural gas or well fluids, fires, formations with abnormal pressures, hurricanes, flooding, pollution, releases of toxic gas and other environmental hazards and risks, which can result in (i) damage to or destruction of wells and/or production facilities, (ii) damage to or destruction of formations, (iii) injury to persons, (iv) loss of life, or (v) damage to property, the environment or natural resources. While we carry general liability, control of well, and operator's extra expense coverage typical in our industry, we are not fully insured against all risks incident to our business. Environmental events similar to that experienced in the Delhi Field in June 2013 could defer revenue, postpone the payout of our reversionary working interest or increase operating costs and maintenance capital expenditures. Due to their characteristics, we have been unable to insure our reversionary working interest and royalty interests against operating risks of the type experienced in June 2013.
The loss of key personnel could adversely affect us.
We depend to a large extent on the services of certain key management personnel, including our executive officers, the loss of any of whom could have a material adverse effect on our operations. In particular, our future success is dependent upon Robert S. Herlin, our Chairman and Chief Executive Officer, Randall D. Keys, our President, Chief Financial Officer and Treasurer, and Daryl V. Mazzanti, our Vice President of Operations, for sourcing, evaluating and closing deals, capital raising, and oversight of development and operations. Presently, the Company is not a beneficiary of any key man insurance.
Oil field service and materials' prices may increase, and the availability of such services and materials may be inadequate to meet our needs.
Our business plan to develop or redevelop crude oil and natural gas resources requires third party oilfield service vendors and various material providers, which we do not control. We also rely on third-party carriers for the transportation and distribution of our production. As our production increases, so does our need for such services and materials. Generally, we do not have long-term agreements with our service and materials providers. Accordingly, there is a risk that any of our service providers could discontinue servicing our crude oil and natural gas fields for any reason or we may not be able to source the materials we need. Any delay in locating, establishing relationships, and training our sources could result in production shortages and maintenance problems, with a resulting loss of revenue to us. In addition, if costs for such services and materials increase, it may render certain or all of our projects

uneconomic, as compared to the earlier prices we may have assumed when deciding to redevelop newly purchased or existing properties. Further adverse economic outcomes may result from the long lead times often necessary to execute and complete our redevelop plans.

We cannot market the crude oil and natural gas that we produce without the assistance of third parties.

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The marketability of the crude oil and natural gas that we produce depends upon the proximity of our reserves to, and the capacity of, facilities and third-party services, including crude oil and natural gas gathering systems, pipelines, trucking or terminal facilities, and processing facilities necessary to make the products marketable for end use. The unavailability or lack of capacity of such services and facilities could result in the shut-in of producing wells or the delay or discontinuance of development plans for properties. A shut-in or delay or discontinuance could adversely affect our financial condition.

We face strong competition from larger oil and gas companies.

Our competitors include major integrated crude oil and natural gas companies and numerous independent crude oil and natural gas companies, individuals and drilling and income programs. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources than ours. We may not be able to successfully conduct our operations, evaluate and select suitable properties and consummate transactions in this highly competitive environment. Specifically, these larger competitors may be able to pay more for development projects and productive crude oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, such companies may be able to expend greater resources on hiring contract service providers, obtaining oilfield equipment and acquiring the existing and changing technologies that we believe are and will be increasingly important to attaining success in our industry.

We are, and in the future may become, involved in legal proceedings related to our Delhi interest or other properties or operations and, as a result, may incur substantial costs in connection with those proceedings.

On August 23, 2012, we, and our wholly owned subsidiary NGS Sub Corp and Robert S. Herlin, our President, were served with a lawsuit filed in federal court by James H. and Kristy S. Jones. The plaintiffs allege primarily that the defendants wrongfully purchased the plaintiffs' 0.048119 overriding royalty interest in the Delhi Unit in January 2006 by failing to divulge the existence of an alleged previous agreement to develop the Delhi Field for EOR. Although we believe that the claims are without merit and not timely, and intend to vigorously defend against the claims, an adverse resolution of this proceeding could subject us to significant monetary damages and other penalties, which could have a material adverse effect on our business, prospects, results of operations, financial condition, and liquidity.

In December 2013 we filed a lawsuit against the operator of the Delhi Field alleging that the operator improperly charged the payout account for capital expenditures and costs of capital, failed to adhere to preferential rights to participate in acquisitions within the defined area of mutual interest, breached the promises to assume environmental liabilities and fully indemnify us from such costs, and other breaches. We are seeking declaration of the validity of the 2006 agreements and recovery of damages and attorneys’ fees. The operator subsequently filed counterclaims, including the assertion that we owed it additional revenue interests pursuant to the 2006 agreements and that the transfer of our reversionary working interest from our wholly owned subsidiary to our parent corporation and subsequently to another wholly owned subsidiary breached their preferential right to purchase. We have denied their counterclaims as being without merit and not timely. We may incur significant legal costs in this matter and the outcome is uncertain.

Ownership of our oil, gas and mineral production depends on good title to our property.

Good and clear title to our oil, gas and mineral properties is important to our business. Although title reviews will generally be conducted prior to the purchase of most oil, gas and mineral producing properties or the commencement of drilling wells, such reviews do not assure that an unforeseen defect in the chain of title will not arise to defeat our claim which could result in a reduction or elimination of the revenue received by us from such properties.

Poor general economic, business, or industry conditions may have a material adverse effect on our results of operations, liquidity, and financial condition.

During the last few years, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, uncertainties with regard to European sovereign debt, and a declining real estate market in the United States have contributed to increased economic uncertainty and diminished expectations for the global economy. Concerns about global economic conditions have had a significant adverse impact on global financial markets and commodity prices. If the economic recovery in the United States or abroad remains prolonged, demand for petroleum products could diminish or stagnate, which could impact the price at which we can sell our oil, natural gas, and NGLs, affect our vendors', suppliers' and customers' ability to continue operations, and ultimately adversely impact our results of operations, liquidity, and financial condition.

Risks Associated with Our Stock

Our stock price has been and may continue to be volatile.

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Our common stock is relatively thinly traded and the market price has been, and is likely to continue to be, volatile.
For example, during the year prior to June 30, 2014, our stock price as traded on the NYSE MKT ranged from $13.83 to $9.92. The variance in our stock price makes it difficult to forecast with any certainty the stock price at which an investor may be able to buy or sell shares of our common stock. The market price for our common stock could be subject to fluctuations as a result of factors that are out of our control, such as:

- actual or anticipated variations in our results of operations;
- naked short selling of our common stock and stock price manipulation;
- changes or fluctuations in the commodity prices of crude oil and natural gas;
- general conditions and trends in the crude oil and natural gas industry;
- redemption demands on institutional funds that hold our stock; and
- general economic, political and market conditions.

Our executive officers, directors and affiliates may be able to control the election of our directors and all other matters submitted to our stockholders for approval.

Our executive officers and directors, in the aggregate, beneficially own approximately 3.1 million shares, or approximately 10% of our beneficial common stock base. JVL Advisors LLC controls approximately 5.0 million shares or approximately 15% of our outstanding common stock. As a result, these holders could exercise significant influence over matters submitted to our stockholders for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets). This concentration of ownership may have the effect of delaying, deferring or preventing a change in control of our company, impede a merger, consolidation, takeover or other business combination involving our company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company, which in turn could have an adverse effect on the market price of our common stock.

The market for our common stock is limited and may not provide adequate liquidity.

Our common stock is relatively thinly traded on the NYSE MKT. In the year prior to June 30, 2014, the actual daily trading volume in our common stock ranged from 12,700 shares of common stock to a high of 2,254,100 shares of common stock traded. On most days, this trading volume means there is limited liquidity in our shares of common stock. Selling our shares is more difficult because smaller quantities of shares are bought and sold and news media coverage about us is limited. These factors result in a limited trading market for our common stock and therefore holders of our stock may be unable to sell shares purchased, should they desire to do so.

If securities or industry analyst do not publish research reports about our business, or if they downgrade our stock, the price of our common stock could decline.

Small, relatively unknown companies can achieve visibility in the trading market through research and reports that industry or securities analysts publish. To our knowledge there are four independent analysts that cover our company. The limited number of published reports by independent securities analysts could limit the interest in our common stock and negatively affect our stock price. We do not have any control over the research and reports these analysts publish or whether they will be published at all. If any analyst who does cover us downgrades our stock, our stock price could decline. If any analyst ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price to decline.

The issuance of additional common stock and preferred stock could dilute existing stockholders.

We currently have in place a registration statement which allows the Company to publicly issue up to $500 million of additional securities, including debt, common stock, preferred stock, and warrants. At any time we may make private offerings of our securities. The shelf registration is intended to provide greater flexibility to the company in financing growth or changing our capital structure. We are authorized to issue up to 100,000,000 shares of common stock. To the extent of such authorization, our board of directors has the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as our board may consider sufficient. The issuance of additional common stock in the future would reduce the proportionate ownership and voting power of the common stock now outstanding. We are also authorized to issue up to 5,000,000 shares of preferred stock , the rights and preferences of which may be designated in series by our board of directors, of which, at least 317,319 shares of

Series A Preferred Stock are issued and outstanding as of September 10, 2014. Such designation of new series of preferred stock may be made without stockholder approval, and could create additional securities which would have dividend and liquidation preferences over the common stock now outstanding. Preferred stockholders could adversely affect the rights of holders of common stock by:

- exercising voting, redemption and conversion rights to the detriment of the holders of common stock;

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- receiving preferences over the holders of common stock regarding our surplus funds in the event of our dissolution, liquidation or the payment of dividends to Preferred stockholders;
- delaying, deferring or preventing a change in control of our company; and
- discouraging bids for our common stock.

Our Series A Preferred Stock is thinly traded and has no stated maturity date.

The shares of Series A Preferred Stock were listed for trading on the NYSE MKT under the symbol "EPM.PR.A" on July 5, 2011 and are thinly traded on the NYSE MKT. Since the securities have no stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. An active trading market for the shares may not develop or, even if it develops, may not last, in which case the trading price of the shares could be adversely affected and your ability to transfer your shares of Series A Preferred Stock will be limited. We have the right to redeem all shares of Series A Preferred Stock at face value at any time.

The market value of our Series A Preferred Stock could be adversely affected by various factors.

The trading price of the shares of Series A Preferred Stock may depend on many factors, including:

- market liquidity;
- prevailing interest rates;
- optional redemption by us;
- the market for similar securities;
- general economic conditions; and
- our financial condition, performance and prospects.

For example, higher market interest rates could cause the market price of the Series A Preferred Stock to decrease.

We could be prevented from paying dividends on our Series A Preferred Stock.

Although dividends on the Series A Preferred Stock are cumulative and arrearages will accrue until paid, preferred stockholders will only receive cash dividends on the Series A Preferred Stock if we have funds legally available for the payment of dividends and such payment is not restricted or prohibited by law, the terms of any senior shares or any documents governing our indebtedness. Our business may not generate sufficient cash flow from operations to enable us to pay dividends on the Series A Preferred Stock when payable. In addition, existing or future debt, credit facility arrangements, contractual covenants or arrangements we enter into may restrict or prevent future dividend payments. Accordingly, there is no guarantee that we will be able to pay any cash dividends on our Series A Preferred Stock.

Furthermore, in some circumstances, we may pay dividends in stock rather than cash, and our stock price may be depressed at such time.

Our Series A Preferred Stock has not been rated and will be subordinated to all of our existing and future debt.

Our Series A Preferred Stock has not been rated by any nationally recognized statistical rating organization. In addition, with respect to dividend rights and rights upon our liquidation, winding-up or dissolution, the Series A Preferred Stock will be subordinated to any existing and future debt and all future capital stock designated as senior to the Series A Preferred Stock. We may also incur additional indebtedness in the future to finance potential acquisitions or the development of new properties and the terms of the Series A Preferred Stock do not require us to obtain the approval of the holders of the Series A Preferred Stock prior to incurring additional indebtedness. As a result, our existing and future indebtedness may be subject to restrictive covenants or other provisions that may prevent or otherwise limit our ability to make dividend or liquidation payments on our Series A Preferred Stock. Upon our liquidation, our obligations to our creditors would rank senior to our Series A Preferred Stock and would be required to be paid before any payments could be made to holders of our Series A Preferred Stock.

We could be prevented from continuing to pay dividends on our Common Stock.

Our board of directors declared dividends on our common stock for the first time in November 2013 and we have paid a total of three quarterly cash dividends on our common stock. However, there is no certainty that dividends will be declared by the board of directors in the future. Any payment of cash dividends on our common stock in the future will be dependent upon the amount of funds legally available, our earnings, if any, our financial condition and business plan, restrictions contained in our Series A preferred stock and any debt instruments, contractual covenants or arrangements we may enter into, our anticipated capital requirements and other factors that our board of directors may think are relevant. Accordingly, there is no guarantee that we will be able to continue to pay any cash dividends on our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Company Location

Our corporate headquarters are located at 2500 CityWest Boulevard, Suite 1300, Houston, Texas. We entered into a sublease agreement, effective on March 1, 2007, to rent approximately 8,400 square feet of Class "A" office space in the Westchase District area in West Houston. The current monthly base rent is $13,251, having escalated from a monthly base rate of $11,507 in August 2011. The sublease expires by its term on July 1, 2016.

Oil & Gas Properties

Additional detailed information describing the types of properties we own can be found in "Business Strategy" under Item 1. Business of this Form 10-K.

Estimated Oil and Natural Gas Reserves and Estimated Future Net Revenues

The SEC sets rules related to reserve estimation and disclosure requirements for oil and natural gas companies. These rules require disclosure of oil and gas proved reserves by significant geographic area, using the 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, rather than year-end prices, and allows the use of new technologies in the determination of proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes. Subject to limited exceptions, the rules also require that proved undeveloped reserves may only be classified as such if a development plan has been adopted indicating that they are scheduled to be drilled within five years.

There are numerous uncertainties inherent in estimating quantities of proved reserves and estimates of reserves quantities and values must be viewed as being subject to significant change as more data about the properties becomes available.

Estimates of Probable and Possible reserves are inherently imprecise. When producing an estimate of the amount of oil and natural gas that is recoverable from a particular reservoir, Probable reserves are those additional reserves that are less certain to be recovered than Proved reserves but which, together with Proved reserves, are as likely as not to be recovered. Possible reserves are even less certain and generally require only a 10% or greater probability of being recovered. All categories of reserves are continually subject to revisions based on production history, results of additional exploration and development, price changes and other factors. Estimates of Probable and Possible reserves are by their nature much more speculative than estimates of Proved reserves and are subject to greater uncertainties, and accordingly the likelihood of recovering those reserves is subject to substantially greater risk.

Estimated future net revenues discounted at 10% or PV-10 is a financial measure that is not recognized by GAAP. We believe that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by analysts and investors in evaluating oil and natural gas companies, and that it is relevant and useful for evaluating the relative monetary significance of oil and natural gas properties. Further, analysts and investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies' reserves. We also use this pre-tax measure when assessing the potential return on investment related to oil and natural gas properties and in evaluating acquisition opportunities. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating our Company. PV-10 is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of our estimated oil and natural gas reserves. PV-10 should not be considered in isolation or as a substitute for the Standardized Measure as defined under GAAP, and reconciled herein.

Summary of Oil & Gas Reserves for Fiscal Year Ended 2014

Our proved and probable reserves at June 30, 2014, denominated in equivalent barrels using six MCF of gas and 42 gallons of natural gas liquids to one barrel of oil conversion ratio, were estimated by our independent petroleum engineer, DeGolyer and MacNaughton ("D&M"). D&M was selected for our interests in the Delhi Field due to their expertise in CO_2-EOR projects and to ensure consistency with the operator who has utilized D&M for their reserves estimates in the Delhi Field. We also chose to have D&M estimate our Giddings properties in 2014 in order to simplify and consolidate our reserve reporting. D&M has significant expertise in this region as well. The scope and results of their procedures are summarized in a letter from the firm, which is included as exhibit 99.4 to this Annual Report on Form 10-K.

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The following table sets forth our estimated proved and probable reserves as of June 30, 2014. See Note 18 to the consolidated financial statements, where additional unaudited reserve information is provided. The NYMEX previous 12-month unweighted arithmetic average first-day-of-the-month price used to calculate estimated revenues was $100.37 per barrel of crude oil and $4.10 per MMbtu of natural gas. The price of natural gas liquids was based on the historical price received, if no historical received price is available, historical pricing in the area. Pricing differentials were applied to all properties, on an individual property basis. Quality adjustments have been applied based on actual BTU factors for each well and a shrinkage factor has been applied based on production volumes versus actual sales volumes.

June 30, 2014

Reserve Category	Oil (MBbls)	NGLs (MBbls)	Natural Gas (MMcf)	Total Reserves (MBOE)	PV-10
PROVED					
Developed (60% of Proved)	7,858	32	481	7,970	$257,954,613
Undeveloped (40% of Proved)	2,668	2,247	2,426	5,319	61,790,784
TOTAL PROVED	10,526	2,279	2,907	13,289	$319,745,397
Product Mix	79 %	17 %	4 %	100 %	
PROBABLE					
Developed (43% of Probable)	4,039	—	—	4,039	$79,823,271
Undeveloped (57% of Probable)	3,381	1,735	1,873	5,428	56,106,975
TOTAL PROBABLE	7,420	1,735	1,873	9,467	$135,930,246
Product Mix	79 %	18 %	3 %	100 %	

The following tables present a reconciliation of changes in our proved and probable reserves by major property, on the basis of equivalent MBOE quantities.

Reconciliation of Changes in Proved Reserves by Major Property

Proved reserves, MBOE	Delhi Field MBOE	Giddings Field MBOE	Lopez Field MBOE	Oklahoma MBOE	Proved Total MBOE
June 30, 2013	13,545.5	35.1	185.8	—	13,766.4
Production	(164.2)	(12.0)	(1.1)	(0.4)	(177.7)
Revisions	(263.9)	16.2	—		