GLADSTONE INVESTMENT CORPORATION\DE
Form N-2/A
August 24, 2010

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As filed with the Securities and Exchange Commission on August 24, 2010

1933 Act File No. 333-160720

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form N-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

o PRE-EFFECTIVE AMENDMENT NO.
þ POST-EFFECTIVE AMENDMENT NO. 1

GLADSTONE INVESTMENT CORPORATION
(Exact name of registrant as specified in charter)

1521 Westbranch Drive, Suite 200
McLean, VA 22102
(Address of principal executive offices)

Registrant s telephone number, including area code: (703) 287-5800

David Gladstone
Chairman and Chief Executive Officer
Gladstone Investment Corporation
1521 Westbranch Drive, Suite 200
McLean, Virginia 22102
(Name and address of agent for service)

COPIES TO:

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Approximate date of proposed public offering: From time to time after the effective date of this registration statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. þ

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 24, 2010

PROSPECTUS

$300,000,000

COMMON STOCK
PREFERRED STOCK
SUBSCRIPTION RIGHTS
WARRANTS
DEBT SECURITIES

We may offer, from time to time, up to $300,000,000 aggregate initial offering price of our common stock, $0.001 par value per share, preferred stock, $0.001 par value per share, subscription rights, warrants representing rights to purchase shares of our common stock, or debt securities, or a combination of these securities, which we refer to in this prospectus collectively as our Securities, in one or more offerings. The Securities may be offered at prices and on terms to be disclosed in one or more supplements to this prospectus. In the case of our common stock and warrants or rights to acquire such common stock hereunder, the offering price per share of our common stock by us, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such other circumstances as the Securities and Exchange Commission may permit. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our Securities.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our Securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of such Securities. Our common stock is traded on The Nasdaq Global Select Market under the symbol GAIN. As of August 20, 2010, the last reported sales price for our common stock was $5.75.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. Additional information about us, including our annual, quarterly and current reports, has been filed with the Securities and Exchange Commission. This information is available free of charge on our corporate website located at *http://www.gladstoneinvestment.com*. See Additional Information. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

An investment in our Securities involves certain risks, including, among other things, risks relating to investments in securities of small, private and developing businesses. We describe some of these risks in the section entitled Risk Factors, which begins on page 8. Shares of closed-end investment companies frequently trade at a discount to their net asset value and this may increase the risk of loss of purchasers of our Securities. You should carefully consider these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our Securities.

The Securities being offered have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

, 2010

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We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus or any accompanying supplement to this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus or the accompanying prospectus supplement as if we had authorized it. This prospectus and any prospectus supplement do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus and any prospectus supplement is accurate as of the dates on their respective covers only. Our business, financial condition, results of operations and prospects may have changed since such dates.

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PROSPECTUS SUMMARY

The following summary contains basic information about this offering. It likely does not contain all the information that is important to an investor. For a more complete understanding of this offering, we encourage you to read this entire document and the documents to which we have referred. Except where the context suggests otherwise, the terms we, us, our, the Company and Gladstone Investment refer to Gladstone Investment Corporation; Adviser refe Gladstone Management Corporation; Administrator refers to Gladstone Administration, LLC; Gladstone Commercial refers to Gladstone Commercial Corporation; Gladstone Capital refers to Gladstone Capital Corporation; Gladstone Land refers to Gladstone Land Corporation; and Gladstone Companies refers to our Adviser and its affiliated companies.

GLADSTONE INVESTMENT CORPORATION

General

We were incorporated under the General Corporation Laws of the State of Delaware on February 18, 2005. On June 22, 2005, we completed an initial public offering and commenced operations. We were primarily established for the purpose of investing in subordinated loans, mezzanine debt, preferred stock and warrants to purchase common stock of small and medium-sized companies in connection with buyouts and other recapitalizations. We also invest in senior secured loans, common stock and senior and subordinated syndicated loans. Our investment objective is to generate both current income and capital gains through these debt and equity instruments. We operate as a closed-end, non-diversified management investment company and have elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, as amended, which we refer to as the 1940 Act.

Our Investment Adviser and Administrator

Our Adviser is our affiliate and investment adviser and is led by a management team which has extensive experience in our lines of business. Excluding our chief financial officer, all of our executive officers serve as either directors or executive officers, or both, of Gladstone Commercial, a publicly traded real estate investment trust; Gladstone Capital, a publicly traded business development company; our Adviser; and our Administrator, an affiliate of our Adviser. Our Administrator employs our chief financial officer, chief compliance officer, controller, treasurer, internal counsel and their respective staffs.

Our Adviser and our Administrator also provide investment advisory and administrative services, respectively, to our affiliates Gladstone Commercial, Gladstone Capital and Gladstone Land Corporation, an agricultural real estate company owned by our chairman and chief executive officer, David Gladstone. In the future, our Adviser may provide investment advisory and administrative services to other funds, both public and private, of which it is the sponsor.

We have been externally managed by our Adviser pursuant to an investment advisory and management agreement since our inception. Our Adviser was organized as a corporation under the laws of the State of Delaware on July 2, 2002, and is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington D.C., and also has offices in New York, New Jersey, Illinois, Texas, Connecticut and Georgia.

Our Investment Strategy

We seek to achieve returns from current income from senior, subordinated and mezzanine debt, and capital gains from preferred stock and warrants to purchase common stock that we acquire in connection with buyouts and recapitalizations of small and mid-sized companies with established management teams. We seek to make investments that generally range between $10 million and $40 million each, although this investment size may vary proportionately as the size of our capital base changes. We invest either by ourselves or jointly with other buyout funds and/or management of the portfolio company, depending on the opportunity. If we are participating in an investment with one or more co-investors, then our investment is likely to be smaller than if we were investing alone.

We expect that our target portfolio over time will include mostly subordinated loans, mezzanine debt, preferred stock, and warrants to buy common stock. Structurally, subordinated loans and mezzanine loans usually rank lower in priority of payment to senior debt, such as senior bank debt, and may be unsecured. However, subordinated debt and mezzanine loans rank senior to common and preferred equity in a borrower s capital structure. Typically, subordinated debt and mezzanine loans have elements of both debt and equity instruments, offering returns in the form of interest payments associated with senior debt, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity position. Due to its higher risk profile and often less restrictive covenants as compared to senior debt, mezzanine debt generally earns a higher return than senior secured debt. Any warrants associated with mezzanine loans are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine debt also may include a put feature, which permits the holder to sell its equity interest back to the borrower at a price determined through a pre-determined formula.

THE OFFERING

We may offer, from time to time, up to $300,000,000 of our Securities, on terms to be determined at the time of the offering. Our Securities may be offered at prices and on terms to be disclosed in one or more prospectus supplements. In the case of offering of our common stock and warrants or rights to acquire such common stock hereunder in any offering, the offering price per share, less any underwriting commissions or discounts, will not be less than the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders, or (iii) under such other circumstances as the Securities and Exchange Commission may permit. If we were to sell shares of our common stock below our then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

Our Securities may be offered directly to one or more purchasers, including existing stockholders in a rights offering, by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our Securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our Securities.

Set forth below is additional information regarding the offering of our Securities:

The Nasdaq Global Select Market Symbol	GAIN
Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our Securities first to pay down existing short-term debt, then to make investments in buyouts and recapitalizations of small and mid-sized companies in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. See Use of Proceeds.

Dividends and Distributions	We have paid monthly dividends to the holders of our common stock and generally intend to continue to do so. The amount of the monthly dividend is determined by our Board of Directors on a quarterly basis and is based on our estimate of our annual investment company taxable income and net short-term taxable capital gains, if any. See

	Price Range of Common Stock and Distributions. Certain additional amounts may be deemed as distributed to stockholders for income tax purposes. Other types of securities will likely pay distributions in accordance with their terms.
Taxation	We intend to continue to elect to be treated for federal income tax purposes as a regulated investment company, which we refer to as a RIC. So long as we continue to qualify, we generally will pay no corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. Due to the current economic environment, there is a risk that in future quarters we may be unable to satisfy one or more of these requirements. See Material U.S. Federal Income Tax Considerations.
Trading at a Discount	Shares of closed-end investment companies frequently trade at a discount to their net asset value. The possibility that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value, although during the past two years, our common stock has traded consistently, and at times significantly, below net asset value.
Certain Anti-Takeover Provisions	Our Board of Directors is divided into three classes of directors serving staggered three-year terms. This structure is intended to provide us with a greater likelihood of continuity of management, which may be necessary for us to realize the full value of our investments. A staggered board of directors also may serve to deter hostile takeovers or proxy contests, as may certain provisions of Delaware law and other measures we have adopted. See Certain Provisions of Delaware Law and of Our Certificate of Incorporation and Bylaws.
Dividend Reinvestment Plan	We have a dividend reinvestment plan for our stockholders. This is an opt in dividend reinvestment plan, meaning that stockholders may elect to have their cash dividends automatically reinvested in additional shares of our common stock. Stockholders who do not so elect will receive their dividends in cash. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See Dividend Reinvestment Plan.
Management Arrangements	Gladstone Management Corporation serves as our investment adviser, and Gladstone Administration, LLC serves serve as our administrator. For a description of our Adviser, our Administrator, the Gladstone Companies and our contractual arrangements with these companies, see Management Certain Transactions Investment Advisory and Management Agreement,

Management Certain Transactions Administration Agreement and Management Certain Transactions Loan Servicing Agreement.

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Risks of Losing Tax Status and External Financing Constraints	Currently, we do not meet the 50% threshold of the asset diversification test applicable to RICs under the Internal Revenue Code of 1986, as amended, or the Code. In addition, committed funding under our credit facility has been significantly reduced over the past two years. As a result, we have very limited ability to fund new investments and may become subject to corporate-level taxation. See Risk Factors We currently do not meet the 50% threshold of the asset diversification test applicable to RICs under the Code. If we make any additional investment in the future, including advances under outstanding lines of credit to our portfolio companies, and remain below this threshold as of September 30, 2010, or any subsequent quarter end, we would lose our RIC status unless we are able to cure such failure within 30 days of the quarter end. and Risk Factors Committed funding under our credit facility has been reduced from \$125.0 million to \$50.0 million. Any inability to expand the credit facility could adversely impact our liquidity and ability to find new investments or maintain distributions to our stockholders.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by us or Gladstone Investment, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Gladstone Investment. The following percentages were calculated based on actual expenses incurred in the quarter ended June 30, 2010 and net assets as of June 30, 2010.

Stockholder Transaction Expenses:	
Sales load (as a percentage of offering price)	%
Dividend reinvestment plan expenses(1)	None
Estimated annual expenses (as a percentage of net assets attributable to common stock):	
Management fees(2)	1.85%
Incentive fees payable under investment advisory and management agreement (20% of realized capital gains and 20% of pre-incentive fee net investment income)(3)	0.54%
Interest payments on borrowed funds(4)	0.90%
Other expenses(5)	1.32%
Total annual expenses (estimated)(2)(5)	4.60%

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Securities. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above. In the event that securities to which this prospectus related are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

	1 Year	3 Years	5 Years	10 Years

You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 48	$ 145	$ 242	$ 487

While the example assumes, as required by the Securities and Exchange Commission, which we refer to as the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Additionally, we have assumed that the entire amount of such 5% annual return would constitute ordinary income as we have not historically realized positive capital gains (computed net of all realized capital losses) on our investments. Because the assumed 5% annual return is significantly below the hurdle rate of 7% (annualized) that we must achieve under the investment advisory and management agreement to trigger the payment of an income-based incentive fee, we have assumed, for purposes of the above example, that no income-based incentive fee would be payable if we realized a 5% annual return on our investments. Additionally, because the capital gains-based incentive fee is calculated on a cumulative basis (computed net of all realized capital losses and unrealized capital depreciation) and because of the significant capital losses realized to date, we have assumed that we will not trigger the payment of any capital gains-based incentive fee in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors after such expenses, would be higher than reflected in the example. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, incentive fees, if any, and other expenses) may be greater or less than those shown.

(1) The expenses of the reinvestment plan are included in stock record expenses, a component of Other expenses. We do not have a cash purchase plan. The participants in the dividend reinvestment plan will bear a pro rata share of brokerage commissions incurred with respect to open market purchases, if any. See Dividend Reinvestment Plan for information on the dividend reinvestment plan.

(2) Our annual base management fee is 2% (0.5% quarterly) of our average gross assets, which are defined as total assets of Gladstone Investment, including investments made with proceeds of borrowings, less any uninvested cash or cash equivalents resulting from borrowings. For the three months ended June 30, 2010, our Adviser voluntarily agreed to waive the annual base management fee of 2% to 0.5% for those senior syndicated loans that we purchase using borrowings from our credit facility. Although there can be no guarantee that our Adviser will continue to waive any portion of the management fee, on an annual basis after giving effect to this waiver, the estimated management fees as a percentage of net assets attributable to common stock were 1.85% and the total estimated annual expenses as a percentage of net assets attributable to common stock were 1.88%. See Management Certain Transactions Investment Advisory and Management Agreement and footnote 3 below.

(3) The incentive fee consists of two parts: an income-based fee and a capital gains-based fee. The income-based fee is payable quarterly in arrears, and equals 20% of the excess, if any, of our pre-incentive fee net investment income that exceeds a 1.75% quarterly (7% annualized) hurdle rate of our net assets, subject to a catch-up provision measured as of the end of each calendar quarter. The catch-up provision requires us to pay 100% of our pre-incentive fee net investment income with respect to that portion of such income, if any, that exceeds the hurdle rate but is less than 125% of the quarterly hurdle rate (or 2.1875%) in any calendar quarter (8.75% annualized). The catch-up provision is meant to provide our Adviser with 20% of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 125% of the quarterly hurdle rate in any calendar quarter (8.75% annualized). The income-based incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. Our pre-incentive fee net investment income used to calculate this part of the income-based incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 2 above). The capital gains-based incentive fee equals 20% of our net realized capital gains since our inception, if any,

computed net of all realized capital losses and unrealized capital depreciation since our inception, less any prior payments, and is payable at the end of each fiscal year.

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Examples of how the incentive fee would be calculated are as follows:

Assuming pre-incentive fee net investment income of 0.55%, there would be no income-based incentive fee because such income would not exceed the hurdle rate of 1.75%.

Assuming pre-incentive fee net investment income of 2.00%, the income-based incentive fee would be as follows:

= 100% × (2.00% − 1.75%)

= 0.25%

Assuming pre-incentive fee net investment income of 2.30%, the income-based incentive fee would be as follows:

= (100% × (catch-up : 2.1875% − 1.75%)) + (20%× (2.30% − 2.1875%))

= (100% × 0.4375%) + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

Assuming net realized capital gains of 6% and realized capital losses and unrealized capital depreciation of 1%, the capital gains-based incentive fee would be as follows:

= 20% × (6% − 1%)

= 20% × 5%

= 1%

For a more detailed discussion of the calculation of the two-part incentive fee, see Management Certain Transactions Investment Advisory and Management Agreement.

(4) Includes deferred financing costs. We entered into a revolving credit facility, effective April 13, 2010, under which our borrowing capacity is $50 million. We have drawn down on this credit facility and we expect to borrow additional funds in the future up to an amount so that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of our senior securities. Assuming that we borrowed $50 million at an interest rate of 2% plus an additional fee related to borrowings of 4.5%, for an aggregate rate of 6.5%, interest payments and amortization of deferred financing costs on borrowed funds would have been 1.87% of our net assets as of June 30, 2010.

(5) Includes our overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by our Administrator in performing its obligations under the administration agreement. See Management Certain Transactions Administration Agreement.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form N-2 under the Securities Act of 1933, as amended, which we refer to as the Securities Act, with respect to the Securities offered by this prospectus. This prospectus, which is a part of the registration statement, does not contain all of the information set forth in the registration statement or exhibits and schedules thereto. For further information with respect to our business and our Securities, reference is made to the registration statement, including the amendments, exhibits and schedules thereto.

We also file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Such reports, proxy statements and other information, as well as the registration statement and the amendments, exhibits and schedules thereto, can be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference facilities may be obtained by calling the SEC at 1-202-551-8090. The SEC maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC s web site is *http://www.sec.gov*. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Our common stock is listed on The Nasdaq Global Select Market and our corporate website is located at *http://www.gladstoneinvestment.com*. The information contained on, or accessible through, our website is not a part of this prospectus.

We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

We also furnish to our stockholders annual reports, which registered include annual financial information that has been examined and reported on, with an opinion expressed, by our independent registered public accounting firm. See Experts.

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RISK FACTORS

You should carefully consider the risks described below and all other information provided and incorporated by reference in this prospectus (or any prospectus supplement) before making a decision to purchase our Securities. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our Securities could decline, and you may lose all or part of your investment.

Risks Related to the Economy

The current state of the economy and the capital markets increases the possibility of adverse effects on our financial position and results of operations. Continued economic adversity could impair our portfolio companies financial positions and operating results and affect the industries in which we invest, which could, in turn, harm our operating results. Continued adversity in the capital markets could impact our ability to raise capital and reduce our volume of new investments.

The United States is beginning to recover from the recession that largely began in late 2007. Despite signs of economic improvement and stabilization in both the equity and debt markets, however, conditions within the global credit markets generally continue to experience dislocation and stress. As a result, we do not know if adverse conditions will again intensify, and we are unable to gauge the full extent to which the disruptions will affect us. The longer these uncertain conditions persist, the greater the probability that these factors could continue to increase our costs of, and significantly limit our access to, debt and equity capital and, thus, have an adverse effect on our operations and financial results. Many of the companies in which we have made or will make investments are also susceptible to these unstable economic conditions, which may affect the ability of one or more of our portfolio companies to repay our loans or engage in a liquidity event, such as a sale, recapitalization or initial public offering. These unstable economic conditions could also disproportionately impact some of the industries in which we invest, causing us to be more vulnerable to losses in our portfolio, which could cause the number of our non-performing assets to increase and the fair market value of our portfolio to decrease. The unstable economic conditions may also decrease the value of collateral securing some of our loans as well as the value of our equity investments which would decrease our ability to borrow under our line of credit or raise equity capital, thereby further reducing our ability to make new investments.

The unstable economic conditions have affected the availability of credit generally and we have seen a reduction in committed funding under our line of credit from $125.0 million to $50.0 million and the withdrawal of Deutsche Bank AG as a committed lender. Moreover, during the first quarter of fiscal year 2010, we were forced to sell 29 of the 32 senior syndicated loans that were held in our portfolio of investments at March 31, 2009 in order to repay amounts outstanding under our prior credit facility. The loans, in aggregate, had a cost value of approximately $104.2 million, or 29.9% of the cost value of our total investments, and an aggregate fair market value of approximately $69.8 million, or 22.2% of the fair market value of our total investments, at March 31, 2009. As a result of these sales, we received approximately $69.2 million in net cash proceeds and recorded a realized loss of approximately $34.6 million. Our current line of credit limits our distributions to stockholders, and, as a result, beginning in fiscal year 2010, we decreased our monthly cash distribution rate by 50% as compared to the prior year period in an effort to more closely align our distributions to our net investment income. We do not know when market conditions will fully stabilize, if adverse conditions will intensify or the full extent to which the disruptions will continue to affect us. Also, it is possible that persistent instability of the financial markets could have other unforeseen material effects on our business.

We may experience fluctuations in our quarterly and annual results based on the impact of inflation in the United States.

The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production which could greatly affect their operating results, impacting their ability to

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repay our loans. In addition, any projected future decreases in our portfolio companies operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future unrealized losses and therefore reduce our net assets resulting from operations.

Risks Related to Our External Management

We are dependent upon our key management personnel and the key management personnel of our Adviser, particularly David Gladstone, George Stelljes III, Terry Lee Brubaker and David Dullum, and on the continued operations of our Adviser, for our future success.

We have no employees. Our chief executive officer, president and chief investment officer, chief operating officer and chief financial officer, and the employees of our Adviser, do not spend all of their time managing our activities and our investment portfolio. We are particularly dependent upon David Gladstone, George Stelljes III, Terry Lee Brubaker and David Dullum in this regard. Our executive officers and the employees of our Adviser allocate some, and in some cases a material portion, of their time to businesses and activities that are not related to our business. We have no separate facilities and are completely reliant on our Adviser, which has significant discretion as to the implementation and execution of our business strategies and risk management practices. We are subject to the risk of discontinuation of our Adviser s operations or termination of the Advisory Agreement and the risk that, upon such event, no suitable replacement will be found. We believe that our success depends to a significant extent upon our Adviser and that discontinuation of its operations could have a material adverse effect on our ability to achieve our investment objectives.

Our incentive fee may induce our Adviser to make certain investments, including speculative investments.

The management compensation structure that has been implemented under the Advisory Agreement may cause our Adviser to invest in high risk investments or take other risks. In addition to its management fee, our Adviser is entitled under the Advisory Agreement to receive incentive compensation based in part upon our achievement of specified levels of income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead our Adviser to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining sufficient liquidity, or management of credit risk or market risk, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

We may be obligated to pay our Adviser incentive compensation even if we incur a loss.

The Advisory Agreement entitles our Adviser to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. When calculating our incentive compensation, our pre-incentive fee net investment income excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay our Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter. For additional information on incentive compensation under the Advisory Agreement with our Adviser, see Business Investment Advisory and Management Agreement.

Our Adviser s failure to identify and invest in securities that meet our investment criteria or perform its responsibilities under the Advisory Agreement may adversely affect our ability for future growth.

Our ability to achieve our investment objectives will depend on our ability to grow, which in turn will depend on our Adviser s ability to identify and invest in securities that meet our investment criteria. Accomplishing this result on a cost-effective basis will be largely a function of our Adviser s structuring of the investment process, its ability to provide competent and efficient services to us, and our access to financing on acceptable terms. The senior management team of our Adviser has substantial responsibilities under the Advisory Agreement. In order to grow, our Adviser will need to hire, train supervise and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

There are significant potential conflicts of interest which could impact our investment returns.

Our executive officers and directors, and the officers and directors of our Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Mr. Gladstone, our chairman and chief executive officer, is the chairman of the board and chief executive officer of our Adviser, Gladstone Capital and Gladstone Commercial and the sole stockholder of Gladstone Land. In addition, Mr. Brubaker, our co-vice chairman, chief operating officer and secretary is the vice chairman, chief operating officer and secretary of our Adviser, Gladstone Capital and Gladstone Commercial. Mr. Stelljes, our co-vice chairman and chief investment officer, is also the president and chief investment officer of our Adviser, Gladstone Capital and Gladstone Commercial. Mr. Dullum, our president and a director, is a senior managing director of our Adviser and a director of Gladstone Capital and Gladstone Commercial. Moreover, our Adviser may establish or sponsor other investment vehicles which from time to time may have potentially overlapping investment objectives with those of ours and accordingly may invest in, whether principally or secondarily, asset classes similar to those we target. For example, our Adviser recently filed registration statements with the Securities and Exchange Commission for proposed initial public offerings of common stock of Gladstone Lending Corporation, a proposed fund that would primarily invest in first and second lien term loans, and Gladstone Land Corporation, a fund that invests in farmland. While our Adviser generally has broad authority to make investments on behalf of the investment vehicles that it advises, our Adviser has adopted investment allocation procedures to address these potential conflicts and intends to direct investment opportunities to the Gladstone affiliate with the investment strategy that most closely fits the investment opportunity. Nevertheless, the management of our Adviser may face conflicts in the allocation of investment opportunities to other entities managed by our Adviser. As a result, it is possible that we may not be given the opportunity to participate in certain investments made by other members of our Adviser and its affiliated companies or investment funds managed by investment managers affiliated with our Adviser.

In certain circumstances, we may make investments in a portfolio company in which one of our affiliates has or will have an investment, subject to satisfaction of any regulatory restrictions and, where required, to the prior approval of our Board of Directors. As of June 30, 2010, our Board of Directors has approved the following types of co-investment transactions:

- Our affiliate, Gladstone Commercial, may lease property to portfolio companies that we do not control under certain circumstances. We may pursue such transactions only if (i) the portfolio company is not controlled by us or any of our affiliates, (ii) the portfolio company satisfies the tenant underwriting criteria of Gladstone Commercial, and (iii) the transaction is approved by a majority of our independent directors and a majority of the independent directors of Gladstone Commercial. We expect that any such negotiations between Gladstone Commercial and our portfolio companies would result in lease terms consistent with the terms that the portfolio companies would be likely to receive were they not portfolio companies of ours.

- We may invest simultaneously with our affiliate Gladstone Capital in senior syndicated loans whereby neither we nor any affiliate has the ability to dictate the terms of the loans.

- Additionally, pursuant to an exemptive order granted by the Securities and Exchange Commission, our Adviser may sponsor a private investment fund to co-invest with us and Gladstone Capital in accordance with the terms and conditions of the order.

Certain of our officers who are also officers of our Adviser may from time to time serve as directors of certain of our portfolio companies. If an officer serves in such capacity with one of our portfolio companies, such officer will owe fiduciary duties to all stockholders of the portfolio company, which duties may from time to time conflict with the interests of our stockholders.

In the course of our investing activities, we will pay management and incentive fees to our Adviser and will reimburse our Administrator for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through our investors themselves making direct investments. As a result of this arrangement, there may be times when the management team of our Adviser has interests that differ from those of our stockholders, giving rise to a conflict.

Our Adviser is not obligated to provide a waiver of the base management fee, which could negatively impact our earnings and our ability to maintain our current level of distributions to our stockholders.

The Advisory Agreement provides for a base management fee based on our gross assets. Since our 2008 fiscal year, our Board of Directors has accepted on a quarterly basis voluntary, unconditional and irrevocable waivers to reduce the annual 2% base management fee on senior syndicated loan participations to 0.5% to the extent that proceeds resulting from borrowings were used to purchase such syndicated loan participations, and any waived fees may not be recouped by our Adviser in the future. However, our Adviser is not required to issue these or other waivers of fees under the Advisory Agreement, and to the extent our investment portfolio grows in the future, we expect these fees will increase. If our Adviser does not issue these waivers in future quarters, it could negatively impact our earnings and may compromise our ability to maintain our current level of distributions to our stockholders, which could have a material adverse impact on our stock price.

Our business model is dependent upon developing and sustaining strong referral relationships with investment bankers, business brokers and other intermediaries.

We are dependent upon informal relationships with investment bankers, business brokers and traditional lending institutions to provide us with deal flow. If we fail to maintain our relationship with such funds or institutions, or if we fail to establish strong referral relationships with other funds, we will not be able to grow our portfolio of loans and fully execute our business plan.

Risks Related to Our External Financing

In recent years, creditors have significantly curtailed their lending to business development companies, including us. Because of the limited amount of committed funding under our line of credit, we will have limited ability fund new investments if we are unable to expand the facility.

On April 13, 2010, through our wholly-owned subsidiary Gladstone Business Investment, LLC, we entered into a third amended and restated credit agreement providing for a $50.0 million revolving line of credit, which we refer to as the Credit Facility, arranged by Branch Banking and Trust Company, or BB&T, as administrative agent. Key Equipment Finance Company Inc. also joined the Credit Facility as a committed lender. Committed funding under the Credit Facility was reduced from the $125.0 million under our prior credit facility and Deutsche Bank AG, which was a committed lender under the prior credit facility, elected not to participate in the Credit Facility and withdrew its commitment. The Credit Facility may be expanded up to $125.0 million through the addition of other committed lenders to the facility. However, if additional lenders are unwilling to join the facility on its terms, we will be unable to expand the facility and thus will continue to have limited availability to finance new investments under our line of credit. The Credit Facility matures on April 13, 2012, and if the facility is not renewed or extended by this date, all principal and interest will be due and payable within one year of maturity. Between the maturity date and April 13, 2013, our lenders have the right to apply all interest income to amounts outstanding under the Credit Facility. As of August 20, 2010 we had $30.7 million of borrowing capacity under the Credit Facility. There can be no guarantee that we will be able to renew, extend or replace the Credit Facility upon its maturity in 2012 on terms that are favorable to us, if at all. Our ability to expand the Credit Facility, and to obtain replacement financing at the time of its maturity, will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to expand the Credit Facility, or to renew, extend or refinance the Credit Facility at the time of its maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC under the Code.

Our business plan is dependent upon external financing, which is constrained by the limitations of the 1940 Act.

Our business requires a substantial amount of cash to operate and grow. We may acquire such additional capital from the following sources:

Senior Securities. We may issue debt securities, other evidences of indebtedness (including borrowings under our line of credit) and possibly preferred stock, up to the maximum amount permitted by the 1940 Act. The 1940 Act currently permits us, as a business development company, to issue debt securities, and preferred stock, which we refer to collectively as senior securities, in amounts such that our asset coverage, as defined in the 1940 Act, is at least 200% after each issuance of senior securities. As a result of issuing senior securities, we will be exposed to the risks associated with leverage. Although borrowing money for investments increases the potential for gain, it also increases the risk of a loss. A decrease in the value of our investments will have a greater impact on the value of our common stock to the extent that we have borrowed money to make investments. There is a possibility that the costs of borrowing could exceed the income we receive on the investments we make with such borrowed funds. In addition, our ability to pay distributions or incur additional indebtedness would be restricted if asset coverage is not at least twice our indebtedness. If the value of our assets declines, we might be unable to satisfy that test. If this happens, we may be required to liquidate a portion of our loan portfolio and repay a portion of our indebtedness at a time when a sale, to the extent possible given the limited market for many of our investments, may be disadvantageous. Furthermore, any amounts that we use to service our indebtedness will not be available for distributions to our stockholders.

Common Stock. Because we are constrained in our ability to issue debt for the reasons given above, we are dependent on the issuance of equity as a financing source. If we raise additional funds by issuing more common stock or senior securities convertible into or exchangeable for our common stock, the percentage ownership of our stockholders at the time of the issuance would decrease and our common stock may experience dilution. In addition, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock. In addition, under the 1940 Act, we will generally not be able to issue additional shares of our common stock at a price below net asset value per share to purchasers, other than to our existing stockholders, through a rights offering without first obtaining the approval of our stockholders and our independent directors. If we were to sell shares of our common stock below our then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. For example, if we sell an additional 10% of our common stock at a 5% discount from net asset value, a stockholder who does not participate in that offering for its proportionate interest will suffer net asset value dilution of up to 0.5% or $5 per $1,000 of net asset value. This imposes constraints on our ability to raise capital when our common stock is trading at below net asset value, as it has for the last year.

A change in interest rates may adversely affect our profitability and our hedging strategy may expose us to additional risks.

We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities. As a result, a portion of our income will depend upon the difference between the rate at which we borrow funds and the rate at which we loan these funds. Higher interest rates on our borrowings will decrease the overall return on our portfolio.

Ultimately, we expect approximately 80% of the loans in our portfolio to be at variable rates determined on the basis of a LIBOR rate and approximately 20% to be at fixed rates. As of August 20, 2010, our portfolio had approximately

3% of the total of the loan cost value at variable rates, approximately 55.8% of the total loan cost value at variable rates with floors and approximately 41.2% of the total loan portfolio cost basis at fixed rates.

To date, we hold two interest rate cap agreements. While hedging activities may insulate us against adverse fluctuations in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or any future hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Our ability to receive payments pursuant to our interest rate cap agreement is linked to the ability of the counter-party to that agreement to make the required payments. To the extent that the counter-party to the agreement is unable to pay pursuant to the terms of the agreement, we may lose the hedging protection of the interest rate cap agreement.

In addition to regulatory limitations on our ability to raise capital, our line of credit contains various covenants, which, if not complied with, could accelerate our repayment obligations under the facility, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

We will have a continuing need for capital to finance our loans. In order to maintain RIC status, we will be required to distribute to our stockholders at least 90% of our ordinary income and short-term capital gains on an annual basis. Accordingly, such earnings will not be available to fund additional loans. Therefore, we are party to the Credit Facility, which provides us with a revolving credit line facility of $50.0 million, of which $30.7 million was available for borrowings as of August 20, 2010. The Credit Facility permits us to fund additional loans and investments as long as we are within the conditions set out in the credit agreement. Current market conditions have forced us to write down the value of a portion of our assets as required by the 1940 Act and fair value accounting rules. These are not realized losses, but constitute adjustment in asset values for purposes of financial reporting and for collateral value for the Credit Facility. As assets are marked down in value, the amount we can borrow on the Credit Facility decreases.

As a result of the Credit Facility, we are subject to certain limitations on the type of loan investments we make, including restrictions on geographic concentrations, sector concentrations, loan size, dividend payout, payment frequency and status, and average life. The credit agreement also requires us to comply with other financial and operational covenants, which require us to, among other things, maintain certain financial ratios, including asset and interest coverage and a minimum net worth. As of June 30, 2010, we were in compliance with these covenants; however, our continued compliance with these covenants depends on many factors, some of which are beyond our control. In particular, depreciation in the valuation of our assets, which valuation is subject to changing market conditions that remain very volatile, affects our ability to comply with these covenants.

During the year ended March 31, 2010, net unrealized appreciation on our investments was $14.3 million, which reflected the reversal of $35.7 million in unrealized depreciation resulting from our realized losses. Excluding reversals, we had $21.4 million in unrealized depreciation for the year ended March 31, 2010. During the year ended March 31, 2009, net unrealized depreciation on our investments was $19.8 million. Given the continued instability in the capital markets, the cumulative unrealized depreciation in our portfolio may increase in future periods and threaten our ability to comply with the covenants under the Credit Facility. Accordingly, there are no assurances that we will continue to comply with these covenants. Under the Credit Facility, we are also required to maintain our status as a BDC under the 1940 Act and as a RIC under the Code. Because of recent changes in our asset portfolio, due to significant sales of Non-Control/Non-Affiliate investments, there is a significant possibility that we may not meet the asset diversification threshold under the Code s rules applicable to a RIC as of our next quarterly testing date, September 30, 2010. Although this failure alone, in our current situation, will not cause us to lose our RIC status, our RIC status will be jeopardized if we make any new investments, including additional investments in our portfolio companies (such as advances under our outstanding lines of credit). For more information on our current RIC status, see Material U.S. Federal Income Tax Considerations Regulated Investment Company Status. Our failure to satisfy these covenants could result in foreclosure by our lenders, which would accelerate our repayment obligations under the facility and thereby have a material adverse effect on our business, liquidity, financial condition, results of operations and ability to pay distributions to our stockholders.

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Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us and make the types of investments that we seek to make in small and mid-sized companies. We compete with public and private buyout funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, hedge funds. Many of our competitors are substantially larger and have considerably greater financial, technical, and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which would allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. The competitive pressures we face could have a material adverse effect on our business, financial condition, and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We do not seek to compete based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors pricing, terms, and structure. However, if we match our competitors pricing, terms, and structure, we may experience decreased net interest income and increased risk of credit loss.

Our investments in small and medium-sized portfolio companies are extremely risky and could cause you to lose all or a part of your investment.

Investments in small and medium-sized portfolio companies are subject to a number of significant risks including the following:

Small and medium-sized businesses are likely to have greater exposure to economic downturns than larger businesses. Our portfolio companies may have fewer resources than larger businesses, and thus the current recession, and any further economic downturns or recessions are more likely to have a material adverse effect on them. If one of our portfolio companies is adversely impacted by a recession, its ability to repay our loan or engage in a liquidity event, such as a sale, recapitalization or initial public offering would be diminished. Moreover, in light of our current near-term strategy of preserving capital, our inability to make additional investments in our portfolio companies at a time when they need capital may increase their exposure to the risks of the current recession and future economic downturns.

Small and medium-sized businesses may have limited financial resources and may not be able to repay the loans we make to them. Our strategy includes providing financing to portfolio companies that typically is not readily available to them. While we believe that this provides an attractive opportunity for us to generate profits, this may make it difficult for the portfolio companies to repay their loans to us upon maturity. A borrower s ability to repay its loan may be adversely affected by numerous factors, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A deterioration in a borrower s financial condition and prospects usually will be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing on any guarantees we may have obtained from the borrower s management. Although we will sometimes seek to be the senior, secured lender to a borrower, in most of our loans we expect to be subordinated to a senior lender, and our interest in any collateral would, accordingly, likely be subordinate to another lender s security interest.

Small and medium-sized businesses typically have narrower product lines and smaller market shares than large businesses. Because our target portfolio companies are smaller businesses, they will tend to be more vulnerable to competitors actions and market conditions, as well as general economic downturns. In addition, our portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities and a larger number of qualified managerial and technical personnel.

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There is generally little or no publicly available information about these businesses. Because we seek to invest in privately owned businesses, there is generally little or no publicly available operating and financial information about our potential portfolio companies. As a result, we rely on our officers, our Adviser and its employees and consultants to perform due diligence investigations of these portfolio companies, their operations and their prospects. We may not learn all of the material information we need to know regarding these businesses through our investigations.

Small and medium-sized businesses generally have less predictable operating results. We expect that our portfolio companies may have significant variations in their operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may otherwise have a weak financial position or may be adversely affected by changes in the business cycle. Our portfolio companies may not meet net income, cash flow and other coverage tests typically imposed by their senior lenders. A borrower s failure to satisfy financial or operating covenants imposed by senior lenders could lead to defaults and, potentially, foreclosure on its senior credit facility, which could additionally trigger cross-defaults in other agreements. If this were to occur, it is possible that the borrower s ability to repay our loan would be jeopardized.

Small and medium-sized businesses are more likely to be dependent on one or two persons. Typically, the success of a small or medium-sized business also depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on our borrower and, in turn, on us.

Small and medium-sized businesses may have limited operating histories. While we intend to target stable companies with proven track records, we may make loans to new companies that meet our other investment criteria. Portfolio companies with limited operating histories will be exposed to all of the operating risks that new businesses face and may be particularly susceptible to, among other risks, market downturns, competitive pressures and the departure of key executive officers.

Because the loans we make and equity securities we receive when we make loans are not publicly traded, there is uncertainty regarding the value of our privately held securities that could adversely affect our determination of our net asset value.

Our portfolio investments are, and we expect will continue to be, in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Our Board of Directors has established an investment valuation policy and consistently applied valuation procedures used to determine the fair value of these securities quarterly. These procedures for the determination of value of many of our debt securities rely on the opinions of value submitted to us by Standard and Poor s Securities Evaluations, Inc., or SPSE, or the use of internally developed discounted cash flow, or DCF, methodologies or indicative bid price, or IBP, offered by the respective originating syndication agent s trading desk, or secondary desk, specifically for our syndicated loans, or internal methodologies based on the total enterprise value, or TEV, of the issuer used for certain of our equity investments. SPSE will only evaluate the debt portion of our investments for which we specifically request evaluation, and SPSE may decline to make requested evaluations for any reason in its sole discretion. However, to date, SPSE has accepted each of our requests for evaluation.

Our use of these fair value methods is inherently subjective and is based on estimates and assumptions of each security. In the event that we are required to sell a security, we may ultimately sell for an amount materially less than the estimated fair value calculated by SPSE, or utilizing the TEV, IBP or the DCF methodology. During April and

May of 2009, we completed the sale of 29 of the 32 senior syndicated loans that were held in our portfolio of investments at March 31, 2009 to various investors in the syndicated loan market, which we refer to as the Syndicated Loan Sales. As a result of these sales, we received approximately $69.2 million in net cash proceeds, which was approximately $34.6 million less than the cost value of such investments recorded as of December 31, 2008.

Our procedures also include provisions whereby our Adviser will establish the fair value of any equity securities we may hold where SPSE or third-party agent banks are unable to provide evaluations. The types of factors that may be considered in determining the fair value of our debt and equity securities include some or all of the following:

- the nature and realizable value of any collateral;
- the portfolio company s earnings and cash flows and its ability to make payments on its obligations;
- the markets in which the portfolio company does business;
- the comparison to publicly traded companies; and
- discounted cash flow and other relevant factors.

Because such valuations, particularly valuations of private securities and private companies, are not susceptible to precise determination, may fluctuate over short periods of time, and may be based on estimates, our determinations of fair value may differ from the values that might have actually resulted had a readily available market for these securities been available.

A portion of our assets are, and will continue to be, comprised of equity securities that are valued based on internal assessment using our own valuation methods approved by our Board of Directors, without the input of SPSE or any other third-party evaluator. We believe that our equity valuation methods reflect those regularly used as standards by other professionals in our industry who value equity securities. However, determination of fair value for securities that are not publicly traded, whether or not we use the recommendations of an independent third-party evaluator, necessarily involves the exercise of subjective judgment. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

The lack of liquidity of our privately held investments may adversely affect our business.

We will generally make investments in private companies whose securities are not traded in any public market. Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to quickly obtain cash equal to the value at which we record our investments if the need arises. This could cause us to miss important investment opportunities. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may record substantial realized losses upon liquidation. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we, our Adviser, or our respective officers, employees or affiliates have material non-public information regarding such portfolio company.

Due to the uncertainty inherent in valuing these securities, our determinations of fair value may differ materially from the values that could be obtained if a ready market for these securities existed. Our net asset value could be materially affected if our determinations regarding the fair value of our investments are materially different from the values that we ultimately realize upon our disposal of such securities.

Our financial results could be negatively affected if a significant portfolio investment fails to perform as expected.

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. This risk is heightened as a result of our sale of the majority of senior syndicated loans in the quarter ended June 30, 2009. As a result of these sales and other exits, the total number of portfolio companies in which we hold investments decreased from 46 at March 31, 2009 to 15 at June 30, 2010. Our five largest investments represent 51.8% of the fair value of our total portfolio at June 30, 2010, compared to 61.9% at June 30, 2009. Additionally, they represent 71% of our total revenues for the quarter ended June 30, 2010, compared to 49.9% for the quarter ended June 30, 2009. Any disposition of a significant investment in one or more companies may negatively impact our net investment income and limit our ability to pay distributions.

We may not be able to replace lost income due to the reduction in the size of our portfolio and as a result, we may have to reduce our distributions to stockholders.

Since March 31, 2009, the cost basis of our portfolio has experienced a net decrease of 47%. The decrease in the size of our portfolio was driven predominantly by the Syndicated Loan Sales, which had a cost basis of $104.2 million, during the quarter ended June 30, 2009 and by the sale of A. Stucki Holding Corp., which had a cost basis of $33.0 million, during June 2010. The decrease in our portfolio has resulted in a reduction of income-producing assets which has reduced our income and may result in reduced income in future periods if we are unable to reinvest our cash in comparable income producing assets. Even though this lost income is partially offset by a reduction in interest expense due to reduced borrowings outstanding under our Credit Facility and, to a lesser extent, reduced operating expenses, we still have experienced a net decrease in our net investment income as a result of these sales. While we intend to reinvest our cash as quickly as possible into income and capital gain-generating assets, there is no guarantee that that we will be able to do so or that we will able to do so at yields comparable to the assets that we have recently sold. If we are unable to reinvest our cash and replace our lost income, we may need to reduce our distributions to stockholders.

When we are a debt or minority equity investor in a portfolio company, which we expect will generally be the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

We anticipate that most of our investments will continue to be either debt or minority equity investments in our portfolio companies. Therefore, we are and will remain subject to risk that a portfolio company may make business decisions with which we disagree, and the shareholders and management of such company may take risks or otherwise act in ways that do not serve our best interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings. In addition, we will generally not be in a position to control any portfolio company by investing in its debt securities.

We typically invest in transactions involving acquisitions, buyouts and recapitalizations of companies, which will subject us to the risks associated with change in control transactions.

Our strategy includes making debt and equity investments in companies in connection with acquisitions, buyouts and recapitalizations, which subjects us to the risks associated with change in control transactions. Change in control transactions often present a number of uncertainties. Companies undergoing change in control transactions often face challenges retaining key employees and maintaining relationships with customers and suppliers. While we hope to avoid many of these difficulties by participating in transactions where the management team is retained and by conducting thorough due diligence in advance of our decision to invest, if our portfolio companies experience one or more of these problems, we may not realize the value that we expect in connection with our investments which would likely harm our operating results and financial condition.

Prepayments of our investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

In addition to risks associated with delays in investing our capital, we are also subject to the risk that investments that we make in our portfolio companies may be repaid prior to maturity. We will first use any proceeds from prepayments to repay any borrowings outstanding on our line of credit. In the event that funds remain after repayment of our outstanding borrowings, then we will generally reinvest these proceeds in government securities, pending their future investment in new debt and/or equity securities. These government securities will typically have substantially lower yields than the debt securities being prepaid and we could experience significant delays in reinvesting these amounts.

As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

Higher taxation of our portfolio companies may impact our quarterly and annual operating results.

The adverse effect of current unstable economic conditions on federal, state, and municipality revenues may induce these government entities to raise various taxes to make up for lost revenues. Additional taxation may have an adverse affect on our portfolio companies earnings and reduce their ability to repay our loans to them, thus affecting our quarterly and annual operating results.

Our portfolio is concentrated in a limited number of companies and industries, which subjects us to an increased risk of significant loss if any one of these companies does not repay us or if the industries experience downturns.

As of June 30, 2010, we had investments in 15 portfolio companies, of which there were three investments, Chase II Holdings Corp., Galaxy Tool Holding Corp. and Cavert II Holdings Corp., that comprised approximately $62.8 million or 42.3% of our total investment portfolio, at fair value. A consequence of a limited number of investments is that the aggregate returns we realize may be substantially adversely affected by the unfavorable performance of a small number of such loans or a substantial write-down of any one investment. Beyond our regulatory and income tax diversification requirements, we do not have fixed guidelines for industry concentration and our investments could potentially be concentrated in relatively few industries. In addition, while we do not intend to invest 25% or more of our total assets in a particular industry or group of industries at the time of investment, it is possible that as the values of our portfolio companies change, one industry or a group of industries may comprise in excess of 25% of the value of our total assets. As of June 30, 2010, 28.8% of our total assets were invested in diversified conglomerate manufacturing companies. As a result, a downturn in an industry in which we have invested a significant portion of our total assets could have a materially adverse effect on us.

Our investments are typically long term and will require several years to realize liquidation events.

Since we generally make five to seven year term loans and hold our loans and related warrants or other equity positions until the loans mature, you should not expect realization events, if any, to occur over the near term. In addition, we expect that any warrants or other equity positions that we receive when we make loans may require several years to appreciate in value and we cannot give any assurance that such appreciation will occur.

The disposition of our investments may result in contingent liabilities.

Currently, all of our investments involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the underlying portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

Even though we have structured some of our investments as senior loans, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt investments and subordinate all, or a portion, of our claims to that of other creditors. Holders of debt instruments ranking senior to our investments typically would be entitled to receive payment in full before we receive any distributions. After repaying such senior creditors, such portfolio company may not have any remaining assets to use to repay its obligation to us. We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or in instances in which we exercised control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance.

Portfolio company litigation could result in additional costs and the diversion of management time and resources.

In the course of providing significant managerial assistance to certain of our portfolio companies, we sometimes serve as directors on the boards of such companies. To the extent that litigation arises out of our investments in these companies, we may be named as a defendant in such litigation, which could result in additional costs and the diversion of management time and resources.

We may not realize gains from our equity investments and other yield enhancements.

When we make a subordinated loan, we may receive warrants to purchase stock issued by the borrower or other yield enhancements, such as success fees. Our goal is to ultimately dispose of these equity interests and realize gains upon our disposition of such interests. We expect that, over time, the gains we realize on these warrants and other yield enhancements will offset any losses we experience on loan defaults. However, any warrants we receive may not appreciate in value and, in fact, may decline in value and any other yield enhancements, such as success fees, may not be realized. Accordingly, we may not be able to realize gains from our equity interests or other yield enhancements and any gains we may recognize might not be sufficient to offset losses we experience on our loan portfolio.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.

As a business development company we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Since our inception, we have, at times, incurred a cumulative net unrealized depreciation of our portfolio. Any unrealized depreciation in our investment portfolio could result in realized losses in the future and ultimately in reductions of our income available for distribution to stockholders in future periods.

Risks Related to Our Regulation and Structure

We currently do not meet the 50% threshold of the asset diversification test applicable to RICs under the Code. If we make any additional investment in the future, including advances under outstanding lines of credit to our portfolio companies, and remain below this threshold as of September 30, 2010, or any subsequent quarter end, we would lose our RIC status unless we are able to cure such failure within 30 days of the quarter end.

In order to maintain RIC status under the Code, in addition to other requirements, as of the close of each quarter of our taxable year, we must meet the asset diversification test, which requires that at least 50% of the value of our assets consist of cash, cash items, U.S. government securities, the securities of other RICs and other securities to the extent such other securities of any one issuer do not represent more than 5% of our total assets or more than 10% of the voting securities of such issuer. As a result of changes in the value of our assets during April and May 2009, due to the Syndicated Loan Sales, we fell below the 50% threshold. At June 30, 2010, the fifth quarterly measurement date following the Syndicated Loan Sales, we satisfied the 50% threshold through the purchase of short-term qualified securities, which was funded primarily through a short-term loan agreement. Subsequent to the June 30, 2010 measurement date, the short-term qualified securities matured, and we repaid the short-term loan, at which time we again fell below the 50% threshold. Until the composition of our assets is above the required 50% threshold, we will continue to seek to deploy similar purchases of qualified securities using short-term loans that would allow us to satisfy the asset diversification test, thereby allowing us to make new or additional investments. There can be no assurance, however, that we will be able to enter into such a transaction on reasonable terms, if at all. Failure to meet this threshold alone does not result in loss of our RIC status in our current situation. In circumstances where the failure to meet the 50% threshold as of a quarterly measurement date is the result of fluctuations in the value of assets, including in our case as a result of the sale of assets, we are still deemed under the rules to have satisfied the asset diversification test and, therefore, maintain our RIC status, as long as we have not made any new investments, including additional investments in our portfolio companies (such as advances under outstanding lines of credit), since the time that we fell below the 50% threshold. Thus, while we currently qualify as a RIC despite our current inability to meet the 50% threshold and potential inability to do so in the future, if we make any new or additional investments before regaining compliance with the asset diversification test, our RIC status will be threatened. Because, in most circumstances, we are contractually required to advance funds on outstanding lines of credit upon the request of our portfolio companies, we may have a limited ability to avoid adding to existing investments in a manner that would cause us to fail the asset diversification test as of September 30, 2010 or as of subsequent quarterly measurement dates.

If we were to make a new or additional investment before regaining compliance with the 50% threshold, and we did not regain compliance prior to the next quarterly measurement date following such investment, we would have thirty days to cure our failure to meet the 50% threshold to avoid our loss of RIC status. Potential cures for failure of the asset diversification test include raising additional equity or debt capital as we have done, or changing the composition of our assets, which could include full or partial divestitures of investments, such that we would once again meet or exceed the 50% threshold. Our ability to implement any of these cures would be subject to market conditions and a number of risks and uncertainties that would be, in part, beyond our control. Accordingly, we can not guarantee you that we would be successful in curing any failure of the asset diversification test, which would subject us to corporate level tax. For additional information about the consequences of failing to satisfy the RIC qualification, see We will be subject to corporate level tax if we are unable to satisfy Internal Revenue Code requirements for RIC qualification.

We will be subject to corporate-level tax if we are unable to satisfy Code requirements for RIC qualification.

To maintain our qualification as a RIC, we must meet income source, asset diversification and annual distribution requirements. The annual distribution requirement is satisfied if we distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on an annual basis. Because we use leverage, we are subject to certain asset coverage ratio requirements under the 1940 Act and could, under certain circumstances, be restricted from making distributions necessary to qualify as a RIC. Warrants we receive with respect to debt investments will create original issue discount, which we must recognize as ordinary income, increasing the amounts we are required to distribute to maintain RIC status. Because such warrants will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we will need to use cash from other sources to satisfy such distribution requirements. The asset diversification requirements must be met at the end of each calendar quarter. If we fail to meet these tests, we may need to quickly dispose of certain investments to prevent the loss of RIC status. Since most of our investments will be illiquid, such dispositions, if even possible, may not be made at prices advantageous to us and, in fact, may result in substantial losses. If we fail to qualify as a RIC for any reason and become fully subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution, and the actual amount distributed. Such a failure would have a material adverse effect on us and our shares. For additional information regarding asset coverage ratio and RIC requirements, see Material U.S. Federal Income Tax Considerations Regulated Investment Company Status.

From time to time, some of our debt investments may include success fees that would generate payments to us if the business is ultimately sold. Because the satisfaction of these success fees, and the ultimate payment of these fees, is uncertain, to date we have not recognized any of these success fees as income, either for financial accounting or tax purposes, until the time that the success fees have actually been paid. We have recently sought a determination from the Internal Revenue Service, or IRS, that it agrees with our tax treatment. If the IRS were to disagree with this approach, we would be required to accrue these amounts as investment company taxable income, including an immediate accrual of amounts related to success fees that were not accrued in prior periods. As a result, we would be required to distribute such amounts to our stockholders in order to maintain RIC status.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations, or their interpretation, or any failure by us or our portfolio companies to comply with these laws or regulations may adversely affect our business. For additional information regarding the regulations to which we are subject, see Material U.S. Federal Income Tax Considerations Regulated Investment Company Status and Regulation as a Business Development Company.

Provisions of the Delaware General Corporation Law and of our certificate of incorporation and bylaws could restrict a change in control and have an adverse impact on the price of our common stock.

We are subject to provisions of the Delaware General Corporation Law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for three years unless the holder s acquisition of our stock was either approved in advance by our Board of Directors or ratified by the Board of Directors and stockholders owning two-thirds of our outstanding stock not owned by the acquiring holder. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our Board of Directors, they would apply even if the offer may be considered beneficial by some stockholders.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation classifying our Board of Directors in three classes serving staggered three-year terms, and provisions of our certificate of incorporation authorizing our Board of Directors to induce the issuance of additional shares of our stock. These provisions, as well as other provisions of our certificate of incorporation and bylaws, may delay, defer, or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Risks Related to an Investment in Our Common Stock

We may experience fluctuations in our quarterly and annual operating results.

We may experience fluctuations in our quarterly and annual operating results due to a number of factors, including, among others, variations in our investment income, the interest rates payable on the debt securities we acquire, the default rates on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions, including the impacts of inflation. The majority of our portfolio companies are in industries that are directly impacted by inflation, such as manufacturing and consumer goods and services. Our portfolio companies may not be able to pass on to customers increases in their costs of production which could greatly affect their operating results, impacting their ability to repay our loans. In addition, any projected future decreases in our portfolio companies operating results due to inflation could adversely impact the fair value of those investments. Any decreases in the fair value of our investments could result in future realized and unrealized losses and therefore reduce our net assets resulting from operations. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There is a risk that you may not receive distributions.

Our current intention is to distribute at least 90% of our ordinary income and short-term capital gains to our stockholders on a quarterly basis by paying monthly distributions. We expect to retain net realized long-term capital gains to supplement our equity capital and support the growth of our portfolio, although our Board of Directors may determine in certain cases to distribute these gains. In addition, our line of credit restricts the amount of distributions we are permitted to make. We cannot assure you that we will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions.

Distributions by us have and may in the future include a return of capital.

Our Board of Directors declares monthly distributions based on estimates of net investment income for each fiscal year, which may differ, and in the past have differed, from actual results. Because our distributions are based on estimates of net investment income that may differ from actual results, future distributions payable to our stockholders may also include a return of capital. Moreover, to the extent that we distribute amounts that exceed our accumulated earnings and profits, these distributions constitute a return of capital. A return of capital represents a return of a stockholder s original investment in shares of our stock and should not be confused with a distribution from earnings and profits. Although return of capital distributions may not be taxable, such distributions may increase an investor s tax liability for capital gains upon the sale of our shares by reducing the investor s tax basis for such shares. Such returns of capital reduce our asset base and also adversely impact our ability to raise debt capital as a result of the leverage restrictions under the 1940 Act, which could have a material adverse impact on our ability to make new investments.

The market price of our shares may fluctuate significantly.

The trading price of our common stock may fluctuate substantially. Due to the extreme volatility and disruption that have affected the capital and credit markets for over a year, we have experienced greater than usual stock price volatility.

The market price and marketability of our shares may from time to time be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors include, but are not limited to, the following:

- general economic trends and other external factors;
- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of shares of RICs, business development companies or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;
- loss of business development company status;
- loss of RIC status;
- changes in our earnings or variations in our operating results;
- changes in the value of our portfolio of investments;
- any shortfall in our revenue or net income or any increase in losses from levels expected by securities analysts;
- departure of key personnel;

- operating performance of companies comparable to us;
- short-selling pressure with respect to our shares or business development companies generally;
- the announcement of proposed, or completed, offerings of our securities, including a rights offering; and
- loss of a major funding source.

Fluctuations in the trading prices of our shares may adversely affect the liquidity of the trading market for our shares and, if we seek to raise capital through future equity financings, our ability to raise such equity capital.

The issuance of subscription rights to our existing stockholders may dilute the ownership and voting powers by existing stockholders in our common stock, dilute the net asset value of their shares and have a material adverse effect on the trading price of our common stock.

In April 2008 we completed an offering of transferable rights to subscribe for additional shares of our common stock, or subscription rights. We determined to raise equity in this manner primarily because of the capital raising constraints applicable to us under the 1940 Act when our stock is trading below its net asset value per share, as it was at the time of the offering. In the event that we again issue subscription rights to our existing stockholders, there is a significant possibility that the rights offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect that they will, upon completion of the rights offering, own a smaller proportional interest in the Company than would otherwise be the case if they fully exercised their subscription rights. In addition, because the subscription price of the rights offering is likely to be less than our most recently determined net asset value per share, our stockholders are likely to experience an immediate dilution of the per share net asset value of their shares as a result of the offer. As a result of these factors, any future rights offerings of our common stock, or our announcement of our intention to conduct a rights offering, could have a material adverse impact on the trading price of our common stock.

Shares of closed-end investment companies frequently trade at a discount from net asset value.

Shares of closed-end investment companies frequently trade at a discount from net asset value. Since our inception, our common stock has at times traded above net asset value, and at times traded below net asset value. During the past year, our common stock has traded consistently, and at times significantly, below net asset value. Subsequent to June 30, 2010, our stock has traded at discounts of up to 35.1% of our net asset value as of June 30, 2010. This characteristic of shares of closed-end investment companies is separate and distinct from the risk that our net asset value per share will decline. As with any stock, the price of our shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Whether investors will realize gains or losses upon the sale of our shares will not depend directly upon our net asset value, but will depend upon the market price of the shares at the time of sale. Since the market price of our shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond our control, we cannot predict whether the shares will trade at, below or above our net asset value. Under the 1940 Act, we are generally not able to issue additional shares of our common stock at a price below net asset value per share to purchasers other than our existing stockholders through a rights offering without first obtaining the approval of our stockholders and our independent directors. Additionally, at times when our stock is trading below its net asset value per share, our dividend yield may exceed the weighted average returns that we would expect to realize on new investments that would be made with the proceeds from the sale of such stock, making it unlikely that we would determine to issue additional shares in such circumstances. Thus, for as long as our common stock trades below net asset value we will be subject to significant constraints on our ability to raise capital through the issuance of common stock. Additionally, an extended period of time in which we are unable to raise capital may restrict our ability to grow and adversely impact our ability to increase or maintain our distributions.

Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.

At our annual meeting of stockholders held on August 5, 2010, our stockholders approved a proposal designed to allow us to access the capital markets in a way that, absent stockholder approval, we are generally unable to due to restrictions applicable to business development companies under the 1940 Act. Specifically, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock in one or more offerings for a period of one year. During the past two years, our common stock has traded consistently, and at times significantly, below net asset value. Any decision to sell shares of our common stock below the then current net asset value per share of our common stock would be subject to the determination by our Board of Directors that such issuance is in our and our stockholders best interests.

If we were to sell shares of our common stock below net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. The greater the difference between the sale price and the net asset value per share at the time of the offering, the more significant the dilutive impact would be. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect, if any, cannot be currently predicted. However, if, for example, we sold an additional 10% of our common stock at a 5% discount from net asset value, a stockholder who did not participate in that offering for its proportionate interest would suffer net asset value dilution of up to 0.5% or $5 per $1,000 of net asset value.

Other Risks

We could face losses and potential liability if intrusion, viruses or similar disruptions to our technology jeopardize our confidential information, whether through breach of our network security or otherwise.

Maintaining our network security is of critical importance because our systems store highly confidential financial models and portfolio company information. Although we have implemented, and will continue to implement, security measures, our technology platform is and will continue to be vulnerable to intrusion, computer viruses or similar disruptive problems caused by transmission from unauthorized users. The misappropriation of proprietary information could expose us to a risk of loss or litigation.

Terrorist attacks, acts of war, or national disasters may affect any market for our common stock, impact the businesses in which we invest, and harm our business, operating results, and financial conditions.

Terrorist acts, acts of war, or national disasters have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or national disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results, and financial condition. Losses from terrorist attacks and national disasters are generally uninsurable.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement, other than historical facts, may constitute forward-looking statements. These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, grow expect, should, would, if, seek, possible, potential, likely or the negative of such terms or comparable t These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: (1) further adverse changes in the economy and the capital markets; (2) risks associated with negotiation and consummation of pending and future transactions; (3) the loss of one or more of our executive officers, in particular David Gladstone, Terry Lee Brubaker, George Stelljes III or David Dullum; (4) changes in our business strategy; (5) availability, terms and deployment of capital; (6) changes in our industry, interest rates, exchange rates or the general economy; (7) the degree and nature of our competition; and (8) those factors described in the Risk Factors section of this prospectus. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus.

USE OF PROCEEDS

Unless otherwise specified in any prospectus supplement accompanying this prospectus, we intend to use the net proceeds from the sale of the Securities for general corporate purposes. We expect the proceeds to be used first to pay down existing short-term debt, then to make investments in small and mid-sized businesses in accordance with our investment objectives, with any remaining proceeds to be used for other general corporate purposes. Indebtedness under our credit line facility currently accrues interest at the rate of approximately 6.5% and matures on April 13, 2012. We anticipate that substantially all of the net proceeds of any offering of Securities will be utilized in the manner described above within three months of the completion of such offering. Pending such utilization, we intend to invest the net proceeds of any offering of Securities primarily in cash, cash equivalents, U.S. government securities, and other high-quality debt investments that mature in one year or less from the date of investment, consistent with the requirements for continued qualification as a RIC for federal income tax purposes.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

We currently intend to distribute in the form of cash dividends, a minimum of 90% of our ordinary income and short-term capital gains, if any, on a quarterly basis to our stockholders in the form of monthly dividends. We intend to retain long-term capital gains and treat them as deemed distributions for tax purposes. We report the estimated tax characteristics of each dividend when declared while the actual tax characteristics of dividends are reported annually to each stockholder on Form 1099 DIV. There is no assurance that we will achieve investment results or maintain a tax status that will permit any specified level of cash distributions or year-to-year increases in cash distributions. At the option of a holder of record of common stock, all cash distributions can be reinvested automatically under our dividend reinvestment plan in additional whole and fractional shares. A stockholder whose shares are held in the name of a broker or other nominee should contact the broker or nominee regarding participation in our dividend reinvestment plan on the stockholder s behalf. See Risk Factors We will be subject to corporate level tax if we are unable to satisfy Internal Revenue Code requirements for RIC qualification; Dividend Reinvestment Plan; and Material U.S. Federal Income Tax Considerations.

Our common stock is quoted on The Nasdaq Global Select Market under the symbol GAIN. We completed the initial public offering of our common stock in June 2005 at a price of $15.00 per share. Prior to such date there was no public market for our common stock. Our common stock has historically traded at prices both above and below its net asset value. There can be no assurance, however, that any premium to net asset value will be attained or maintained. As of August 20, 2010, we had 33 stockholders of record.

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The following table sets forth the range of high and low closing sales prices of our common stock as reported on the Nasdaq Global Select Market and the dividends declared by us for the last two completed fiscal years and the current fiscal year through August 20, 2010.

SHARE PRICE DATA

	Net Asset Value per Share(1)	High	Low	Dividend Declared	Premium (Discount) of Low Sales Price to Net Asset Value(2)	Premium (Discount) of High Sales Price to Net Asset Value(2)
FY 2009						
First Quarter	$ 10.77	$ 9.78	$ 6.31	$ 0.24	(41.41)%	(9.19)%
Second Quarter	$ 10.57	$ 8.08	$ 6.00	$ 0.24	(43.24)%	(23.56)%
Third Quarter	$ 10.15	$ 6.83	$ 3.09	$ 0.24	(69.56)%	(32.71)%
Fourth Quarter	$ 9.73	$ 5.85	$ 2.40	$ 0.24	(75.33)%	(39.88)%
FY 2010						
First Quarter	$ 9.19	$ 5.38	$ 3.52	$ 0.12	(61.70)%	(41.46)%
Second Quarter	$ 8.24	$ 5.37	$ 4.02	$ 0.12	(51.21)%	(34.83)%
Third Quarter	$ 7.93	$ 5.11	$ 4.41	$ 0.12	(44.39)%	(35.56)%
Fourth Quarter	$ 8.74	$ 6.23	$ 4.61	$ 0.12	(47.25)%	(28.72)%
FY 2011						
First Quarter	$ 8.86	$ 6.89	$ 5.13	$ 0.12	(42.16)%	(22.32)%
Second Quarter (through August 20, 2010)	$ *	$ 6.60	$ 5.75	>100		

%

*BOE computed on units of production using a six to one conversion ratio of MCF's to barrels.

The following tables present a reconciliation of changes in our proved, probable and possible 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	Proved Total MBOE
June 30, 2015	12,413.8	32.6	12,446.4
Production	(655.9)	(2.9)	(658.8)
Revisions	(934.5)	(29.7)	(964.2)
Sales of minerals in place	—	—	—
Improved recovery, extensions and discoveries	—	—	—
June 30, 2016	10,823.4	—	10,823.4

Reconciliation of Changes in Probable Reserves by Major Property

Probable reserves, MBOE	Delhi Field MBOE	Giddings Field MBOE	Probable Total MBOE

June 30, 2015	9,339.4	—	9,339.4
Revisions	(4,842.1)	—	(4,842.1)
Sales of minerals in place	—	—	—
Improved recovery, extensions and discoveries	—	—	—
June 30, 2016	4,497.3	—	4,497.3

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Reconciliation of Changes in Possible Reserves by Major Property

Possible reserves, MBOE	Delhi Field MBOE	Giddings Field MBOE	Possible Total MBOE
June 30, 2015	2,954.4	—	2,954.4
Revisions	(240.4)	—	(240.4)
Sales of minerals in place	—	—	—
Improved recovery, extensions, and discoveries	—	—	—
June 30, 2016	2,714.0	—	2,714.0

Reconciliation of PV-10 to the Standardized Measure of Discounted Future Net Cash Flows

The following table provides a reconciliation of PV-10 of our proved properties to the Standardized Measure as shown in Note 23 of the consolidated financial statements.

	For the Years Ended June 30,	
	2016	2015
Estimated future net revenues	$187,713,581	$448,113,943
10% annual discount for estimated timing of future cash flows	86,844,543	229,407,446
Estimated future net revenues discounted at 10% (PV-10)	100,869,038	218,706,497
Estimated future income tax expenses discounted at 10%	(22,911,719)	(59,509,958)
Standardized Measure	$77,957,319	$159,196,539

The following table provides a reconciliation of PV-10 of each of our proved properties to the Standardized Measure as shown in Note 23 of the consolidated financial statements.

	For the Years Ended June 30,	
	2016	2015
Delhi Field	$100,869,038	$218,320,579
Giddings Field	—	385,918
Estimated future net revenues discounted at 10% (PV-10)	$100,869,038	$218,706,497
Estimated future income tax expenses discounted at 10%	(22,911,719)	(59,509,958)
Standardized Measure	$77,957,319	$159,196,539

Additional information about the properties we own can be found in Item 1. Business.

Internal Controls Over Reserves Estimation Process and Qualifications of Technical Persons with Oversight for the Company's Overall Reserve Estimation Process

Our policies regarding internal controls over reserve estimates require reserves to be prepared by an independent engineering firm under the supervision of our Executive Chairman, our Chief Executive Officer and our former Senior Vice President of Operations, acting as a consultant to the Company, and to be in compliance with generally accepted petroleum engineering and evaluation principles and definitions and guidelines established by the SEC. Our Executive Chairman holds B.S. and M.E. degrees from Rice University in chemical engineering and earned an M.B.A. from Harvard University. He has over 30 years of experience in engineering, energy transactions, operations and finance with small independents, larger independents and major integrated oil companies. Our Chief Executive Officer holds a Bachelor of Business Administration degree from the University of Texas at Austin. He has over 30 years of experience in the energy industry, encompassing both upstream oil and gas companies and the oilfield service industry. Our Consultant has over 30 years of experience in oil and gas operations and holds a Bachelor of Science in Petroleum Engineering degree from the University of Oklahoma at Norman. The reserve information in this filing is based on estimates prepared by DeGoyler and MacNaughton, our independent engineering firm. The person responsible for preparing the reserve report is a Registered Professional Engineer in the State of Texas and a Senior Vice President of the firm. He holds a Bachelor of Science degree in Geology in 1973 from Eastern New Mexico University and earned a Master of Science degree in Petroleum Engineering from the University of Texas at Austin in 1975.

He has over 36 years of oil and gas reservoir experience. We provide our engineering firm with property interests, production, current operating costs, current production prices and other information. This information is reviewed by our Senior Management and outside consultant to ensure accuracy and completeness of the data prior to submission to our independent engineering firm. The scope and results of our independent engineering firm's procedures, as well as their professional qualifications, are summarized in the letter included as exhibit 99.4 to this Annual Report on Form 10-K.

Proved Undeveloped Reserves

Our proved undeveloped reserves were 3,655 MBOE at June 30, 2016 with associated future development costs of approximately $14.9 million. During the year ended June 30, 2016, we incurred $16.5 million of capital spending toward proved undeveloped reserves, primarily related to the NGL plant, but the plant was not complete at the end of the year, so those reserves are still reflected as proved undeveloped. The 1,442 MBOE decrease from 5,097 MBOE at June 30, 2015 is due to a 1,091 MBOE decrease for Phase VI, a portion of the remaining undeveloped eastern area of the Delhi field that presently is uneconomic due to a lower oil price, a 154 MBOE decline in our remaining eastern area reserves and a 197 MBOE decrease in NGL plant reserves. The Phase VI eastern patterns no longer in our proved undeveloped reserves had significantly less recoverable reserves and higher future development costs than the Phase V project we continue to carry as proved undeveloped. There were no reclassifications of proved undeveloped reserves to probable or possible reserves.

The initial assignment of proved undeveloped reserves in the Delhi field was made on June 30, 2010, which involved a large scale CO_2 enhanced oil recovery project. The operator’s development plans for the field have remained essentially unchanged and were originally scheduled to be completed by June 30, 2015, within five years from the initial recording of such proved reserves. The field is approximately 66% developed as of June 30, 2016. However, as a result of the adverse fluid release event in the field in June 2013 and the resulting delay in reversion of our working interest, development of the field was not completed as scheduled. Although no unproved reserves were converted to proved reserves during fiscal 2015 and 2016, development expenditures were ongoing. Expansion of the CO_2 flood to the remaining undeveloped eastern portion of the field commenced subsequent to reversion of our working interest in late calendar 2014. The Company incurred $3.8 million of capital expenditures until the operator suspended this project as a result of a significant reduction in its capital spending. During the year ended June 30, 2015 the NGL plant project and began and the Company incurred $5.0 million of related capital expenditures. In the year ended June 30, 2016, the Company incurred an additional $16.5 million of plant capital expenditures with $3.1 million budgeted for its completion expected in the fourth calendar quarter of 2016. At June 30, 2016, $11.6 million of net future capital expenditures also remained for development of the eastern part of the field that was suspended in late 2014 and is now planned to continue over the next two fiscal years and is expected to be completed by December 31, 2018, approximately seven and one half years after the initial recording of proved reserves. The 2013 addition of the NGL plant project to recover natural gas liquids and methane required additional planning and has resulted in a prudent delay in the full development of the field's proved reserves. Given the nature of CO_2 EOR projects, we believe that the undeveloped reserves in the Delhi field satisfy the conditions to continue to be included as proved undeveloped reserves because (1) we established and continue to follow the previously adopted development plan for this project as adjusted to incorporate the completion of the NGL plant in 2016 and delays relating to the 2013 fluid release event; (2) we have significant ongoing development activities at this project that, as budgeted and currently being expended, reflect a significant and sufficient portion of remaining capital expenditures to convert proved undeveloped reserves to proved developed reserves; and (3) the operator has a historical record of completing the development of comparable long-term projects.

Sales Volumes, Average Sales Prices and Average Production Costs

The following table shows the Company's sales volumes and average sales prices received for crude oil, natural gas liquids, and natural gas for the periods indicated:

	Year Ended June 30, 2016		Year Ended June 30, 2015		Year Ended June 30, 2014	
Product	Volume	Price	Volume	Price	Volume	Price
Crude oil (Bbls)	658,041	$39.71	450,713	$61.59	169,783	$102.84
Natural gas liquids (Bbls)	491	$16.06	1,358	$27.41	3,516	$33.32
Natural gas (Mcf)	1,620	$1.79	7,981	$3.33	26,655	$3.60
Average price per BOE*	658,802	$39.68	453,401	$61.37	177,742	$99.43
Production costs	Amount	per BOE	Amount	per BOE	Amount	per BOE
Production costs, excluding ad valorem and production taxes	$8,767,490	$13.31	$9,285,396	$20.48	$1,148,974	$6.46
Total production costs, including ad valorem and production taxes	$9,062,179	$13.76	$9,335,244	$20.59	$1,193,573	$6.72

* BOE computed on units of production using a six to one conversion ratio of MCF's to barrels.

Drilling Activity

Our productive drilling activity during the past three fiscal years ended June 30, 2016, was limited to one fiscal 2015 gross (.239 net) development well drilled in the Delhi field. No dry wells were drilled in the past three fiscal years.

Present Activities

During fiscal year 2015, construction of a natural gas liquids ("NGL") recovery plant commenced in the Delhi field, which will extract and sell NGL's from the field. In addition to the value of these hydrocarbon products, the increased purity of the CO_2 stream re-injected into the field should result in significant operational benefits to the CO_2 flood. Project construction continued during fiscal year 2016, with completion expected late in calendar 2016.

During the fourth fiscal quarter of fiscal 2016, the operator of the Delhi field commenced a project to restore production in the southwestern portion of the field. Following the fluid release event in June 2013, CO_2 injections in this area ceased in order to reduce reservoir pressure and protect the incident area. The project includes converting three shut-in wells to water injector wells in order to expand the water curtain barrier to reduce CO_2 migration into this area together with the installation of three electrical submersible pumps ("ESP") in other shut-in wells in order to increase withdrawal rates and help maintain the targeted reservoir pressure. These ESP production wells will create a modified waterflood, which is expected to increase gross oil production by an estimated 250 to 300 BOPD.

For further discussion, see "Highlights for our fiscal year 2016" and "Capital Budget" under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

Delivery Commitments

As of June 30, 2016, we were not committed to provide a fixed and determinable quantity of oil, NGLs or gas under existing agreements, nor do we currently intend to enter into any such agreements.

Productive Wells

The following table sets forth the number of productive oil and gas wells in which we owned a working interest as of June 30, 2016. See discussion below related to the expected disposition of our three company operated wells.

	Company Operated		Non-Operated		Total	
	Gross	Net	Gross	Net	Gross	Net
Crude oil	3	2.9	89	21.3	92	24.2
Natural gas	—	—	—	—	—	—
Total	3	2.9	89	21.3	92	24.2

Acreage Data

The following table sets forth certain information regarding our developed and undeveloped lease acreage as of June 30, 2016. Developed acreage refers to acreage on which wells have been drilled or completed to a point that would permit production of oil and gas in commercial quantities. Undeveloped acreage refers to acreage on which wells have not been drilled or completed to a point that would permit production of oil and gas in commercial quantities whether or not the acreage contains proved reserves.

Field	Developed Acreage		Undeveloped Acreage		Total	
	Gross	Net	Gross	Net	Gross	Net
Delhi Field, Louisiana*	9,126	2,180	4,510	1,077	13,636	3,257
Giddings Field, Texas**	2,168	2,134	—	—	2,168	2,134
Total	11,294	4,314	4,510	1,077	15,804	5,391

When the Company acquired the Delhi field in 2003, the field had been fully developed through primary and secondary recovery and all of such acreage was reflected as developed acreage. With the addition of a CO_2-EOR project in the field, certain acreage is now reflected as undeveloped using tertiary recovery operations. We estimate that our developed acreage currently includes 9,126 gross (2,180 net) acres in the Delhi field, with approximately 4,510 gross (1,077 net) acres attributable to the remaining undeveloped areas in the eastern part of the field. We own a 23.9% working interest in the field. We are not the operator of the EOR project.

In addition, our developed acreage includes 2,168 gross (2,134 net) in the Giddings Field comprising of a 100% working interest in two producing wells and a 99% working interest in one well subject to a back-in reversion of 22.5%. None of these wells are currently producing at economic rates in the current price environment. Subsequent to year end, we transferred one well back to the previous operator under our contractual agreement. At this time, we expect to plug and abandon the other two wells.

*Includes from the surface of the earth to the top of the Massive Anhydride, less and except the Delhi Holt Bryant CO2 and Mengel Units. As the Delhi field is a unitized field, undrilled acreage is held by production as long as production is maintained in the unit.

**Excludes acreage for small overriding royalty interests retained in various formations in the Giddings Field area.

For more complete information regarding current year activities, including crude oil and natural gas production, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

Item 3. Legal Proceedings

See Note 18 – Commitments and Contingencies under Item 8. Financial Statements for a description of legal proceedings, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

Our common stock is currently traded on the NYSE MKT under the ticker symbol "EPM". The following table shows, for each quarter of the fiscal years ended June 30, 2016 and 2015, the high and low sales prices for EPM as reported by the NYSE MKT.

NYSE MKT: EPM

2016:	High	Low
Fourth quarter ended June 30, 2016	$5.97	$4.45
Third quarter ended March 31, 2016	$5.12	$3.60
Second quarter ended December 31, 2015	$7.54	$4.70
First quarter ended September 30, 2015	$6.70	$4.02

2015:	High	Low
Fourth quarter ended June 30, 2015	$7.97	$5.77
Third quarter ended March 31, 2015	$8.10	$5.68
Second quarter ended December 31, 2014	$10.25	$6.50
First quarter ended September 30, 2014	$11.19	$8.95

Shares Outstanding and Holders

As of June 30, 2016, there were 32,907,863 shares of common stock issued and outstanding, held by approximately 218 holders of record.

Dividends

We began paying cash quarterly dividends on our common stock in December 2013, at a rate of $0.10 per share and adjusted the rate to $0.05 per share in March 2015. As of June 30, 2016, we had paid eleven consecutive quarterly dividends on our common stock. All dividends on our Series "A" Perpetual Preferred stock have been timely declared and paid monthly. Any future determination with regard to the payment of dividends will be at the discretion of the Board of Directors and will be dependent upon our future earnings, financial condition, applicable dividend restrictions and capital requirements and other factors deemed relevant by the Board of Directors. Under our current revolving credit facility, exceeding the ratio of trailing twelve month's EBITDA minus trailing twelve month's dividends paid to debt service, as defined, would restrict our ability to pay common stock dividends.

Performance Graph

The following graph presents a comparison of the yearly percentage change in the cumulative total return on our Common Stock over the period from June 30, 2011 to June 30, 2016 with the cumulative total return of the S&P 500 Index and the SIG Oil Exploration and Production Index of publicly traded companies over the same period. The graph assumes that $100 was invested on June 30, 2011 in our common stock at the closing market price at the beginning of this period and in each of the other two indices and the reinvestment of all dividends, if any. The graph is presented in accordance with requirements of the SEC. Shareholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future financial performance.

Securities Authorized For Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding Options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
Equity compensation plans approved by security holders:				
Outstanding options	35,231	(1)	$ 2.19	
Outstanding contingent rights to shares	91,172	(1)	—	
Total	126,403		$ 0.61	282,133
Equity compensation plans not approved by security holders	—		—	—
Total	126,403		$ 0.61	282,133

(1) As of June 30, 2016, there were 35,231 shares of common stock issuable upon exercise of outstanding stock options. The Amended and Restated 2004 Stock Plan (the "Plan") provides for the issuance of a total of 6,500,000 common shares. Under the Plan as of June 30, 2016, 3,904,134 common shares had been issued upon the exercise of stock options, 2,187,330 shares of restricted common stock had been issued (of which 406,848 were unvested as of June 30, 2016), contingent restricted stock grants of 91,172 shares had been reserved but not issued (all of which are unvested) and 282,133 shares of common stock remain available for future grants.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased (1) (2)	(b) Average Price Paid per Share (or Units)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2016 to April 30, 2016	none	—	—	—
May 1, 2016 to May 31, 2016	none	—	—	—
June 1, 2016 to June 30, 2016	229 shares of Common Stock	$5.70	265,762	Approximately $3.4 million

(1) During the fourth fiscal quarter ended June 30, 2016, the Company received 229 shares of common stock from certain of its employees which were surrendered in exchange for their payroll tax liabilities arising from vestings of restricted stock. The acquisition cost per share reflected the weighted-average market price of the Company's shares at the dates vested.

(2) During fiscal 2016, the Company repurchased 202,390 shares for a total cost of $1.17 million, including commissions. Under the program's terms, shares may be repurchased only on the open market and in accordance with the requirements of the Securities and Exchange Commission. The timing and amount of repurchases will depend upon several factors, including financial resources and market and business conditions. There is no fixed termination date for this repurchase program, and the repurchase program may be suspended or discontinued at any time. Such shares were initially recorded as treasury stock, then subsequently canceled.

Item 6. Selected Financial Data

The selected consolidated financial data, set forth below should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and notes to those consolidated financial statements included elsewhere in this report.

	June 30, 2016	2015	2014	2013	2012
Income Statement Data					
Revenues	$26,349,502	$27,841,265	$17,673,508	$21,349,920	$17,962,038
Cost of revenues	9,133,111	9,355,613	1,193,573	1,780,738	1,774,999
Depreciation, depletion, and amortization	5,165,120	3,615,737	1,228,685	1,300,207	1,136,974
Accretion expense	49,054	34,866	41,626	72,312	77,505
General and administrative expense	9,079,597	6,256,783	8,388,291	7,495,309	6,143,286
Restructuring charges	1,257,433	(5,431)	1,293,186	—	—
Income from operations	1,665,187	8,583,697	5,528,147	10,701,354	8,829,274
Other income (expense)	32,565,954	(147,619)	(38,836)	(43,165)	3,778
Income tax provision	9,570,779	3,444,221	1,891,998	4,029,761	3,700,922
Net income attributable to the Company	$24,660,362	$4,991,857	$3,597,313	$6,628,428	$5,132,130
Dividends on Series A Preferred Stock	674,302	674,302	674,302	674,302	630,391
Net income attributable to common shareholders	$23,986,060	$4,317,555	$2,923,011	$5,954,126	$4,501,739
Earnings per common share:					
Basic	$0.73	$0.13	$0.09	$0.21	$0.16

Diluted	$0.73	$0.13	$0.09	$0.19	$0.14

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	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Balance Sheet Data					
Total current assets	$37,086,450	$23,693,048	$26,304,803	$27,436,076	$16,769,789
Total assets	97,451,051	69,882,727	65,015,752	66,556,296	58,955,486
Total current liabilities	8,528,908	9,329,257	2,999,726	2,632,750	5,088,917
Total liabilities	21,129,901	21,306,150	13,138,230	11,720,135	12,332,698
Stockholders' equity	76,321,150	48,576,577	51,877,522	54,836,161	46,622,788
Number of common shares outstanding	32,907,863	32,845,205	32,615,646	28,608,969	27,882,224

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in Item 8, Financial Statements and Supplementary Data. Our discussion and analysis includes forward-looking information that involves risks and uncertainties and should be read in conjunction with Risk Factors under Item 1A of this Form 10-K, along with Forward-Looking Information at the beginning of this report for information on the risks and uncertainties that could cause our actual results to be materially different from our forward-looking statements.

Executive Overview

General

We are engaged primarily in the development of oil and gas reserves within known oil and gas resources for our shareholders and customers utilizing conventional and proprietary 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 control of our assets for the benefit of our shareholders, including a substantial ownership by our directors, officers and staff. By policy, every employee and director maintains a beneficial ownership of our common stock.

Our strategy is to grow the value of our Delhi assets to maximize the value realized by our shareholders. In addition, we plan to return cash to the shareholders in the form of quarterly cash dividends and potential stock buybacks under our previously announced share repurchase program.

We expect to fund our fiscal 2017 capital program from working capital and net cash flows from our properties.

Highlights for our fiscal year 2016

Finances

- We funded all operations, including $21.1 million of capital spending, from internal resources and remained debt free. All of our capital expenditures and dividends were funded solely by cash flow from operations and working capital and we ended our fiscal year with no funded debt.
- We returned $6.6 million to common shareholders in the form of cash dividends during fiscal 2016. We remain committed to our dividend policy and rewarding our long-term shareholders.
- We invested $1.2 million in our stock buyback program during fiscal 2016. We have up to $3.4 million remaining under this program.
- We increased working capital to $28.6 million at June 30, 2016 compared to $14.3 million at the prior year end. At June 30, 2016, working capital included $34.1 million of cash on hand.
- We entered into a new senior secured bank credit facility. The maximum borrowing base is $50.0 million; however the initial borrowing base was set at $10.0 million. There are no outstanding borrowings.
- Our hedging program resulted in $3.4 million in net gains during fiscal 2016. In fiscal 2016, we used derivative instruments to reduce our exposure to oil price volatility in order to support the capital expenditures for the Delhi NGL plant and to protect our dividend policy. We have no hedges in place beyond September 30, 2016.

Operations

- Our fiscal 2016 net income to common shareholders was $24.0 million, a substantial increase from fiscal 2015 net income of $4.3 million. During fiscal 2016, litigation settlement proceeds, insurance proceeds and realized hedging gains contributed to significantly higher net income, offset in part by increased DD&A expenses, litigation expenses and higher income tax expense. This is our fifth consecutive year of reporting net income to common shareholders.

- We settled outstanding litigation with the operator of Delhi field. In the settlement, we received $27.5 million in cash and a working interest in the Mengel Sand, a separate interval within the Delhi field that is not currently producing. We also reached agreement on our ownership of the CO_2 recycle facility and on the long term costs of purchased CO_2.

- Installation and construction of the NGL recovery plant at Delhi is approximately 90% complete. Technical completion and start-up of the plant is scheduled to begin in November 2016. Our net share of capital expenditures for

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this project is $24.6 million, and has been funded through cash flow from operations and working capital. Approximately $3.1 million remains to be spent as of fiscal year end 2016.

- Our net oil production volumes at Delhi increased by over 46% year over year. Monthly production has been steadily increasing over the past year as a result of a conformance program and greater efficiency with the flood. The majority of the increase in our net production stems from the reversion of our 23.9% working interest and associated 19.0% revenue interest in the Delhi field which became effective on November 1, 2014. We had only eight months of working interest volumes in the prior fiscal year.

- We transferred our oilfield technology operations to a new entity and we expect annual cost reductions of approximately $1.0 million. We retained a minority equity interest in the new Company and will receive a 5% royalty on all future gross revenues from the technology. In addition, we have an option to increase our equity ownership and can use the technology in any of our operated wells.

Oil & Gas Reserves (based on SEC oil price of $40.91 per barrel in effect as at June 30, 2016)

- Delhi proved oil equivalent reserves at June 30, 2016 were 10.8 MMBOE, a 13% decline from the previous year. The Standardized Measure for proved reserves declined 51% to $78 million as a result of a 44% drop in the oil price from $72.55 to $40.91 per barrel. Proved reserves are 79% oil and 21% natural gas liquids, and 66% of these reserves are developed and producing.
- Delhi probable reserves at June 30, 2016 were 4.5 MMBOE, a 52% decrease over the previous year.
- Delhi possible reserves at June 30, 2016 were 2.7 MMBOE, a 10% decrease over the previous year.

The following table is a summary of our proved, probable and possible reserves for 2016 and 2015:

	Proved			Probable			Possible		
	2016	2015	Change	2016	2015	Change	2016	2015	Change
Reserves MMBOE	10.8	12.4	(13)%	4.5	9.3	(52)%	2.7	3.0	(10)%
% Developed	66 %	59 %	12 %	69 %	43 %	60 %	72 %	55 %	31 %
Liquids %	100 %	100 %	— %	100%	100%	— %	100%	100%	— %
Standardized Measure	$78	$159	(51)%						
PV-10* ($MM)	$101	$219	(54)%						

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* PV-10 of Proved reserves is a pre-tax non-GAAP measure. We have included a reconciliation of PV-10 to the unaudited after-tax Standardized Measure of Discounted Future Net Cash Flows ("Standardized Measure"), which is the most directly comparable financial measure calculated in accordance with GAAP, in Item 2. "Properties." We believe that the presentation of the non-GAAP financial measure of PV-10 provides useful and relevant information to investors because of its wide use by analysts and investors in evaluating the relative monetary significance of oil and natural gas properties, and 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 in Item 2. Properties.

Projects

Additional property and project information is included under Item 1. Business, Item 2. Properties, Item 8. Financial Statements - Notes to the Financial Statements and Exhibit 99.4 of this Form 10-K.

Delhi Field EOR—Northeast Louisiana

Proved reserves volumes totaled 10.8 MMBOE with a Standardized Measure of $78 million and a PV-10* value of $101 million compared to the prior year's 12.4 MMBOE with a Standardized Measure of $159 million and a PV-10* value of $219

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million. Our reserves quantities in the Delhi field were generally consistent with expectations year over year, especially when applying to our long life production the 44% decline in SEC oil price at Delhi from $72.55 in the prior year to $40.91 in the current year. This decline in price led to a 13% decline in proved reserves volumes reflecting prior year production and removal of proved undeveloped reserves in Phase VI which were deemed to be uneconomic in the current price environment. Proved undeveloped reserves declined 1,422 MBOE to 3,655 MBOE as the result of a 1,091 MBOE negative revision due to the removal of Phase VI, the field's eastern most development site that is not deemed to be economic at current prices, a 154 MBOE negative revision in our remaining Phase V eastern area site and a 197 MBOE negative revision in NGL plant reserves, all three due to the reduced SEC oil price applied. The Phase VI eastern development patterns removed from our proved undeveloped reserves had significantly lower recoverable reserves and higher costs than the other Phase V eastern patterns we retained.

The reserves report reflects the conveyance, effective July 1, 2016, of a 0.2226% overriding royalty interest to the operator of Delhi as part of the litigation settlement agreement.

Our cost of purchased CO_2 in the Delhi field, the largest component of operating costs and the majority of our operating costs, is directly tied to the price of oil sold from the field. Therefore this major operating cost has dropped commensurate with the price of crude. Also, we have been successful in realizing a substantial reduction in aggregate CO_2 injection rate without impacting oil production rates. Gross injection rates for the year ended June 30, 2016 averaged 74 MMCF/D, a decline of 30% compared to the 106 MMCF/D during fiscal 2015 post-reversion period. We have also seen significant reductions in most categories of lease operating expenses, including decreased workover costs, lower power costs due to lower usage and lower contract labor and chemical costs. The combined effect of this has resulted in six sequential quarters of lower Delhi lifting costs per BOE from approximately $19 per BOE to approximately $12 per BOE.

Probable reserve volumes at Delhi were 4.5 MMBOE, compared to 9.3 MMBOE in the prior year. There were a number of projects included in probable reserves in the prior year which are not considered economic in the current price environment. A lesser portion of these revisions resulted from changes to the operators' long-term development plans for the field. Possible reserves volumes at Delhi were 2.7 MMBOE, compared to 3.0 MMBOE in the prior year.

Gross production at Delhi in the fourth quarter of fiscal 2016 was 6,964 barrels of oil per day (“BOPD”), up 1% from the third fiscal quarter’s 6,918 BOPD. Production volumes net to the Company were 1,841 BOPD and 1,829 BOPD, respectively. We expect production from the field to average approximately 7,000 BOPD until potential additional volumes are realized from the NGL recovery plant startup in late calendar 2016.

The construction and installation of the NGL plant is approximately 90% complete, with the plant startup scheduled to occur in November 2016. The plant has a total estimated cost of approximately $24.6 million net to Evolution, of which approximately $21.5 million had been incurred as of June 30, 2016. As previously discussed, the methane produced from the plant will be used to generate electricity and other power requirements for the field, which will substantially reduce operating costs. The NGL plant should also increase the efficiency of the CO_2 flood and is expected to result in incremental production of crude oil.

Remaining estimated capital expenditures amount to $8.12 per BOE for Phase V included in proved undeveloped reserves. Given the geology of the Delhi field, no remaining estimated capital expenditures are required to develop our probable or possible reserves as these reserves reflect incremental quantities associated with a greater percentage recovery of hydrocarbons in place than the recovery quantities assumed for proved reserves. Looking forward, the timing of plans for continued development of the eastern part of the Delhi field is dependent on the operator’s plans for capital allocation within their portfolio. We continue to believe that this high quality and economically viable project will be executed as planned, subject to oil price volatility.

GARP® - Artificial Lift Technology

As a result of a strategic review, Company management recommended and the Board approved a transfer of a majority interest in our GARP® oilfield technology operations to a new unaffiliated entity, led by our former SVP of Operations, who invented the technology, effective December 31, 2015. Evolution retained a minority equity interest in the new company and have the option to convert part of our funding into a substantially increased equity stake in the future. In addition, the Company retains a 5% royalty on all future gross revenues associated with the

GARP® technology. The three Evolution employees who had primary responsibilities for our GARP® operations, including our former SVP of Operations, a GARP® sales engineer and a field superintendent, have become full-time employees of the new company and have ceased to be employees of Evolution. The separation of this operation is expected to reduce the Company's ongoing general and administrative costs by approximately $1 million per year. The combined costs of severance and other related expenses resulted in a one-time restructuring charge in the second fiscal quarter ended December 31, 2015.

Other Fields

During fiscal 2016, we operated, produced and sold crude oil, natural gas and natural gas liquids from three legacy wells in the Giddings field area in central Texas. Due to declining production and depressed commodity prices, two wells have now been temporarily abandoned, and one well bore was returned to the previous operator per contractual agreement, as of August 2016. The financial impact of these wells were immaterial to our full year financial results. There are no current year reserves associated with these wells compared to 30 MBOE of proved reserves at June 30, 2015.

In October 2014, we closed on the sale of all of our remaining noncore mineral interests and assets in the Mississippi Lime project for cash proceeds of approximately $389,165, net of customary closing adjustments. This transaction completes the process of divesting of all of our non-core oil and gas properties. No reserves were associated with these assets as of June 30, 2015 or 2014.

Liquidity and Capital Resources

We have historically funded our operations through cash available from operations. Our primary sources of cash in fiscal 2016 were from funds generated from the sale of oil and natural gas production and the litigation settlement. A portion of these cash flows were used to fund our capital expenditures. While we will continue to develop our properties near term, such development will be more limited while commodity prices remain low and unstable. The Company will manage any development activity in the context of its operating cash flow and existing working capital.

On April 11, 2016, the Company entered into a new credit agreement with MidFirst Bank (the "Facility"). The Facility replaces the Company's previous unsecured credit facility which was set to expire on April 29, 2016 and was terminated in early April. The Facility provides a senior secured revolving credit facility with an initial borrowing base of $10.0 million (the "Borrowing Base") and a maximum borrowing amount of $50.0 million. The Facility matures on April 11, 2019, and is secured by substantially all of the Company's assets.

The Borrowing Base is subject to periodic redeterminations and further adjustments from time to time. The Borrowing Base will be redetermined semi-annually on each May 15 and November 15, beginning November 15, 2016. The Borrowing Base will also be reduced in certain circumstances such as the sale or disposition of certain oil and gas properties of the Company or its subsidiaries and cancellation of certain hedging positions. With the recent volatility in commodity prices, our borrowing base and related commitments under the Facility could be reduced in the future.

The Facility allows for Eurodollar Loans and Base Rate Loans, each as defined in the Facility. The interest rate on each Eurodollar Loan will be the lesser of (1) the adjusted LIBOR for the applicable interest period plus 275 basis points or (2) the Maximum Rate, as defined. The annual interest rate on each Base Rate Loan is the lesser of (1) the Prime Rate plus 100 basis points or (2) the Maximum Rate.

The Facility contains certain covenants, which, among other things, require the maintenance of (i) a total leverage ratio of not more than 3.0 to 1.0, (ii) a debt service coverage ratio of not less than 1.1 to 1.0 and (iii) a consolidated tangible net worth of not less than $40 million, each as defined in the Facility. The Facility also contains other affirmative and negative covenants and events of default. As of June 30, 2016, the Company was in compliance with all covenants contained in the Facility, and no amounts were outstanding under the Facility.

We had $34.1 million and $20.1 million in cash and cash equivalents at June 30, 2016 and June 30, 2015, respectively.

During our fiscal year ended June 30, 2016, we financed our operations and capital spending with net cash generated from operations and cash on hand. At June 30, 2016, our working capital was $28.6 million, compared to working capital of $14.4 million at June 30, 2015. The $14.2 million working capital increase is primarily due to a $13.9 million increase in cash.

Cash Flows from Operating Activities

For the year ended June 30, 2016, cash flows provided by operating activities were $30.7 million, reflecting $28.9 million provided by operations before $1.8 million provided by other working capital changes. Of the $28.9 million provided before working capital changes, approximately $24.7 million resulted from net income and $4.2 million was attributable to non-cash expenses and gains.

For the year ended June 30, 2015, cash flows provided by operating activities were $10.4 million, reflecting $10.9 million provided by operations before $0.5 million used by other working capital changes. Of the $10.9 million provided before working capital changes, approximately $5.0 million resulted from net income and $5.9 million was attributable to non-cash expenses.

For the year ended June 30, 2014, cash flows provided by operating activities were $8.1 million, reflecting $7.7 million provided by operations before $0.4 million provided by other working capital changes. Of the $7.7 million provided before working capital changes, $3.6 million resulted from net income and $4.1 million was attributable to non-cash expenses.

Cash Flows from Investing Activities

For the year ended June 30, 2016, investing activities used $17.6 million of cash, consisting primarily of capital expenditures of approximately $21.1 million for Delhi field partially offset by $3.7 million of derivative settlement payments received.

For the year ended June 30, 2015, investing activities used $5.0 million of cash, consisting primarily of capital expenditures of approximately $4.9 million for Delhi field, $0.3 million for artificial lift technology together with $0.2 million of other assets comprised primarily of GARP® patent costs, partially offset by $0.4 million of proceeds received for the sale of properties in the Mississippi Lime project in October 2014.

For the year ended June 30, 2014, cash paid for oil and gas capital expenditures was $1.3 million, primarily for development activities related to GARP® wells in Giddings and continuing costs for wells drilled in the Mississippi Lime during the prior year. We received approximately $0.5 million of proceeds from asset sales, including $0.4 million from the December sale of our South Texas properties, and $0.3 million of cash from the maturity of a certificate of deposit.

Oil and gas capital expenditures incurred, which includes accrued expenditures and other noncash items, were $19.7 million, $11.2 million, and $1.2 million, respectively, for the years ended June 30, 2016, 2015, and 2014. These amounts can be reconciled to cash capital expenditures on their respective cash flow statements by adjusting them for related non-cash items presented at Note 13 - Supplemental Cash Flow Information.

Cash Flows from Financing Activities

For the year ended June 30, 2016, financing activities provided $0.9 million of cash from $9.6 million of tax benefits related to stock-based compensation partially offset by $7.2 million of dividend payments to common and preferred shareholders and $1.4 million of treasury stock acquisitions primarily attributable to the Company's share buyback program. The tax benefits included a $1.5 million cash refund received from the State of Louisiana for carryback of stock-based compensation deductions to previously filed returns.

During the year ended June 30, 2015, we used $9.2 million in cash for financing activities, reflecting $9.8 million of common stock dividend payments, $0.7 million of preferred stock dividends and $0.3 million of treasury stock acquired through the surrender of shares by certain officers and employees in satisfaction of payroll liabilities related to stock-based compensation and open market purchases under our stock repurchase program, partially offset by cash inflows of $1.6 million from a tax benefit related to stock-based compensation and $0.1 million from stock option exercises.

During the year ended June 30, 2014, we used $8.3 million in cash for financing activities, reflecting $9.7 million of common stock dividend payments, $0.7 million of preferred stock dividends and $1.7 million of treasury stock acquired through the surrender of shares by certain officers and employees in satisfaction of payroll liabilities related to stock-based compensation, partially offset by cash inflows of $0.5 million from a tax benefit related to stock-based compensation and $3.3 million from stock option exercises.

Capital Budget

Delhi Field

During fiscal 2016, our net share of capital expenditures was approximately $19.0 million, all which was incurred at Delhi and primarily for the NGL plant. There have been and will continue to be recurring maintenance capital expenditures required for a field of this size. These expenditures are generally for testing and strengthening of well bore integrity, including previously plugged wells, drilling and completion of monitoring wells and larger projects to recomplete or workover wells which may be capitalized instead of being charged to operating expenses.

Known capital expenditures over the next fiscal year are expected to total approximately $3.1 million, net to our working interest, primarily for the remaining costs of the NGL plant. There will likely be additional maintenance capital expenditures, but the amount of these is not expected to be material to our financial position and cannot be estimated accurately at this time.

After completion of the NGL plant, there are two remaining capital projects to exploit the eastern part of the Delhi field. The first phase of this project was underway in the fall of 2014, immediately after reversion of our working interest. However, based on the decline in oil prices, the operator significantly reduced its capital budget and suspended work on this phase. The resumption of this project is dependent on prevailing oil prices, the availability of capital for such projects and the relative economics of this project versus other projects in the operator's portfolio. We believe this Phase V project, which has an estimated cost of $11.5 million net to our working interest, has favorable economics, even in this lower price environment, and expect the expansion of the CO_2 flood to resume within the next two years. Phase VI has less favorable economics and will require a significant increase in oil prices or other improvements to the economics of the project before it is expected to move forward. The economics of both projects will be improved subsequent to the completion and startup of the NGL recovery plant in late calendar 2016.

Liquidity Outlook

Our current liquidity position is very strong, with $28.6 million of working capital, which is significantly in excess of our expected capital needs and we also expect positive cash flow in the future. Our future liquidity will be impacted by changes in the realized prices we receive for the oil, natural gas and natural gas liquids we produce and the costs associated with that production. Commodity prices are market driven and historically volatile, and they are likely to continue to be volatile. In June 2015, the Company began using derivative instruments to reduce its exposure to oil price volatility for a portion of its near-term forecasted production in order to achieve a more predictable level of cash flows to support the Company’s capital expenditure and dividend programs. Costless collars and swaps used by the Company to manage risk are designed to establish floor prices on anticipated future oil production. While the use of these derivative instruments limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. Our future revenues, cash flow, profitability, access to capital and future rate of growth are significantly impacted by the prices we receive for our production.

Funding for our anticipated capital expenditures over the next two fiscal years is expected to be met from cash flows from operations and current working capital. Our preference is to remain debt free under our current operating plans, but we have access to a senior secured credit facility for oil and gas development as required. In addition we have an effective shelf registration statement with Securities and Exchange Commission. We may choose to evaluate new growth opportunities through acquisitions or other transactions. In that event, we would expect to use our internal resources of cash, working capital and borrowing capacity under our credit facility. It may also be advantageous for us to consider issuing additional equity as part of any potential transaction, but we have no specific plans to do so at this time.

The Board of Directors instituted a cash dividend on our common stock in December 2013 and have since paid eleven consecutive quarterly dividends and have declared the twelfth dividend for payment on September 30, 2016. In addition, in May 2015, we established a stock repurchase plan to allow us acquire up to $5.0 million of our common stock over time. During fiscal 2016, we spent $1.2 million on stock repurchases. Return of free cash flow in excess of our operating and capital requirements to our shareholders through cash dividends and repurchases of our common stock remains a priority of our financial strategy, and it is our near term goal to increase our dividends over time as appropriate.

Results of Operations

The following table sets forth certain financial information with respect to our oil and natural gas operations:

	Year Ended June 30,		
	2016	2015	2014
Oil and gas production:			
Crude oil revenues	$26,130,762	$27,761,291	$17,460,392
NGL revenues	7,885	37,227	117,166
Natural gas revenues	2,895	26,601	95,950
Total revenues	$26,141,542	$27,825,119	$17,673,508
Crude oil volumes (Bbl)	658,041	450,713	169,783
NGL volumes (Bbl)	491	1,358	3,516
Natural gas volumes (Mcf)	1,620	7,981	26,655
Equivalent volumes (BOE)	658,802	453,401	177,742
Equivalent volumes per day (BOE/D)	1,800	1,242	487
Crude oil price per Bbl	$39.71	$61.59	$102.84
NGL price per Bbl	16.06	27.41	33.32
Natural gas price per Mcf	1.79	3.33	3.60
Equivalent price per BOE	$39.68	$61.37	$99.43
Production costs (a)	$9,062,179	$9,335,244	$1,193,573
Production costs per BOE	$13.76	$20.59	$6.72
Oil and gas DD&A (b)	$4,906,123	$3,220,990	$1,192,370
Oil and gas DD&A per BOE	$7.45	$7.10	$6.71
Artificial lift technology services:			
Services revenues	$207,960	$16,146	$—
Cost of service	70,932	20,369	—
Depreciation and amortization expense	$238,475	$374,371	$—

(a) Includes ad valorem and production taxes of $294,689, $49,848, and $44,599 in for the years ended June 30, 2016, 2015, and 2014, respectively.

(b) Excludes depreciation and amortization expense of artificial lift technology services below and excludes non-operating asset depreciation of $20,522, $20,376, and $36,315 for the years ended June 30, 2016, 2015, and 2014, respectively.

Year ended June 30, 2016 compared with the Year ended June 30, 2015

Net Income Available to Common Stockholders. For the year ended June 30, 2016, we generated net income to common shareholders of $24.0 million, or $0.73 per diluted share, on total revenues of $26.3 million. This compares to net income of $4.3 million, or $0.13 per diluted share, on total revenues of $27.8 million for the year-ago period. The $19.7 million earnings increase resulted from $28.1 million from the Delhi field litigation settlement, $1.1 million from an insurance recovery, and $3.5 million of derivative gains, partially offset by $6.1 million of higher income taxes, $1.5 million of lower revenue, and $5.4 million of higher operating expenses (which includes a $1.3 million non-recurring restructuring charge).

Oil and Gas Production. Revenues decreased $1.7 million to $26.1 million primarily as a result of a 35% decline in realized prices from $61.37 per equivalent barrel in the year-ago period to $39.68 per barrel in the current period, partially offset by a 45% increase in production volumes. The year-ago period did not include a full twelve months of net production and revenues or production costs as reversion of our working interest did not occur until November 1, 2014. Delhi oil production and revenues comprise virtually all of our revenues. Delhi gross production of 6,778 BOPD was 12% higher that the average gross production of 6,038 BOPD in the year-ago period as a result of production enhancement and conformance operations in the field.

Production Costs. Production costs for the current period decreased $0.2 million to $9.1 million from $9.3 million in the prior year period due to a $0.6 million decrease for the Company's operated wells as a result of workover expense in the prior year, partially offset by $0.4 million increase at the Delhi field. The year-ago period did not include a full twelve months of net production costs as reversion of our Delhi working interest did not occur until November 1, 2014. Delhi production costs for the current period were $8.9 million of which $4.1 million was for CO_2 costs, compared to $8.5 million, of which $5.1 million was for CO_2 costs, in the year-ago period. Average gross injection volumes decreased from 105,848 Mcf per day in the post-reversion prior year period to 73,762 Mcf per day for the year ended June 30, 2016. For the year ended June 30, 2016, production costs were $13.76 per BOE on total production volumes. Production costs were $18.90 per BOE calculated solely on our Delhi working interest volumes, which includes $8.66 per working interest BOE for CO_2 costs. These latter production costs per BOE exclude production volumes from our royalty interests in the Delhi field, which bear no production costs, and are therefore higher than the rates per BOE on our total production volumes.

Artificial Lift Technology Services. Service revenues were $0.2 million for the year ended June 30, 2016 as a result of current year installations at third party wells. Prior year service revenues and costs were negligible.

Cost of Artificial Lift Technology Services. Cost of technology services were $0.1 million for the year ended June 30, 2016 as a result of current year project activity.

General and Administrative Expenses (“G&A”). G&A expenses increased $2.8 million, or 45%, to $9.1 million for the year ended June 30, 2016 from the year-ago period, as a result of a $1.7 million increase in litigation costs and $0.8 million of stock compensation expense. Total litigation costs for the current year were approximately $2.7 million. In June, 2016, we relocated our office to substantially smaller and less expensive premises. This cost savings will be reflected in future operations.

Restructuring charge. Effective December 31, 2015, we recognized a $1.3 million restructuring charge related to the separation of our GARP® artificial lift technology operations. Approximately $0.6 million of the charge consists of the impairment of assets used in that operation and $0.6 million was associated with accrued personnel termination costs to be paid from January 2016 through June 2017. Such termination costs also include approximately $0.1 million of non-cash stock compensation expense from the accelerated vesting of restricted stock. As a result of the restructuring, future annual overhead cost savings are estimated to be approximately $1.0 million per year.

Other Income and Expenses. During the year ended June 30, 2016, the Company realized gains of $28.1 million from the Delhi field litigation settlement, $3.4 million of gains on derivatives and $1.1 million from an insurance recovery at the Delhi field.

Depletion & Amortization Expense (“DD&A”). DD&A increased $1.5 million, or 43% to $5.2 million for the current period compared to $3.6 million for the year-ago period as a result of $1.7 million of higher amortization of the full cost pool, partially offset by $0.1 million of lower depreciation on artificial lift technology. Compared to the prior year, production volumes increased 45% to 0.7 million BOE and the amortization rate increased 5% to $7.45 per BOE. Compared to the prior year, the higher amortization rate was due to an 18% decrease in our pool of unamortized costs, partially offset by a 13% decline in proved reserves BOE.

Year ended June 30, 2015 compared with the Year ended June 30, 2014

Net Income Available to Common Shareholders. For the year ended June 30, 2015, we generated net income of $4.3 million or $0.13 per diluted share on total revenues of $27.8 million. This compares to net income of $2.9 million, or $0.09 per diluted share, on total revenues of $17.7 million for the prior fiscal year. Earnings increased by $1.4 million, reflecting $10.2 million of higher revenue together with $2.1 million of lower G&A and $1.3 million of restructuring expenses in the prior year, partially offset by $8.1 million of higher production costs, $2.4 million of increased DD&A and $1.6 million of higher income taxes.

Oil and Gas Production. Revenues increased to $27.8 million primarily as a result of a 155% increase in production volumes from the prior fiscal year due to the November 1, 2014 reversion of our Delhi working interest, partially offset by a 38% decline in realized prices from $99.43 per equivalent barrel to $61.37 per barrel in the current period. Delhi oil production and revenues comprise virtually all of our fiscal 2015 revenues. The $10.2 million revenue increase was due to a $10.7 million increase at Delhi, offset by a $0.5 million decline at our operated properties reflecting previous Mississippi Lime and South Texas divestitures. Delhi gross production decreased 0.6% from 6,078 BOPD in the prior year to 6,038 BOPD in the current year.

Production Costs. Production costs for the current period increased $ 8.1 million to $9.3 million from $1.2 million in the prior year period due to a $8.5 million increase at the Delhi field, partially offset by a $0.4 million decrease for the Company's operated wells reflecting the divestitures of non core properties. There were no Delhi production costs in the prior fiscal year as those revenues were derived solely from our mineral and overriding royalty interests, which bear no operating expenses. The current period does not include a full twelve months of net production costs as reversion of our Delhi working interest did not occur until November 1, 2014. Of the $8.5 million of Delhi production costs incurred in the current year, $5.1 million was for CO2 costs. For the year end June 30, 2015, production costs were $20.59 per BOE on total production volumes. From our November 1, 2014 working interest reversion to June 30, 2015, production costs were $29.89 per BOE calculated solely on our Delhi working interest volumes, which includes $17.72 per working interest BOE for CO_2 costs. These latter production costs per BOE exclude production volumes from our royalty interests in the Delhi field, which bear no production costs, and are therefore higher than the rates per BOE on our total production volumes.

General and Administrative Expenses (“G&A”). G&A expenses decreased $2.1 million, or 25%, to $6.3 million during the year ended June 30, 2015 from $8.4 million in the prior year primarily due to fiscal 2014 non-recurring charges of $0.8 million related to stock option exercises and $0.6 million related to the retirement of our chief financial officer, a $0.6 million decrease in personnel-related costs as a result of our December 2013 restructuring, and a $0.7 million decline in accrued incentive compensation, partially offset by $0.4 million of higher legal expenses. This fiscal 2014 restructuring charge of $1.3 million consisted of $0.9 million of termination benefits and $0.4 million non-cash charge for accelerated restricted stock vesting for terminated employees.

Restructuring Charges. The Company recorded $1.3 million of restructuring expense in December 2013 primarily reflecting $956,000 of termination benefits to be paid from January to December 2014 and $376,000 of non-cash stock compensation expense for accelerated restricted stock vesting for terminated employees. All restructuring obligations had been satisfied by December 31, 2014. See Note 8 - Restructuring.

Depletion & Amortization Expense (“DD&A”). DD&A increased $2.4 million, or 194%, to $3.6 million for the year ended June 30, 2015 from $1.2 million for the prior year due to $2.0 million increase in amortization of our full cost oil and gas property cost pool and a $0.3 million impairment charge for GARP® equipment installations on three under performing wells of a third party customer. The remaining expense increase was primarily the result of higher depreciation of artificial lift equipment placed in service during fiscal 2015. The $2.0 million increase in full cost pool depletion was primarily due to higher volume generated from the reversionary working interest. For fiscal 2015 the depletion rate was $7.10 per BOE compared to $6.71 in the prior year. The increase in rate was impacted by a higher estimated cost for the Delhi field NGL plant at June 30, 2015.

Other Economic Factors

Inflation. Although the general inflation rate in the United States, as measured by the Consumer Price Index and the Producer Price Index, has been relatively low in recent years, the oil and gas industry has experienced unusually volatile price movements in commodity prices, vendor goods and oilfield services. Prices for drilling and oilfield services, oilfield equipment, tubulars, labor, expertise and other services greatly impact our lease operating expenses and our capital expenditures. During fiscal 2016, we have seen some declines in operating and capital costs as a result of lower demand and excess supply of good and services in the industry. Product prices, operating costs and development costs may not always move in tandem.

Known Trends and Uncertainties. General worldwide economic conditions, as well as economic conditions for the oil and gas industry specifically, continue to be uncertain and volatile. Concerns over uncertain future economic growth are affecting numerous industries, companies, as well as consumers, which impact demand for crude oil and natural gas. If demand for oil gas decreases or there is a continuing excess supply in the future, it may put downward pressure on crude oil and natural gas prices, thereby lowering our revenues and working capital going forward.

Seasonality. Our business is generally not directly seasonal, except for instances when weather conditions may adversely affect access to our properties or delivery of our petroleum products. Although we do not generally modify our production for changes in market demand, we do experience seasonality in the product prices we receive, driven by summer cooling and driving, winter heating, and extremes in seasonal weather including hurricanes that may substantially affect oil and natural gas production and imports.

Contractual Obligations and Other Commitments

The table below provides estimates of the timing of future payments that, as of June 30, 2016, we are obligated to make under our contractual obligations and commitments. We expect to fund these contractual obligations with cash on hand and cash generated from operations.

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Contractual Obligations					
Operating lease	$220,292	$80,235	$140,057	—	—
Other Obligations					
Asset retirement obligations	962,196	201,896	—	—	760,300
Total obligations	$1,182,488	$282,131	$140,057	$ —	$760,300

As discussed at Note 6 – Property and Equipment, we have a $3.1 million capital expenditure commitment related to the completion of the NGL plant at the Delhi Field which we expect to fund in the first quarter of fiscal 2017.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires that we select certain accounting policies and make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet as well as the reported amounts of revenues and expenses during the reporting period. These policies, together with our estimates have a significant effect on our consolidated financial statements. Our significant accounting policies are included in Note 2 to the consolidated financial statements. Following is a discussion of our most critical accounting estimates, judgments and uncertainties that are inherent in the preparation of our consolidated financial statements.

Oil and Natural Gas Properties. Companies engaged in the production of oil and natural gas are required to follow accounting rules that are unique to the oil and gas industry. We apply the full cost accounting method for our oil and natural gas properties as prescribed by SEC Regulation S-X Rule 4-10. Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as properties and equipment. This includes any internal costs that are directly related to property acquisition, exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves. Oil and natural gas properties include costs that are excluded from costs being depleted or amortized. Oil and natural gas property costs excluded represent investments in unevaluated properties and include non-producing leasehold, geological and geophysical costs associated with leasehold or drilling interests and exploration drilling costs. We exclude these costs until the property has been evaluated. Costs are transferred to the full cost pool as the properties are evaluated. As of June 30, 2016, we had no unevaluated properties costs.

Estimates of Proved Reserves. The estimated quantities of proved oil and natural gas reserves have a significant impact on the underlying financial statements. The estimated quantities of proved reserves are used to calculate depletion expense, and the estimated future net cash flows associated with those proved reserves is the basis in determining impairment under the quarterly ceiling test calculation. The process of estimating oil and natural gas reserves is very complex, requiring significant decisions in the evaluation of all available geological, geophysical, engineering and economic data. Estimated reserves are often subject to future revisions, which could be substantial, based on the availability of additional information, including reservoir performance, additional development activity, new geological and geophysical data, additional drilling, technological advancements, price changes and other economic factors. As a result, material revisions to existing reserve estimates may occur from time to time. Although every reasonable effort is made to ensure that the reported reserve estimates represent the most accurate assessments possible, including the hiring of independent engineers to prepare our reserve estimates, the subjective decisions and variances in available data for the properties make these estimates generally less precise than other estimates included in our financial statements. Material revisions to reserve estimates and / or significant changes in commodity prices could substantially affect our estimated future net cash flows of our proved reserves, affecting our quarterly ceiling test calculation and could significantly affect our depletion rate. A 10% decrease in commodity prices used to determine our proved reserves and Standardized Measure as of June 30, 2016 would not have resulted in an impairment of our oil and natural gas properties. Holding all other factors constant, a reduction in the Company's proved reserve estimates at June 30, 2016 of 5%, 10% and 15% would affect depreciation, depletion and amortization expense by approximately $248,000, $524,000 and $831,000, respectively.

On December 31, 2008, the SEC issued its final rule on the modernization of reporting oil and gas reserves. The rule allows consideration of new technologies in evaluating reserves, generally limits the designation of proved reserves to those projects forecast to be commenced within five years of the end of the period, allows companies to disclose their probable and possible reserves to investors, requires reporting of oil and gas reserves using an average price based on the previous 12-month unweighted arithmetic average first-day-of-the-month price rather than year-end prices, revises the disclosure requirements for oil and gas operations, and revises accounting for the limitation on capitalized costs for full cost companies.

Valuation of Deferred Tax Assets. We make certain estimates and judgments in determining our income tax expense for financial reporting purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities that arise from differences in the timing and recognition of revenue and expense for tax and financial reporting purposes. Our federal and state income tax returns are generally not prepared or filed before the consolidated financial statements are prepared or filed; therefore, we estimate the tax basis of our assets and liabilities at the end of each period as well as the effects of tax rate changes, tax credits, and net operating loss carry backs and carry forwards. Adjustments related to these estimates are recorded in our tax provision in the period in which we file our income tax returns. Further, we must assess the likelihood that we will be able to recover or utilize our deferred tax assets (primarily our net operating loss). If recovery is not likely, we must record a valuation allowance against such deferred tax assets for the amount we would not expect to recover, which would result in an increase to our income tax expense. As of June 30, 2016, we have recorded a valuation allowance for the portion of our net operating loss that is limited by IRS Section 382.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making the assessment of the ultimate realization of deferred tax assets. Based upon the level of historical taxable income and projections for future taxable income over the periods for which the deferred tax assets are deductible, as of end of the current fiscal year, we believe that it is more likely than not that the Company will realize the benefits of its net deferred tax assets. If our estimates and judgments change regarding our ability to utilize our deferred tax assets, our tax provision would increase in the period it is determined that recovery is not probable.

Stock-based Compensation. We estimate the fair value of stock option awards on the date of grant using the Black-Scholes option pricing model. This valuation method requires the input of certain assumptions, including expected stock price volatility, expected term of the award, the expected risk-free interest rate, and the expected dividend yield of the Company's stock. The risk-free interest rate used is the U.S. Treasury yield for bonds matching the expected term of the option on the date of grant. Because of our limited trading experience of our common stock and limited exercise history of our stock option awards, estimating the volatility and expected term is very subjective. We base our estimate of our expected future volatility on peer companies whose common stock has been trading longer than ours, along with our own limited trading history while operating as an oil and natural gas producer. Future estimates of our stock volatility could be substantially different from our current estimate, which could significantly affect the amount of expense we recognize for our stock-based compensation awards.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as of June 30, 2016.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Risk

We are exposed to changes in interest rates. Changes in interest rates affect the interest earned on our cash and cash equivalents. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes.

Commodity Price Risk

Our most significant market risk is the pricing for crude oil, natural gas and NGLs. We expect energy prices to remain volatile and unpredictable. If energy prices decline significantly, revenues and cash flow would significantly decline. In addition, a non-cash write-down of our oil and gas properties could be required under full cost accounting rules if future oil and gas commodity prices sustained a significant decline. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital, as, if and when needed. We use derivative instruments to

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manage our exposure to commodity price risk from time to time based on our assessment of such risk. We primarily utilize swaps and costless collars to reduct the effect of price changes on a portion of our future oil production. We do not enter into derivative instruments for trading purposes.

Item 8. Financial Statements

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Evolution Petroleum Corporation

We have audited the accompanying consolidated balance sheets of Evolution Petroleum Corporation and subsidiaries (the “Company”) as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evolution Petroleum Corporation and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Evolution Petroleum Corporation and subsidiaries’ internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated September 9, 2016 expressed an unqualified opinion on the effectiveness of Evolution Petroleum Corporation’s internal control over financial reporting.

Hein & Associates LLP
Houston, Texas
September 9, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Evolution Petroleum Corporation

We have audited Evolution Petroleum Corporation's internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Evolution Petroleum Corporation’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Evolution Petroleum Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Evolution Petroleum Corporation and subsidiaries as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended June 30, 2016 and our report dated September 9, 2016 expressed an unqualified opinion.

Hein & Associates LLP
Houston, Texas
September 9, 2016

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Evolution Petroleum Corporation and Subsidiaries
Consolidated Balance Sheets

	June 30, 2016	June 30, 2015
Assets		
Current assets		
Cash and cash equivalents	$34,077,060	$20,118,757
Receivables	2,638,188	3,122,473
Deferred tax asset	105,321	82,414
Derivative assets, net	14,132	—
Prepaid expenses and other current assets	251,749	369,404
Total current assets	37,086,450	23,693,048
Property and equipment, net of depreciation, depletion, and amortization		
Oil and natural gas properties—full-cost method of accounting, of which none were excluded from amortization	59,970,463	45,186,886
Other property and equipment, net	28,649	276,756
Total property and equipment, net	59,999,112	45,463,642
Other assets	365,489	726,037
Total assets	$97,451,051	$69,882,727
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$5,809,107	$8,173,878
Accrued liabilities and other	2,097,951	855,373
Derivative liabilities, net	—	109,974
State and federal taxes payable	621,850	190,032
Total current liabilities	8,528,908	9,329,257
Long term liabilities		
Deferred income taxes	11,840,693	11,242,551
Asset retirement obligations	760,300	715,767
Deferred rent	—	18,575
Total liabilities	21,129,901	21,306,150
Commitments and contingencies (Note 18)		
Stockholders' equity		
Preferred stock, par value $0.001; 5,000,000 shares authorized: 8.5% Series A Cumulative Preferred Stock, 1,000,000 shares designated, 317,319 shares issued and outstanding at June 30, 2016 and 2015, respectively, with a total liquidation preference of $7,932,975 ($25.00 per share)	317	317
Common stock; par value $0.001; 100,000,000 shares authorized: issued and outstanding 32,907,863 and 32,845,205 shares as of June 30, 2016 and 2015, respectively	32,907	32,845
Additional paid-in capital	47,171,563	36,847,289
Retained earnings	29,116,363	11,696,126
Total stockholders' equity	76,321,150	48,576,577
Total liabilities and stockholders' equity	$97,451,051	$69,882,727

See accompanying notes to consolidated financial statements.

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Evolution Petroleum Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended June 30,		
	2016	2015	2014
Revenues			
Crude oil	$26,130,762	$27,761,291	$17,460,392
Natural gas liquids	7,885	37,227	117,166
Natural gas	2,895	26,601	95,950
Artificial lift technology services	207,960	16,146	—
Total revenues	26,349,502	27,841,265	17,673,508
Operating costs			
Production costs	9,062,179	9,335,244	1,193,573
Cost of artificial lift technology services	70,932	20,369	—
Depreciation, depletion and amortization	5,165,120	3,615,737	1,228,685
Accretion of discount on asset retirement obligations	49,054	34,866	41,626
General and administrative expenses*	9,079,597	6,256,783	8,388,291
Restructuring charges	1,257,433	(5,431)	1,293,186
Total operating costs	24,684,315	19,257,568	12,145,361
Income from operations	1,665,187	8,583,697	5,528,147
Other			
Gain on settled derivative instruments, net	3,315,123	—	—
Gain (loss) on unsettled derivative instruments, net	124,106	(109,974)	—
Delhi field litigation settlement	28,096,500	—	—
Delhi field insurance recovery related to pre-reversion event	1,074,957	—	—
Interest and other income	26,211	35,991	30,256
Interest (expense)	(70,943)	(73,636)	(69,092)
Income before income tax provision	34,231,141	8,436,078	5,489,311
Income tax provision	9,570,779	3,444,221	1,891,998
Net income attributable to the Company	24,660,362	4,991,857	3,597,313
Dividends on preferred stock	674,302	674,302	674,302
Net income attributable to common shareholders	$23,986,060	$4,317,555	$2,923,011
Earnings per common share			
Basic	$0.73	$0.13	$0.09
Diluted	$0.73	$0.13	$0.09
Weighted average number of common shares outstanding			
Basic	32,810,375	32,817,456	30,895,832
Diluted	32,861,231	32,924,018	32,564,067

* General and administrative expenses for the years ended June 30, 2016, 2015 and 2014 included non-cash stock-based compensation expense of $1,750,209, $943,653, and $1,352,322, respectively. These years also included litigation expenses of $2,729,755, $1,015,105, and $300,564, respectively.

See accompanying notes to consolidated financial statements.

Evolution Petroleum Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended June 30,		
	2016	2015	2014
Cash flows from operating activities			
Net income attributable to the Company	$24,660,362	$4,991,857	$3,597,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	5,211,494	3,664,373	1,272,778
Impairments included in restructuring charge	569,228	—	—
Stock-based compensation	1,750,209	943,653	1,352,322
Stock-based compensation related to restructuring	59,339	—	376,365
Accretion of discount on asset retirement obligations	49,054	34,866	41,626
Settlement of asset retirement obligations	—	(223,564)	(315,952)
Deferred income taxes	575,235	1,422,489	1,344,812
Deferred rent	—	(17,145)	(17,145)
(Gain) loss on derivative instruments, net	(3,439,229)	109,974	—
Noncash (gain) on Delhi field litigation settlement	(596,500)	—	—
Write-off of deferred loan costs	50,414	—	—
Changes in operating assets and liabilities:			
Receivables	484,285	(1,665,261)	507,592
Prepaid expenses and other current assets	24,754	378,049	(480,899)
Accounts payable and accrued expenses	822,730	551,452	663,645
Income taxes payable	431,818	190,032	(233,548)
Net cash provided by operating activities	30,653,193	10,380,775	8,108,909
Cash flows from investing activities			
Derivative settlements received	3,633,831	—	—
Proceeds from asset sales	—	398,242	542,347
Development of oil and natural gas properties	(21,095,901)	(4,890,909)	(966,931)
Acquisitions of oil and natural gas properties	—	—	(59,315)
Capital expenditures for technology and other equipment	(6,883)	(313,059)	(312,890)
Maturities of certificates of deposit	—	—	250,000
Other assets	(161,345)	(236,559)	(202,017)
Net cash used by investing activities	(17,630,298)	(5,042,285)	(748,806)
Cash flows from financing activities			
Proceeds from the exercise of stock options	51,000	141,600	3,252,801
Acquisitions of treasury stock	(1,357,185)	(333,841)	(1,655,251)
Common stock dividends paid	(6,565,823)	(9,833,642)	(9,723,833)
Preferred stock dividends paid	(674,302)	(674,302)	(674,302)
Deferred loan costs	(168,972)	(94,075)	(63,535)
Tax benefits related to stock-based compensation	9,650,657	1,633,946	509,096
Other	33	67	6,850
Net cash provided (used) by financing activities	935,408	(9,160,247)	(8,348,174)
Net increase (decrease) in cash and cash equivalents	13,958,303	(3,821,757)	(988,071)
Cash and cash equivalents, beginning of year	20,118,757	23,940,514	24,928,585
Cash and cash equivalents, end of year	$34,077,060	$20,118,757	$23,940,514

See accompanying notes to consolidated financial statements.

Evolution Petroleum Corporation and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
For the Years Ended June 30, 2016, 2015 and 2014

	Preferred		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Balance, June 30, 2013	317,319	$ 317	28,608,969	$29,410	$31,813,239	$24,013,035	$(1,019,840)	$54,836,161
Issuance of restricted common stock	—	—	39,732	40	(40)	—	—	—
Exercise of warrants	—	—	905,391	905	(905)	—	—	—
Exercise of stock options	—	—	3,299,367	3,299	3,868,108	—	—	3,871,407
Forfeitures of restricted stock	—	—	(51,099)	(51)	51	—	—	—
Acquisition of treasury stock	—	—	(186,714)	—	—	—	(2,273,857)	(2,273,857)
Retirements of treasury stock	—	—	—	(988)	(3,292,709)	—	3,293,697	—
Stock-based compensation	—	—	—	—	1,728,687	—	—	1,728,687
Tax benefits related to stock-based compensation	—	—	—	—	509,096	—	—	509,096
Net income	—	—	—	—	—	3,597,313	—	3,597,313
Common stock cash dividends	—	—	—	—	—	(9,723,833)	—	(9,723,833)
Preferred stock cash dividends	—	—	—	—	—	(674,302)	—	(674,302)
Recovery of short swing profits	—	—	—	—	6,850	—	—	6,850
Balance, June 30, 2014	317,319	317	32,615,646	32,615	34,632,377	17,212,213	—	51,877,522
Issuance of restricted common stock	—	—	213,466	214	(147)	—	—	67
Exercise of stock options	—	—	87,000	87	141,513	—	—	141,600
Acquisition of treasury stock	—	—	(70,907)	—	—	—	(504,124)	(504,124)
Retirements of treasury stock	—	—	—	(71)	(504,053)	—	504,124	—
Stock-based compensation	—	—	—	—	943,653	—	—	943,653
	—	—	—	—	1,633,946	—	—	1,633,946

Tax benefits related to stock-based compensation								
Net income	—	—	—	—	—	4,991,857	—	4,991,857
Common stock cash dividends	—	—	—	—	—	(9,833,642)	—	(9,833,642)
Preferred stock cash dividends	—	—	—	—	—	(674,302)	—	(674,302)
Balance, June 30, 2015	317,319	317	32,845,205	32,845	36,847,289	11,696,126	—	48,576,577
Issuance of restricted common stock	—	—	272,098	272	(239)	—	—	33
Exercise of stock options	—	—	50,000	50	127,450	—	—	127,500
Forfeitures of restricted stock	—	—	(40,758)	(41)	41	—	—	—
Acquisition of treasury stock	—	—	(218,682)	—	—	—	(1,263,402)	(1,263,402)
Retirements of treasury stock	—	—	—	(219)	(1,263,183)	—	1,263,402	—
Stock-based compensation	—	—	—	—	1,809,548	—	—	1,809,548
Tax benefits related to stock-based compensation	—	—	—	—	9,650,657	—	—	9,650,657
Net income attributable to the Company	—	—	—	—	—	24,660,362	—	24,660,362
Common stock cash dividends	—	—	—	—	—	(6,565,823)	—	(6,565,823)
Preferred stock cash dividends	—	—	—	—	—	(674,302)	—	(674,302)
Balance, June 30, 2016	317,319	$ 317	32,907,863	$32,907	$47,171,563	$29,116,363	$—	$76,321,150

See accompanying notes to consolidated financial statements.

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Basis of Preparation

Nature of Operations. Evolution Petroleum Corporation ("EPM") and its subsidiaries (the "Company", "we", "our" or "us"), is an independent petroleum company headquartered in Houston, Texas and incorporated under the laws of the State of Nevada. We are engaged primarily in the development of oil and gas reserves within known oil and gas resources utilizing conventional and proprietary technology.

Principles of Consolidation and Reporting. Our consolidated financial statements include the accounts of EPM and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The consolidated financial statements for the previous year include certain reclassifications that were made to conform to the current presentation. Such reclassifications have no impact on previously reported net income or stockholders' equity. As a result of the separation of our GARP® artificial lift technology operations discussed in Note 8, previously reported revenues for the Delhi field and our artificial lift technology operations have been reclassified as appropriate to crude oil, natural gas liquids, natural gas and artificial lift technology service revenues. Before the reclassification, artificial lift technology revenues included crude oil, natural gas liquids and gas revenues produced by certain of the Company's operated wells that utilized the technology, together with service revenues derived from the use of the Company's technology in third party wells. Previously reported production costs for our artificial lift technology operations have been reclassified as appropriate to oil and gas production costs and cost of artificial lift technology services.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include reserve quantities and estimated future cash flows associated with proved reserves, which significantly impact depletion expense and potential impairments of oil and natural gas properties, income taxes and the valuation of deferred tax assets, stock-based compensation and commitments and contingencies. We analyze our estimates based on historical experience and various other assumptions that we believe to be reasonable. While we believe that our estimates and assumptions used in preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

Note 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents. We consider all highly liquid investments, with original maturities of 90 days or less when purchased, to be cash and cash equivalents.

Account Receivable and Allowance for Doubtful Accounts. Accounts receivable consist of joint interest owner obligations due within 30 days of the invoice date, accrued revenues due under normal trade terms, generally requiring payment within 30 days of production, and other miscellaneous receivables. No interest is charged on past-due balances. Payments made on accounts receivable are applied to the earliest unpaid items. We establish provisions for losses on accounts receivables if it is determined that collection of all or a part of an outstanding balance is not probable. Collectibility is reviewed regularly and an allowance is established or adjusted, as necessary, using the specific identification method. As of June 30, 2016 and 2015, no allowance for doubtful accounts was considered necessary.

Oil and Natural Gas Properties. We use the full cost method of accounting for our investments in oil and natural gas properties. Under this method of accounting, all costs incurred in the acquisition, exploration and development of oil and natural gas properties, including unproductive wells, are capitalized. This includes any internal costs that are directly related to property acquisition, exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and natural gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves.

Oil and natural gas properties include costs that are excluded from costs being depleted or amortized. Excluded costs represent investments in unproved and unevaluated properties and include non-producing leasehold, geological and geophysical costs associated with leasehold or drilling interests and exploration drilling costs. We exclude these costs until the project is evaluated and proved reserves are established or impairment is determined. Excluded costs are reviewed at least quarterly to determine if impairment has occurred. The amount of any evaluated or impaired oil and natural gas properties is transferred to capitalized costs being amortized.

EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Limitation on Capitalized Costs.   Under the full-cost method of accounting, we are required, at the end of each fiscal quarter, to perform a test to determine the limit on the book value of our oil and natural gas properties (the "Ceiling Test"). If the capitalized costs of our oil and natural gas properties, net of accumulated amortization and related deferred income taxes, exceed the "Ceiling", this excess or impairment is charged to expense and reflected as additional accumulated depreciation, depletion and amortization or as a credit to oil and natural gas properties. The expense may not be reversed in future periods, even though higher oil and natural gas prices may subsequently increase the Ceiling. The Ceiling is defined as the sum of: (a) the present value, discounted at 10 percent, and assuming continuation of existing economic conditions, of 1) estimated future gross revenues from proved reserves, which is computed using oil and natural gas prices determined 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 (with consideration of price changes only to the extent provided by contractual arrangements including hedging arrangements pursuant to SAB 103), less 2) estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves; plus (b) the cost of properties not being amortized (pursuant to Reg. S-X Rule 4-10 (c)(3)(ii)); plus (c) the lower of cost or estimated fair value of unproven properties included in the costs being amortized; net of (d) the related tax effects related to the difference between the book and tax basis of our oil and natural gas properties. Our Ceiling Tests did not result in an impairment of our oil and natural gas properties during the years ended June 30, 2016, 2015 or 2014.

Other Property and Equipment.   Other property and equipment includes leasehold improvements, data processing and telecommunications equipment, office furniture and equipment, and oilfield service equipment related to our artificial lift technology operations. These items are recorded at cost and depreciated over expected lives of the individual assets or group of assets, which range from three to seven years. The assets are depreciated using the straight-line method, except for oilfield service equipment related to our artificial lift technology operations, which is depreciated using a method which approximates the timing and amounts of expected revenues from the contract. Realization of the carrying value of other property and equipment is reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are determined to be impaired if a forecast of undiscounted estimated future net operating cash flows directly related to the asset, including disposal value, if any, is less than the carrying amount of the asset. If any asset is determined to be impaired, the loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. Repairs and maintenance costs are expensed in the period incurred.

Deferred Financing Costs. The Company capitalizes costs incurred in connection with obtaining financing. These costs are included in other assets on the Company's consolidated balance sheet and are amortized over the term of the related financing using the straight-line method, which approximates the effective interest method.

Asset Retirement Obligations.   An asset retirement obligation associated with the retirement of a tangible long-lived asset is recognized as a liability in the period incurred, with an associated increase in the carrying amount of the related long-lived asset, our oil and natural gas properties. The cost of the tangible asset, including the asset retirement cost, is depleted over the useful life of the asset. The initial recognition or subsequent revision of asset retirement cost is considered a level 3 fair value measurement. The asset retirement obligation is recorded at its estimated fair value, measured by reference to the expected future cash outflows required to satisfy the retirement obligation discounted at our credit-adjusted risk-free interest rate. Accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. If the estimated future cost of the asset retirement obligation changes, an adjustment is recorded to both the asset retirement obligation and the long-lived asset. Revisions to estimated asset retirement obligations can result from changes in retirement cost estimates, revisions to estimated inflation rates and changes in the estimated timing of abandonment.

Fair Value of Financial Instruments. Our financial instruments consist of cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and derivative instruments. Except for derivatives, the carrying amounts of these approximate fair value due to the highly liquid nature of these short-term instruments. The fair values of the Company’s derivative assets and liabilities are based on a third-party industry-standard pricing model that uses market data obtained from third-party sources, including quoted forward prices for oil and gas, discount rates and volatility factors.

Stock-based Compensation. Estimated grant date fair value of stock-based compensation awards is determined to provide the basis for future compensation expense. Service-and performance-based Restricted Stock and Contingent Restricted Stock awards are valued using the market price of our common stock on the grant date. For market-based awards, which reflect future returns of our common stock, the fair value and expected vesting period are determined using a Monte Carlo simulation based on the historical volatility of the Company's total return compared to the historical volatilities of the other companies comprising a benchmark index. We used the Black-Scholes option-pricing model to determine grant date fair value of our past Stock Option and Incentive Warrant awards. For service-based awards stock-based compensation equal to grant date fair value

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is recognized ratably over the requisite service period as the award vests. A performance-based award vests upon attaining the award's operational goal and requires that the recipient remain an employee of the Company upon vesting. Stock-based compensation expense equal to grant date fair value is recognized ratably over the expected vesting period when it is deemed probable, for accounting purposes, that the performance goal will be achieved. The expected vesting period may be deemed to be shorter than the remainder of the award’s term. For a market-based award stock-based compensation expense equal to grant date fair value is recognized ratably over the expected vesting period, so long as the award holder remains an employee of the Company. Total compensation expense is independent of vesting or expiration of the awards, except for termination of service.

Revenue Recognition - Oil and Gas. We recognize oil and natural gas revenue from our interests in producing wells at the time that title passes to the purchaser. As a result, we accrue revenues related to production sold for which we have not received payment.

Revenue Recognition - Artificial Lift Technology. Our artificial lift technology operations have generated revenues under contractual arrangements. Under these contracts, we were required to bear part or all of the incremental installation and capital costs for the technology. We evaluated the substance of each contractual arrangement and recognized revenues over the life of the contract as the earnings process is determined to be complete. We likewise charge our costs, including both capital expenditures and operating expenses, to operating costs in a manner which either matches these costs to the timing of expected revenues, where appropriate, or charges these costs to the accounting period in which they were incurred where it is not appropriate to capitalize or defer them to match with revenues.

Derivative Instruments. The Company uses derivative transactions to reduce its exposure to oil price volatility. All derivative instruments are recorded on the consolidated balance sheet as either an asset or liability measured at fair value. The Company nets its derivative instrument fair value amounts executed with the same counterparty pursuant to a ISDA master agreement, which provides for net settlement over the term of the contract and in the event of default or termination of the contract. Although the derivative instruments provide an economic hedge of the Company’s exposure to commodity price volatility, because the Company elected not to meet the criteria to qualify its derivative instruments for hedge accounting treatment, net gains and losses as a result of changes in the fair value of derivative instruments are recognized as gain or (loss) on derivatives in the consolidated statements of operations in the period in which the changes occur. The net cash flows resulting from the payments to and receipts from the counterparty as a result of derivative settlements are classified as cash flows from investing activities. The Company does not intend to enter into derivative instruments for speculative or trading purposes.

Depreciation, Depletion and Amortization. The depreciable base for oil and natural gas properties includes the sum of all capitalized costs net of DD&A, estimated future development costs and asset retirement costs not included in oil and natural gas properties, less costs excluded from amortization. The depreciable base of oil and natural gas properties is amortized using the unit-of-production method over total proved reserves. Other property, consisting of leasehold improvements, office and computer equipment, vehicles and artificial lift equipment is depreciated as described above in Other Property and Equipment.

Intangible Assets - Intellectual Property. The Company has capitalized the external costs, consisting primarily of legal costs, related to securing its patents and trademarks. The costs related to patents were amortized over the remaining patent life which was less than the expected useful life of each patent. Trademarks have a perpetual life and were not amortized.

Income Taxes. We recognize deferred tax assets and liabilities based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that may result in taxable or deductible amounts in future years. The measurement of deferred tax assets may be reduced by a valuation allowance based upon management's assessment of available evidence if it is deemed more likely than not some or all of the deferred tax assets will not be realizable. We recognize a tax benefit from an uncertain position when it is more likely than not that the position will be sustained upon examination, based on the technical merits of the position and will record the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority. The Company classifies any interest and penalties associated with income taxes as income tax expense.

Earnings (loss) per share. Basic earnings (loss) per share ("EPS") is computed by dividing earnings or loss by the weighted-average number of common shares outstanding. The computation of diluted EPS is similar to the computation of basic EPS, except that the denominator is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. Our potential dilutive common shares are our outstanding stock options, warrants, and contingent restricted common stock. The dilutive effect of our potential dilutive common shares is reflected in diluted EPS by application of the treasury stock method. Under the treasury stock method, exercise of stock options and warrants shall be assumed at the beginning of the period (or at time of issuance, if later) and common shares shall be

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EVOLUTION PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assumed to be issued; the proceeds from exercise shall be assumed to be used to purchase common stock at the average market price during the period; and the incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted EPS computation. Potentially dilutive common shares are excluded from the computation if their effect is anti-dilutive.
Recent Accounting Pronouncements.
In August 2015, the FASB issued Accounting Standards Update 2015-14, which defers the effective date of ASU 2014-09 Revenue from Contracts with Customers (Topic 606) (" ASU 2014-09") one year, and would allow entities the option to early adopt the new revenue standard as of the original effective date. Issued in May 2014, ASU 2014-09 provided guidance on revenue recognition on contracts with customers to transfer goods or services or on contracts for the transfer of nonfinancial assets. ASU 2014-09 requires that revenue recognition on contracts with customers depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public companies, ASU 2014-09 would have been effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard provided for either the retrospective or cumulative effect transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 will have on its consolidated financial statements, if any.
In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” as part of their simplification initiatives. The standard requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The update is effective for public company annual reporting periods beginning after December 15, 2016, and may be adopted prospectively or retrospectively with early adoption permitted. The Company plans to early adopt this standard the first quarter of year ended June 30, 2017 and does not believe that adoption of this update will have a material impact on our results of operations, financial position or cash flows.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”), which relates to the accounting for leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact the adoption of ASU 2016-02 will have on our condensed consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company plans to early adopt this standard during the first quarter of the year ended June 30, 2017. The adoption of this standard will result in all excess tax benefits or deficiencies being recognized as tax expense or benefit in the reporting period they occur regardless of whether the benefit reduces taxes payable in the current period. On the statement of cash flows excess tax benefits or deficiencies will be classified along with other income tax as an operating activity and cash paid by the Company when directly withholding shares for tax withholding purposes will continue to be classified as a financing activity. The Company is in the process of evaluating the impact of this accounting standard on its consolidated financial statements, but does not expect the impact of adoption to be material.

Note 3 – Delhi Field Litigation Settlement

On June 24, 2016, Evolution Petroleum Corporation, together with its subsidiaries NGS Sub Corp. and Tertiaire Resources Company (collectively, “Evolution”), entered into a settlement agreement with Denbury Resources, Inc. and Denbury Onshore, LLC, a subsidiary of Denbury Resources Inc. (together with Denbury Onshore, "Denbury"), to resolve all outstanding disputes and claims between the parties, including claims related to the litigation between Evolution and Denbury with respect to the Delhi field in northeastern Louisiana. The Delhi field litigation between the parties has been dismissed by the Court with prejudice. In connection with this settlement, the Company recognized a $28.1 million settlement gain consisting

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of a $27.5 million cash payment made by Denbury together with its conveyance to Evolution of a 23.9% working interest in the Mengel Sand Interval, a separate interval within the boundaries of the Delhi field which is not currently producing and for which we estimated a Level 2 fair value of $596,500. In addition, effective July 1, 2016, Denbury will be credited with an additional 0.2226% overriding royalty interest in the Delhi field to remedy a previous dispute regarding the interests conveyed in the original transaction between the parties. See Note 18 — Commitments and Contingencies.

Note 4 – Receivables

As of June 30, 2016 and June 30, 2015 our receivables consisted of the following:

	June 30, 2016	June 30, 2015
Receivables from oil and gas sales	$2,637,593	$3,122,155
Other	595	318
Total receivables	$2,638,188	$3,122,473

Note 5 – Prepaid Expenses and Other Current Assets

As of June 30, 2016 and June 30, 2015 our prepaid expenses and other current assets consisted of the following:

	June 30, 2016	June 30, 2015
Prepaid insurance	$168,681	$178,994
Prepaid federal and state income taxes	—	22,542
Equipment inventory (a)	—	81,538
Retainers and deposits	30,568	26,978
Other prepaid expenses	52,500	59,352
Prepaid expenses and other current assets	$251,749	$369,404

(a) As discussed in Note 8, our equipment inventory was determined to have no future value in use for our operations and negligible market value and was charged to restructuring costs as part of the separation of our artificial lift technology operations.

Note 6 – Property and Equipment

As of June 30, 2016 and June 30, 2015, our oil and natural gas properties and other property and equipment consisted of the following:

	June 30, 2016	June 30, 2015
Oil and natural gas properties:		
Property costs subject to amortization	$77,408,353	$57,718,653
Less: Accumulated depreciation, depletion, and amortization	(17,437,890)	(12,531,767)
Unproved properties not subject to amortization	—	—
Oil and natural gas properties, net	59,970,463	45,186,886
Other property and equipment:		
Furniture, fixtures and office equipment, at cost	228,752	287,680
Artificial lift technology equipment, at cost	7,000	319,994
Less: Accumulated depreciation	(207,103)	(330,918)
Other property and equipment, net	$28,649	$276,756

As of June 30, 2016 and 2015, all oil and gas property costs were being amortized.

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During the year ended June 30, 2016, the Company incurred capital expenditures of $19.0 million for the Delhi field, including approximately $16.4 million for the NGL plant project which is currently under construction. We have incurred $21.5 million on a cumulative basis for the NGL plant out of a total authorized commitment of $24.6 million, with a remaining balance of approximately $3.1 million.

As described in Note 3 – Delhi Field Litigation Settlement, we received a 23.9% working interest in the Mengel Interval (currently non-producing) having an estimated fair value of $596,500.

On December 31, 2015, as described in Note 8 — Restructuring, we transferred our residual artificial lift technology equipment to new entity not controlled by the Company. We recorded a charge of $210,392 to expense most of the remaining capitalized costs of artificial lift equipment installed in the wells of a third-party customer. Under our installation contracts, we had funded the majority of the incremental equipment and installation costs in exchange for 25% of the net profits from production, as defined, for as long as the technology remains in the wells. During the year ended ended June 30, 2015, we incurred $217,733 of costs related to installing our artificial lift technology on third party wells and recorded an impairment charge of $275,682 reflecting the unrecovered installation costs, net of estimated salvage value. During the year ended June 30, 2014, we incurred $377,943 of installation costs. Impairment charges are included in depreciation, depletion and amortization expense on the consolidated statement of operations. On October 24, 2014, we sold all of our remaining mineral interest and assets in the Mississippi Lime project for proceeds of $389,165 and the buyer's assumption of all abandonment liabilities. On December 1, 2013, we sold our producing assets and undeveloped reserves in the Lopez Field in South Texas in return for proceeds of $402,500 and the buyer's assumption of all abandonment liabilities. The net proceeds from these sales of our properties, including the reduction of asset retirement obligations, were recognized as a reduction of the cost of oil and gas properties.

Note 7 – Other Assets

As of June 30, 2016 and June 30, 2015 our other assets consisted of the following:

	June 30, 2016	June 30, 2015
Royalty rights	108,512	—
Less: Accumulated amortization of royalty rights	(6,782)	—
Investment in Well Lift Inc., at cost	108,750	—
Deferred loan costs	168,972	337,078
Less: Accumulated amortization of deferred loan costs	(13,963)	(147,057)
Trademarks	—	44,803
Patent costs	—	538,276
Less: Accumulated amortization of patent costs	—	(47,063)
Other assets, net	$365,489	$726,037

During the year ended June 30, 2016, our previous negotiations to obtain a new expanded secured credit facility were curtailed due to market conditions. As a result, the Company determined that $50,414 of deferred legal fees related to the proposed facility were unlikely to be utilized and were charged to expense. In addition, $107,196 of deferred costs incurred for title work in the Delhi field was charged to capitalized costs of oil and gas properties. Our existing unsecured credit facility expired in April 2016 and its associated deferred loan costs of $179,468 had been completely amortized. Contemporaneous with that facility's expiration, we entered into a secured credit facility provided by another financial institution, incurring $168,972 of deferred loan costs. Total amortization of costs related to our credit facilities for the year ended June 30, 2016 was $46,374.

See Note 8 – Restructuring for discussion of transactions associated with the separation of our artificial lift technology operations.

The company accounts for its investment in Well Lift Inc. ("WLI") using the cost method under which any return of capital reduces cost and any dividends paid are recorded as income. This investment is considered a level 3 fair value measurement and its value will be evaluated for impairment periodically and when management identifies any events or changes in circumstances that might have a significant adverse effect on the fair value of the investment.

Note 8 – Restructuring

Separation of GARP® Artificial Lift Technology Operations

During the quarter ended December 31, 2015, we conducted a strategic review of our GARP® artificial lift technology operations and consummated a plan to separate and transfer these operations to a new entity controlled by the inventor of the technology, our former Senior Vice President of Operations, and certain former employees of the Company. We invested $108,750 in common and preferred stock of the new entity, WLI. We own 17.5% of WLI and our former employees that previously had primary responsibility for our GARP® operations own the balance of the common stock. Our preferred stock is convertible at our option into common stock which would result in our ownership of 42.5% of WLI, based on the current capital structure of WLI. The company has no contractual exposure to losses of WLI, nor does it have any obligation or agreement to provide additional funding or support to WLI if it is needed. In connection with this transaction, three employees of the Company were terminated. We accrued a restructuring charge based on agreements with the employees covering salary and benefit continuation and an acceleration of vesting of equity awards in exchange for release from liabilities and other provisions including agreements not to compete. At December 31, 2015, we recorded a personnel restructuring charge of $688,205 consisting of $59,339 in stock-based compensation and $628,866 of accrued separation and benefits expense. Our current estimate of remaining restructuring obligations as of June 30, 2016 is as follows:

Type of Cost	December 31, 2015	Payments	Adjustments to Cost	June 30, 2016
Salary expense	$ 530,387	$(176,796)	$ —	$353,591
Payroll taxes and benefits expense	98,479	(32,582)	—	65,897
Accrued liability for restructuring costs	$ 628,866	$(209,378)	$ —	$419,488

Other Restructuring Impairments

Also in connection with the December 2015 separation of GARP®, we and WLI entered into an agreement under which we transferred our technology assets, including our patents and trademarks, to WLI in exchange for a perpetual royalty of 5% on all future gross revenues associated with the GARP® technology. We reduced the carrying value of these exchanged technology assets to our estimate of their expected discounted net present value, which was $108,512. This estimate was based on the recent financial results from our artificial lift technology operations and the current depressed state of the oil and gas industry and the potential upside cases were assigned relatively low probabilities for accounting purposes. This resulted in an impairment charge of $469,395. In addition, we transferred certain inventory and minor fixed assets to WLI which had no further use in our operations and were deemed to have negligible market or salvage value. This resulted in impairments of $92,901 to equipment inventory and $6,932 to fixed assets, respectively. These impairments total $569,228 and are included in restructuring charges.

Restructuring of Oil and Gas Operations

On November 1, 2013, we undertook an initiative to refocus our business that resulted in an adjustment of our workforce with less emphasis on engineering and greater emphasis on sales and marketing. In exchange for severance and non-compete agreements with the terminated employees, we recorded a restructuring charge of $1,332,186 representing $376,365 of stock-based compensation from the accelerated vesting of equity awards and $955,821 of estimated severance compensation and benefits to be paid during the twelve months ended December 31, 2014. All of the Company's obligations under these agreements had been fulfilled at December 31, 2014, extinguishing the liability. Our disposition of the accrued restructuring charges is reflected in the following schedule:

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Type of Cost	Balance at December 31, 2013	Payments	Adjustment to Cost	June 30, 2015
Salary expense	$ 615,721	$(615,721)	$—	$ —
Incentive compensation costs	185,525	(185,525)	—	—
Payroll taxes and benefits expense	154,575	(110,144)	(44,431)	—
Accrued liability for restructuring costs	$ 955,821	$(911,390)	$(44,431)	$ —

Note 9 – Accrued Liabilities and Other

As of June 30, 2016 and June 30, 2015 our other current liabilities consisted of the following:

	June 30, 2016	June 30, 2015
Accrued incentive and other compensation	$999,172	$578,910
Accrued restructuring charges	419,488	—
Asset retirement obligations due within one year	201,896	57,223
Accrued royalties, including suspended accounts	49,580	75,164
Accrued franchise taxes	62,834	94,885
Payable for settled derivatives	318,708	—
Accrued - other	46,273	49,191
Accrued liabilities and other	$2,097,951	$855,373

Note 10 –Asset Retirement Obligations

Our asset retirement obligations represent the estimated present value of the amount we will incur to plug, abandon and remediate our producing properties at the end of their productive lives in accordance with applicable laws. The following is a reconciliation of the beginning and ending asset retirement obligation for the years ended June 30, 2016 and 2015:

	Years Ended	
	2016	2015
Asset retirement obligations—beginning of period	$772,990	$352,215
Liabilities incurred (a)	28,505	564,019
Liabilities settled	—	(137,604)
Liabilities sold	—	(52,526)
Accretion of discount	49,054	34,866
Revisions to previous estimates	111,647	12,020
Asset retirement obligations — end of period	962,196	772,990
Less: current asset retirement obligations	(201,896)	(57,223)
Long-term portion of asset retirement obligations	$760,300	$715,767

(a) Liabilities incurred during fiscal 2015 relate to our share of the estimated abandonment costs of the wells and facilities in the Delhi field subsequent to the reversion of our working interest.

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Note 11 – Stockholders' Equity
Common Stock
Commencing in December 2013, the Board of Directors initiated a quarterly cash dividend on our common stock at a quarterly rate of $0.10 per share and subsequently adjusted this rate to $0.05 per share during the quarter ended March 31, 2015. We paid cash dividends of $6,565,823, $9,833,642 and $9,723,833 from retained earnings to our common shareholders during the years ended June 30, 2016, 2015 and 2014, respectively.
On May 12, 2015, the Board of Directors approved a share repurchase program covering up to $5 million of the Company's common stock. Since commencement in June 2015, we have repurchased 265,762 shares at an average price of $6.05 per share, for total cost of $1,609,008. This includes 202,390 shares purchased during the year ended June 30, 2016, at an average price of $5.80, for total cost of $1,173,899. Under the program's terms, shares are repurchased only on the open market and in accordance with the requirements of the Securities and Exchange Commission. Such shares are initially recorded as treasury stock, then subsequently canceled. The timing and amount of repurchases depends upon several factors, including financial resources and market and business conditions. There is no fixed termination date for this repurchase program, and it may be suspended or discontinued at any time. We have not repurchased any shares since December 2015.
During the year ended June 30, 2014, we issued (i) 1,568,832 shares of our common stock upon the exercise of incentive stock options (ISOs), receiving cash proceeds totaling $3,252,801, and (ii) 2,635,696 of our common shares upon cashless exercises of nonqualified stock options ("NQSOs") and incentive warrants, all being exercised on a net basis, except for 50,956 of previously acquired shares owned by option holders that were swapped in payment of the exercise price. The weighted average cost of these swapped shares was $12.14.
In fiscal 2014, we retired 801,889 shares of treasury stock acquired in previous fiscal years at a cost of $1,019,840 and 186,714 treasury shares acquired during fiscal 2014 from employees and directors at an average cost of $12.18 per share or $2,273,857. The shares acquired in 2014 were received in satisfaction of payroll tax liabilities from the exercise of stock options and vesting of restricted stock (requiring cash outlays by us) and 50,956 shares were received from option holders in cashless stock option exercises, using stock previously owned by the option holder.
Series A Cumulative Perpetual Preferred Stock
At June 30, 2016, there were 317,319 shares of the Company’s 8.5% Series A Cumulative (perpetual) Preferred Stock outstanding. The Series A Cumulative Preferred Stock cannot be converted into our common stock and there are no sinking fund or redemption rights available to the holders thereof. Effective July 1, 2014, we can redeem this preferred stock at any time for the stated liquidation value of $25.00 per share plus accrued dividends. With respect to dividend rights and rights upon our liquidation, winding-up or dissolution, the Series A Preferred Stock ranks senior to our common stockholders, but subordinate to any of our existing and future debt. Dividends on the Series A Cumulative Preferred Stock accrue and accumulate at a fixed rate of 8.5% per annum on the $25.00 per share liquidation preference, payable monthly at $0.177083 per share, as, if and when declared by our Board of Directors through its Dividend Committee. We paid dividends of $674,302 to holders of our Series A Preferred Stock during each of the years ended June 30, 2016, 2015, and 2014.

Tax Treatment of Dividends to Recipients

Based on our current projections for the fiscal year ending June 30, 2016, we expect all preferred and common dividends for this fiscal year will be treated for tax purposes as qualified dividend income to the recipients. For the fiscal year ended June 30, 2015, 100% of cash dividends on preferred stock were treated as qualified dividend income. For the same period, approximately 86% of cash dividends on common shares were treated as a return of capital to stockholders and the remainder of 14% were treated as qualified dividend income. For fiscal year ended June 30, 2014, all cash dividends on preferred and common stock were treated for tax purposes as a return of capital to our shareholders.

Note 12—Stock-Based Incentive Plan

Under the terms of the Evolution Petroleum Corporation Amended and Restated 2004 Stock Plan (the "Plan"), we have granted option awards to purchase common stock (the "Stock Options"), restricted common stock awards ("Restricted Stock"), contingent restricted common stock awards ("Contingent Restricted Stock") and/or unrestricted fully vested common stock, to employees, directors, and consultants of the Company. The Plan authorizes the issuance of 6,500,000 shares of common stock prior to its expiration on October 24, 2017 and 282,133 shares remain available for grant as of June 30, 2016.

Stock Options and Incentive Warrants

No Stock Options have been granted since August 2008 and all compensation costs attributable to Stock Options have been recognized in prior periods. No Incentive Warrants have been granted since February 2006. All compensation costs attributable to these awards have been recognized in prior periods and all remaining awards were exercised in November 2013. The following summary presents information regarding outstanding Stock Options as of June 30, 2016, and the changes during the period:

	Number of Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value(1)	Weighted Average Remaining Contractual Term (in years)
Stock Options outstanding at July 1, 2015	91,061	$ 2.50		
Exercised	(50,000)	2.55		
Expired	(5,830)	4.02		
Stock Options outstanding at June 30, 2016	35,231	$ 2.19	$ 115,558	1.2
Vested at June 30, 2016	35,231	$ 2.19	$ 115,558	1.2
Exercisable at June 30, 2016	35,231	$ 2.19	$ 115,558	1.2

(1) Based upon the difference between the market price of our common stock on the last trading date of the period ($5.47 as of June 30, 2016) and the Stock Option exercise price of in-the-money Stock Options.

For the year ended June 30, 2016, there were 50,000 Stock Options exercised with an aggregate intrinsic value of $131,000. For the year ended June 30, 2015, there were 87,000 Stock Options exercised, with an aggregate intrinsic value of $501,810. For the year ended June 30, 2014, there were 4,644,759 Stock Options and Incentive Warrants exercised with an aggregate intrinsic value of $47,504,114.

No stock options vested during the years ended June 30, 2016, 2015, and 2014.

Restricted Stock and Contingent Restricted Stock

Prior to August 28, 2014, all Restricted Stock grants contained a four-year vesting period based solely on service. Restricted Stock which vests based solely on service is valued at the fair market value on the date of grant and are amortized over the service period.

In August 2014 and in December 2015, the Company awarded grants of both Restricted Stock and Contingent Restricted Stock as part of its long-term incentive plan. Such grants, which expire after four years if unvested, contain service-based, performance-based and market-based vesting provisions. The common shares underlying the Restricted Stock grants were issued on the date of grant, whereas the Contingent Restricted Stock are reserved from the Plan, but will be issued only upon the attainment of specified performance-based or market-based vesting provisions.

Performance-based grants vest upon the attainment of earnings, revenue and other operational goals and require that the recipient remain an employee of the Company through the vesting date. The Company recognizes compensation expense for performance-based awards ratably over the expected vesting period based on the grant date fair value when it is deemed probable, for accounting purposes, that the performance criteria will be achieved. The expected vesting period may be deemed to be shorter than the four-year term. As of June 30, 2016, certain performance-based awards were not considered probable of vesting for accounting purposes and no compensation expense has been recognized with regard to these awards. If these awards are later determined to be probable of vesting, cumulative compensation expense would be recorded at that time and amortization would continue over the remaining expected vesting period.

Market-based awards entitle employees to vest in a fixed number of shares when the three-year trailing total return on the Company’s common stock exceeds the corresponding total returns of various quartiles of companies comprising the SIG Exploration and Production Index (NASDAQ EPX) during defined measurement periods. The fair value and expected vesting period of these awards were determined using a Monte Carlo simulation based on the historical volatility of the Company's total return compared to the historical volatilities of the other companies in the index. During the fiscal year ended June 30, 2016, we granted market-based awards with fair values ranging from $2.93 to $5.07, all with an expected vesting period of 3.83 years, based on the various quartiles of comparative market performance. During the fiscal year ended June 30, 2015, we granted market-based awards with fair values ranging from $4.26 to $8.40 and with expected vesting periods of 3.30 years to 2.55 years, based on the various quartiles of comparative market performance. Compensation expense for market-based awards is recognized over the expected vesting period using the straight-line method, so long as the award holder remains an employee of the Company. Total compensation expense is based on the fair value of the awards at the date of grant and is independent of vesting or expiration of the awards, except for termination of service.

In December 2015, one employee resigned and three others left the Company when we restructured our artificial lift technology operations. As a result 31,467 restricted shares and 14,212 contingent restricted shares were forfeited. Also in connection with the restructuring, at the Company's request in February 2016, certain employees agreed to voluntarily relinquish 31,307 restricted performance-based shares and 15,654 contingent performance-based shares in exchange for 22,016 shares of service-based restricted stock subject to vesting in three annual tranches ending on August 28, 2018.

Unvested Restricted Stock awards at June 30, 2016 consisted of the following:

Award Type	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Service-based awards	224,515	$ 7.08
Performance-based awards	89,079	7.17
Market-based awards	93,254	5.50
Unvested at June 30, 2016	406,848	$ 6.74

The following table sets forth the Restricted Stock transactions for the year ended June 30, 2016:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value	Unamortized Compensation Expense at June 30, 2016	Weighted Average Remaining Amortization Period (Years)
Unvested at July 1, 2015	262,227	$ 9.37	$ —	
Service-based awards granted	164,610	5.84		
Performance-based awards granted	64,752	6.09		
Market-based awards granted	64,752	4.58		
Vested	(86,719)	8.73		
Forfeited	(62,774)	9.72		
Unvested at June 30, 2016	406,848	$ 6.74	$ 1,536,125	2.6

During the years ended June 30, 2016, 2015, and 2014, there were 86,719, 91,306, and 277,198 shares of Restricted Stock that vested with a total grant date fair value of $757,229, $766,970, and $1,796,243, respectively.

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Unvested Contingent Restricted Stock awards at June 30, 2016 consisted of the following:

Award Type	Number of Contingent Restricted Shares	Weighted Average Grant-Date Fair Value
Performance-based awards	44,542	$ 7.17
Market-based awards	46,630	3.34
Unvested at June 30, 2016	91,172	$ 5.21

The following table summarizes Contingent Restricted Stock activity:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value	Unamortized Compensation Expense at June 30, 2016 (1)	Weighted Average Remaining Amortization Period (Years)
Unvested at July 1, 2015	56,286	$ 8.20		
Performance-based awards granted	32,376	6.09		
Market-based awards granted	32,376	2.93		
Forfeited	(29,866)	$ 9.33		
Unvested at June 30, 2016	91,172	$ 5.21	$ 107,219	2.8

(1) Excludes $122,268 of potential future compensation expense for performance-based awards for which vesting is not considered probable at this time for accounting purposes.

Stock-based Compensation Expense

For the years ended June 30, 2016, 2015, and 2014, we recognized stock-based compensation expense related to Restricted Stock, Contingent Restricted Stock grants, and Stock Option grants of $1,809,548, $943,653, and $1,728,687, respectively. Included in these amounts are stock-based compensation expense of $59,339 for the year ended June 30, 2016 and $376,365 for the year ended June 30, 2014 that were reflected in restructuring charges.

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Note 13 – Supplemental Disclosure of Cash Flow Information
Our supplemental disclosures of cash flow information for the years ended June 30, 2016, 2015, and 2014 are as follows:

	June 30, 2016	2015	2014
Income taxes paid	$540,000	$220,000	$755,941
Income tax refunds	1,556,999	331,733	—
Non-cash transactions:			
Increase (decrease) in accrued purchases of property and equipment	(2,250,048)	5,422,566	(183,766)
Deferred loan costs charged to oil and gas property costs	107,196	—	—
Oil and natural gas property costs attributable to the recognition of asset retirement obligations	140,151	576,039	66,976
Mengel working interest acquired in Delhi Field litigation settlement	596,500	—	—
Royalty rights acquired through non-monetary exchange of patent and trademark assets	108,512	—	—
Previously acquired Company shares swapped by holders to pay stock option exercise price	$76,500	$—	$618,606
Accrued purchases of treasury stock	(170,283)	170,283	—

Note 14 – Income Taxes
We file a consolidated federal income tax return in the United States and various combined and separate filings in several state and local jurisdictions.
There were no unrecognized tax benefits nor any accrued interest or penalties associated with unrecognized tax benefits during the years ended June 30, 2016, 2015 and 2014. We believe that we have appropriate support for the income tax positions taken and to be taken on the Company's tax returns and that the accruals for tax liabilities are adequate for all open years based on our assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. The Company's tax returns are open to audit under the statute of limitations for the years ending June 30, 2013 through June 30, 2015 for federal tax purposes and for the years ended June 30, 2011 through June 30, 2015 for state tax purposes.
The components of our income tax provision (benefit) are as follows:

	June 30, 2016	June 30, 2015	June 30, 2014
Current:			
Federal	$8,731,290	$1,413,296	$386,018
State	264,254	608,436	161,168
Total current income tax provision	8,995,544	2,021,732	547,186
Deferred:			
Federal	541,891	1,282,059	1,319,727
State	33,344	140,430	25,085
Total deferred income tax provision	575,235	1,422,489	1,344,812
	$9,570,779	$3,444,221	$1,891,998

The following table presents the reconciliation of our income taxes calculated at the statutory federal tax rate, currently 34%, to the income tax provision in our financial statements. The effective tax rate for 2016 is less than the statutory rate primarily due to the benefit derived from statutory depletion in excess of tax basis. The effective tax rates for 2015 and 2014 exceed the statutory rate as a result of state income taxes, primarily in the state of Louisiana, with smaller adjustments related to stock-based compensation and other permanent differences.

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	June 30, 2016	June 30, 2015	June 30, 2014
Income tax provision (benefit) computed at the statutory federal rate	$11,638,588	$2,868,267	$1,866,366
Reconciling items:			
Depletion in excess of basis	(2,242,620)	—	—
State income taxes, net of federal tax benefit	196,415	595,708	189,081
Permanent differences related to stock-based compensation	—	—	(155,817)
Other permanent differences	(21,604)	(19,754)	(7,632)
Income tax provision	$9,570,779	$3,444,221	$1,891,998

Deferred income taxes primarily represent the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are classified as either current or noncurrent on the balance sheet based on the classification of the related asset or liability for financial reporting purposes. Deferred tax assets and liabilities not related to specific assets or liabilities on the financial statements are classified according to the expected reversal date of the temporary difference or the expected utilization date for tax attribute carryforwards.

	Asset (Liability)		
	June 30, 2016	June 30, 2015	June 30, 2014
Deferred tax assets:			
Non-qualified stock-based compensation	$553,182	$173,647	$134,469
Net operating loss carry-forwards	386,808	400,288	427,249
AMT credit carry-forward*	—	701,254	701,254
Other	130,947	91,113	165,775
Gross deferred tax assets	1,070,937	1,366,302	1,428,747
Valuation allowance	(292,446)	(292,446)	(292,446)
Total deferred tax assets	778,491	1,073,856	1,136,301
Deferred tax liability:			
Oil and natural gas properties	(12,513,863)	(12,233,993)	(10,873,949)
Total deferred tax liability	(12,513,863)	(12,233,993)	(10,873,949)
Net deferred tax liability	$(11,735,372)	$(11,160,137)	$(9,737,648)

* In fiscal 2016 we used our total AMT credit carry-forward of $901,545. Our previous deferred tax asset above did not include $200,291 of AMT credit carry-forward associated with the tax benefit related to stock-based compensation.

The above assets and liabilities are present on the balance sheet as follows:

	June 30, 2016	June 30, 2015	June 30, 2014
Current deferred tax asset	$ 105,321	$ 82,414	$ 159,624
Non-current deferred tax liability	11,840,693	11,242,551	9,897,272
Net liability	11,735,372	11,160,137	9,737,648

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As of June 30, 2016, we had a federal tax loss carryforward of approximately $1.2 million that we acquired through the reverse merger in May 2004. The majority of the tax loss carryforwards from the reverse merger expired without being utilized. We will be able to utilize a maximum of $0.3 million of these carryforwards in equal annual amounts of $39,648 through 2023 and the balance is not able to be utilized based on the provisions of IRC Section 382. We have recorded a valuation allowance for the portion of our net operating loss that is limited by IRC Section 382.
During fiscal 2016 we utilized the remaining amount of $25.3 million of net operating losses ("NOL's") created primarily from tax deductions in excess of book deductions related to the exercise of non-qualified stock options and incentive warrants in fiscal 2014. NOL's related to such stock-based awards had not affected our future tax provision for financial reporting purposes, nor had it been recognized as a deferred tax asset for these future benefits. In fiscal 2016, 2015 and 2014, we recognized a tax benefit for utilization of these NOL's to offset cash taxes that would otherwise have been payable as an increase in additional paid in capital, in amounts of $9,650,657, $1,633,946 and $509,096 respectively.
In late September 2015, we received a $1.5 million refund payment of cash taxes paid to the State of Louisiana over a three-year period ended June 30, 2014. We also received $57,467 from the State of Louisiana for interest on the refund and recorded it as a reduction of current income tax expense. This carryback of tax losses resulted from the exercise of stock options and incentive warrants in fiscal 2014 and, accordingly, we recognized this benefit as an increase in additional paid-in capital for financial reporting purposes. This carryback utilized approximately $19.1 million of an estimated $24.2 million net loss for state tax purposes. The remaining balance of this net loss carryforward in Louisiana was utilized in the tax return for the year ended June 30, 2015.
In addition, as of June 30, 2016, the Company has an estimated carryforward of percentage depletion in excess of basis of approximately $5.0 million. These future deductions are limited to 65% of taxable income in any period.
Note 15 – Related Party Transactions
On June 30, 2011, we entered into a Technology Assignment Agreement with the Company’s Senior Vice President of Operations to acquire exclusive, perpetual, non-cancelable rights to the patented artificial lift technology he developed while employed by the Company. Under the agreement, he was paid a fee when the technology was employed. For the years ended June 30, 2016, 2015 and 2014, we made payments of $0, $26,579 and $10,113, respectively, under the agreement, while he served as an officer of the Company. Our obligations with respect to this agreement were terminated in December 2015 in connection with the transfer of our artificial lift technology operations to Well Lift Inc.
Note 16 – Net Income Per Share
The following table sets forth the computation of basic and diluted net income per share:

	June 30,		
	2016	2015	2014
Numerator			
Net income attributable to common shareholders	$23,986,060	$4,317,555	$2,923,011
Denominator			
Weighted average number of common shares – Basic	32,810,375	32,817,456	30,895,832
Effect of dilutive securities:			
Contingent restricted stock grants	9,378	4,422	—
Stock Options	41,478	102,140	1,668,235
Total weighted average dilutive securities	50,856	106,562	1,668,235
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	32,861,231	32,924,018	32,564,067
Net income per common share – Basic	$0.73	$0.13	$0.09
Net income per common share – Diluted	$0.73	$0.13	$0.09

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The following were reflected in the calculation of diluted earnings per share as of June 30, 2016:

Outstanding Potential Dilutive Securities	Weighted Average Exercise Price	Outstanding at June 30, 2016
Contingent Restricted Stock grants	$ —	91,172
Stock Options	2.19	35,231
Total	$ 0.61	126,403

The following were reflected in the calculation of diluted earnings per share as of June 30, 2015:

Outstanding Potential Dilutive Securities	Weighted Average Exercise Price	Outstanding at June 30, 2015
Contingent Restricted Stock grants	$ —	56,286
Stock Options	$ 2.50	91,061
Total	$ 1.55	147,347

The following were reflected in the calculation of diluted earnings per share as of June 30, 2014:

Outstanding Potential Dilutive Securities	Weighted Average Exercise Price	Outstanding at June 30, 2014
Stock Options	$ 2.08	178,061

Note 17 – Credit Agreements

Senior Secured Credit Agreement

On April 11, 2016, the Company entered into a new three-year, senior secured reserve-based credit facility ("Facility") in an amount up to $50 million. The Facility replaces the Company's previous unsecured credit facility which was set to expire on April 29, 2016 and was terminated in early April. The initial borrowing base under the Facility was set at $10 million and the Company has no outstanding borrowings. Proceeds from the Facility may be used for the acquisition and development of oil and gas properties and for letters of credit and other general corporate purposes. Availability of borrowings under the Facility is subject to semi-annual borrowing base redeterminations.

The Facility included a placement fee of 0.50% on the initial borrowing base, amounting to $50,000, and carries a commitment fee of 0.25% per annum on the undrawn portion of the borrowing base. Any borrowings under the Facility will bear interest, at the Company's option, at either Libor plus 2.75% or the Prime Rate, as defined, plus 1.00%. The Facility contains financial covenants including a requirement that the Company maintain, as of the last day of each fiscal quarter, (a) a maximum total leverage ratio of not more than 3.00 to 1.00, (b) a debt service coverage ratio of not less than 1.10 to 1.00, and (c) a consolidated tangible net worth of not less than $40 million, all as defined under the Facility.

In connection with this agreement, the Company incurred $168,972 of debt issuance costs. Such costs were capitalized in Other Assets and are being amortized to expense. The unamortized balance in debt issuance costs related to the Facility was $155,009 as of June 30, 2016.

Unsecured Revolving Credit Agreement

On February 29, 2012, the Company and a commercial bank entered into an unsecured credit agreement with a four year term. The agreement had provided $5 million of availability, which the Company never utilized. The original expiration date was extended to April 29, 2016. In connection with this agreement, the Company had incurred $179,468 of debt issuance costs. Such costs had been capitalized in Other Assets and have been completely amortized to expense.

Note 18 – Commitments and Contingencies

On December 13, 2013, Evolution Petroleum Corporation and its wholly-owned subsidiaries, Tertiaire Resources Company and NGS Sub. Corp. (collectively, “Evolution”) filed a lawsuit in the 133rd Judicial District Court of Harris County, Texas, against Denbury Onshore, LLC (“Denbury”) alleging breaches of certain 2006 agreements between the parties regarding the Delhi field in northeast Louisiana. On June 24, 2016, Evolution entered into a settlement agreement with Denbury to resolve all outstanding disputes and claims between the parties, including claims related to the pending litigation between Evolution and Denbury with respect to the Delhi field. Pursuant to the settlement, the parties dismissed with prejudice all such claims between them with respect to such litigation. In addition to clarifying certain aspects of the parties' ongoing relationship, the settlement resolves (a) claims by Evolution in connection with the June 2013 incident at the Delhi field involving a release of well fluids (the “June 2013 Incident”); (b) disputes regarding the occurrence, determination, timing, nature and terms of “payout” and Evolution's related reversionary interest in the Delhi Field; and (c) any claims by Denbury related to the purchase by Denbury of its original Delhi field interest from the Company. Under the terms of the settlement, Evolution retains any and all rights under its existing agreements with Denbury regarding indemnification for any costs which are asserted or arise subsequent to the effective date of the settlement and which relate to periods prior to reversion of its working interest, including any such costs related to the June 2013 Incident. See Note 3 — Delhi Field Litigation Settlement.

On December 3, 2013, our wholly owned subsidiary, NGS Sub Corp., was served with a lawsuit filed in the 8th Judicial District Court of Winn Parish, Louisiana by Cecil M. Brooks and Brandon Hawkins, residents of Louisiana, alleging that in 2006 a former subsidiary of NGS Sub Corp. improperly disposed of water from an off-lease well into a well located on the plaintiffs’ lands in Winn Parish. The plaintiffs requested monetary damages and other relief. NGS Sub Corp. divested its ownership of the property in question along with its ownership of the subsidiary in 2008 to a third party. The district court granted our exception of no right of action and dismissed certain claims against NGS Sub Corp. The plaintiffs subsequently filed an amended petition naming NGS Sub Corp. and the Company as defendants. NGS Sub Corp. and the Company have denied the plaintiffs’ claims. Various pretrial motions filed on behalf of multiple parties were recently decided by the court and discovery is in process. We will continue to vigorously defend all claims by plaintiffs and consider the likelihood of a material loss to the Company in this matter to be remote.

Lease Commitments. We had a non-cancelable lease for office space that expired on July 31, 2016. Late in fiscal 2016, the Company entered into a new non-cancelable office space with a three year term ending on May 31, 2019. Future minimum lease commitments as of June 30, 2016 under these operating leases are as follows:

For the fiscal year ended June 30,	
2017	$80,235
2018	73,073
2019	66,984
Total	$220,292

Rent expense for the years ended June 30, 2016, 2015, and 2014 was $182,626, $175,103, and $174,229, respectively.

Capital Expenditures. See Note 6 for discussion of capital projects in progress and expected remaining capital commitments.

Note 19 – Concentrations of Credit Risk

Major Customers. We market all of our oil and natural gas production from the properties we operate. We do not currently market our share of crude oil production from Delhi. Although we have the right to take our working interest production at Delhi in-kind, we are currently selling our oil under the Delhi operator's agreement with Plains Marketing L.P. for the delivery of our oil to a pipeline at the field. The majority of our operated gas, oil and condensate production is sold to purchasers under short-term (less than 12 months) contracts at market-based prices. The following table identifies customers from whom we derived 10 percent or more our net oil and natural gas revenues during the years ended June 30, 2016, 2015, and 2014. The loss of our purchaser at the Delhi field or disruption to pipeline transportation from the field could adversely affect our net realized pricing and potentially our near-term production levels. The loss of any of our other purchasers would not be

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expected to have a material adverse effect on our operations.

	Year Ended June 30,		
Customer	2016	2015	2014
Plains Marketing L.P. (includes Delhi production)	99 %	99 %	96 %
Enterprise Crude Oil LLC	— %	— %	2 %
Flint Hills	— %	— %	1 %
ETC Texas Pipeline, LTD.	— %	— %	1 %
All others	1 %	1 %	— %
Total	100%	100%	100%

Accounts Receivable. Substantially all of our accounts receivable result from oil and natural gas sales to third parties in the oil and natural gas industry. Our concentration of customers in this industry may impact our overall credit risk.

Cash and Cash Equivalents and Certificates of Deposit. We are subject to concentrations of credit risk with respect to our cash and cash equivalents, which we attempt to minimize by maintaining our cash and cash equivalents in high quality money market funds. At times, cash balances may exceed limits federally insured by the Federal Deposit Insurance Corporation ("FDIC"). Our certificates of deposit are below or at the maximum federally insured limit set by the FDIC.

Note 20 – Retirement Plan

We have a Company sponsored 401(k) Retirement Plan ("Plan") which covers all full-time employees. We currently match 100% of employees' contributions to the Plan, to a maximum of the first 6% of each participant's eligible compensation, with Company contributions fully vested when made. Our matching contributions to the Plan totaled \$88,348, \$85,676, and \$116,873 for the years ended June 30, 2016, 2015, and 2014, respectively.

Note 21 – Derivatives

In early June 2015, the Company began using derivative instruments to reduce its exposure to crude oil price volatility for a substantial portion of its near-term forecasted production. The Company's objectives for this program were to achieve a more predictable level of cash flows to support the Company’s capital expenditure program and to provide better financial visibility for the payment of dividends on common stock. The Company uses both fixed price swap agreements and costless collars to manage its exposure to crude oil price risk. While these derivative instruments are intended to limit the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. The Company does not intend to enter into derivative instruments for speculative or trading purposes.

The Company accounts for derivatives under the provisions of ASC 815 Derivatives and Hedging ("ASC 815") under which the Company records the fair value of the instruments on the balance sheet at each reporting date, with changes in fair value recognized in income. Given cost and complexity considerations, the Company did not elect to use cash flow hedge accounting provided under ASC 815. Under cash flow hedge accounting, the effective portion of the change in fair value of the derivative instruments would be deferred in other comprehensive income and not recognized in earnings until the underlying hedged item impacts earnings.

These derivative instruments can result in both fair value asset and liability positions held with each counterparty. These positions are offset to a single net fair value asset or liability at the end of each reporting period. The Company nets its fair value amounts of derivative instruments executed with the same counterparty pursuant to ISDA master agreements, which provide for net settlement over the term of the contract and in the event of default or termination of the contract. The fair value derivative instruments where the Company is in a net asset position with its counterparty as of June 30, 2016 totaled \$14,132. Refer to Note 22–Fair Value Measurement for derivative asset and derivative liability balances before offsetting.

The Company monitors the credit rating of its counterparties and believes it does not have significant credit risk. Accordingly, we do not currently require our counterparties to post collateral to support the net asset positions of our

derivative instruments. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties to its derivative instruments.
For the year ended June 30, 2016, the Company recorded in the consolidated statement of operations a gain on derivative

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instruments of $3,439,229 consisting of a realized gain of $3,315,123 on settled derivatives and an unrealized gain of $124,106 on unsettled derivatives. For the year ended June 30, 2015, the Company recorded in the consolidated statement of operations a net unrealized loss on unsettled derivatives of $109,974.

The following sets forth a summary of the Company's crude oil derivative positions at average NYMEX WTI prices as of June 30, 2016.

Period	Type of Contract	Volumes (in Bbls./day)	Weighted Average Floor Price per Bbl.	Weighted Average Ceiling Price per Bbl.	Weighted Average Collar Spread per Bbl.
Months of July 2016 through September 2016	Costless Collar	600	$45.00	$55.00	$10.00

Subsequent to June 30, 2016, the Company's July and August collars expired without settlement as the respective NYMEX prices for those months fell between the floor and ceiling prices.

Note 22 – Fair Value Measurement

Accounting guidelines for measuring fair value establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

The three levels are defined as follows:

Level 1—Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

Fair Value of Derivative Instruments. The following table summarize the location and amounts of the Company's assets and liabilities measured at fair value on a recurring basis as presented in the consolidated balance sheets as of June 30, 2016. All items included in the tables below are Level 2 inputs within the fair value hierarchy:

	June 30, 2016		
Asset (Liability)	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheets
Current derivative assets	$45,263	$ (31,131)	$ 14,132
Current derivative liabilities	(31,131)	31,131	—
Total	$14,132	$ —	$ 14,132

The fair values of the Company's derivative assets and liabilities are based on a third-party industry-standard pricing model that uses market data obtained from third-party sources, including quoted forward prices for oil and gas, discount rates and volatility factors. The fair values are also compared to the values provided by the counterparty for reasonableness and are adjusted for the counterparties credit quality for derivative assets and the Company's credit quality for derivative liabilities. To date, adjustments for credit quality have not had a material impact on the fair values.

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Note 23 – Supplemental Disclosures about Oil and Natural Gas Producing Properties (unaudited)
Costs incurred for oil and natural gas property acquisition, exploration and development activities
The following table summarizes costs incurred and capitalized in oil and natural gas property acquisition, exploration and development activities. Property acquisition costs are those costs incurred to lease property, including both undeveloped leasehold and the purchase of reserves in place. Exploration costs include costs of identifying areas that may warrant examination and examining specific areas that are considered to have prospects containing oil and natural gas reserves, including costs of drilling exploratory wells, geological and geophysical costs and carrying costs on undeveloped properties. Development costs are incurred to obtain access to proved reserves, including the cost of drilling. Exploration and development costs also include amounts incurred due to the recognition of asset retirement obligations of $140,151, $576,039 and $66,976 during the years ended June 30, 2016, 2015, and 2014, respectively.

	For the Years Ended June 30,		
	2016	2015	2014
Oil and Natural Gas Activities			
Property acquisition costs:			
Proved property	$—	$—	$—
Unproved property (a)	596,500	—	47,344
Exploration costs	—	—	757,423
Development costs	19,093,200	10,975,637	18,566
Total costs incurred for oil and natural gas activities	$19,689,700	$10,975,637	$823,333

(a) As described in Note 3 — Delhi Field Litigation Settlement, we received a 23.9% working interest in the non-producing Mengel Interval with an estimated fair value of $596,500. This cost is included in properties subject to amortization.

Estimated Net Quantities of Proved Oil and Natural Gas Reserves
The following estimates of the net proved oil and natural gas reserves of our oil and gas properties located entirely within the United States of America are based on evaluations prepared by third-party reservoir engineers. Reserve volumes and values were determined under the method prescribed by the SEC for our fiscal years ended June 30, 2016, 2015, and 2014, which requires the application of the previous 12 months unweighted arithmetic average first-day-of-the-month price, and current costs held constant throughout the projected reserve life, when estimating whether reserve quantities are economical to produce.
Proved oil and natural gas reserves are estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties inherent in estimating quantities of proved oil and natural gas reserves, projecting future production rates, and timing of development expenditures. Accordingly, reserve estimates often differ from the quantities of oil and natural gas that are ultimately recovered.

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Estimated quantities of proved oil and natural gas reserves and changes in quantities of proved developed and undeveloped reserves for each of the periods indicated were as follows:

	Crude Oil (Bbls)	Natural Gas Liquids (Bbls)	Natural Gas (Mcf)	BOE
Proved developed and undeveloped reserves:				
June 30, 2013	12,782,755	979,885	22,797	13,766,440
Revisions of previous estimates (a)	(1,919,052)	1,269,588	2,412,677	(247,350)
Improved recovery, extensions and discoveries	17,146	32,731	498,044	132,884
Sales of minerals in place	(184,722)	—	—	(184,722)
Production (sales volumes)	(169,783)	(3,516)	(26,655)	(177,742)
June 30, 2014	10,526,344	2,278,688	2,906,863	13,289,510
Revisions of previous estimates (b)	(64,074)	156,195	(2,894,703)	(390,330)
Improved recovery, extensions and discoveries	—	—	—	—
Sales of minerals in place	—	—	—	—
Production (sales volumes)	(450,294)	(1,288)	(7,221)	(452,786)
June 30, 2015	10,011,976	2,433,595	4,939	12,446,394
Revisions of previous estimates (c)	(765,385)	(198,233)	(3,319)	(964,171)
Improved recovery, extensions and discoveries	—	—	—	—
Sales of minerals in place	—	—	—	—
Production (sales volumes)	(658,041)	(491)	(1,620)	(658,802)
June 30, 2016	8,588,550	2,234,871	—	10,823,421
Proved developed reserves:				
June 30, 2013	10,077,522	8,539	22,797	10,089,861
June 30, 2014	7,858,224	32,164	481,042	7,970,562
June 30, 2015	7,347,231	1,572	4,939	7,349,626
June 30, 2016	7,168,249	—	—	7,168,249
Proved undeveloped reserves:				
June 30, 2013	2,705,233	971,346	—	3,676,579
June 30, 2014	2,668,120	2,246,524	2,425,821	5,318,948
June 30, 2015	2,664,745	2,432,023	—	5,096,768
June 30, 2016	1,420,301	2,234,871	—	3,655,172

(a) Significant reserve revisions occurred in the Delhi field during fiscal 2014. As a result of a fluid release event in the field, 1,817,224 BBLs of oil reserves were reclassified from proved to probable category based on the operator's decision to defer CO_2 injections in certain parts of the field. There was a positive revision of 1,679,481 BOE, which was comprised of 1,275,178 BBLs of natural gas liquids and 2,425,821 MCF of natural gas as a result of an improved design for the NGL plant in the Delhi field. The plant was expected to significantly increase recoveries of these products, particularly natural gas, which were not previously planned to be extracted from the injection volumes.

(b) The 2,894,703 negative fiscal 2015 revision for natural gas primarily reflects a 2,246,524 MCF negative revision for the Delhi field NGL plant together with a 452,786 MCF negative revision at the Giddings Field for a well that was lost due to mechanical issues. The NGL plant revision resulted from a decision during the current fiscal year to use the methane production internally to reduce field operating costs rather than selling it into the market. The 156,195 BBL positive natural gas liquids revision primarily reflects 185,499 BBL positive revision for better recovery from the redesigned NGL plant, partly offset by a 29,304 BBL negative revision due to the lost Giddings well.

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(c) The negative revision results primarily from the removal of proved undeveloped reserves in the far eastern part of the Delhi field, referred to as Test Site 6, which were deemed uneconomic under the lower SEC price case utilized at the end of the period.

Standardized Measure of Discounted Future Net Cash Flows

Future oil and natural gas sales and production and development costs have been estimated using prices and costs in effect at the end of the years indicated, as required by ASC 932, Extractive Activities - Oil and Gas ("ASC 932"). ASC 932 requires that net cash flow amounts be discounted at 10%. Future production and development costs are computed by estimating the expenditures to be incurred in developing and producing our proved oil and natural gas reserves assuming continuation of existing economic conditions. Future income tax expenses are computed by applying the appropriate period-end statutory tax rates to the future pretax net cash flow relating to our proved oil and natural gas reserves, less the tax basis of the related properties. The future income tax expenses do not give effect to tax credits, allowances, or the impact of general and administrative costs of ongoing operations relating to the Company's proved oil and natural gas reserves. Changes in the demand for oil and natural gas, inflation, and other factors make such estimates inherently imprecise and subject to substantial revision. The table below should not be construed to be an estimate of the current market value of our proved reserves.

The standardized measure of discounted future net cash flows related to proved oil and natural gas reserves as of June 30, 2016, 2015, and 2014 are as follows:

	For the Years Ended June 30,		
	2016	2015	2014
Future cash inflows	$383,491,193	$807,030,282	$1,193,515,075
Future production costs and severance taxes	(179,182,565)	(309,225,333)	(475,387,931)
Future development costs	(16,595,047)	(49,691,006)	(46,154,178)
Future income tax expenses	(45,713,438)	(123,888,665)	(195,581,510)
Future net cash flows	142,000,143	324,225,278	476,391,456
10% annual discount for estimated timing of cash flows	(64,042,824)	(165,028,739)	(250,313,784)
Standardized measure of discounted future net cash flows	$77,957,319	$159,196,539	$226,077,672

Future cash inflows represent expected revenues from production of period-end quantities of proved reserves based on the previous 12 months unweighted arithmetic average first-day-of-the-month commodity prices for each year and reflect adjustments for lease quality, transportation fees, energy content and regional price differentials.

	Year Ended June 30,					
	2016		2015		2014	
	Oil (Bbl)	Gas (MMBtu)	Oil (Bbl)	Gas (MMBtu)	Oil (Bbl)	Gas (MMBtu)
NYMEX prices used in determining future cash flows	$42.91	n/a	$71.88	$ 3.44	$100.37	$ 4.10

There were no natural gas reserves in 2016. The NGL prices utilized for future cash inflows were based on historical prices received, where available. For the Delhi NGL plant, we utilized historical prices for the expected mix and net pricing of natural gas liquid products projected to be produced by the plant.

A summary of the changes in the standardized measure of discounted future net cash flows applicable to proved crude oil, natural gas liquids, and natural gas reserves is as follows:

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	For the Years Ended June 30,		
	2016	2015	2014
Balance, beginning of year	$159,196,539	$226,077,672	$307,220,699
Net changes in sales prices and production costs related to future production	(120,832,747)	(88,043,095)	(73,439,526)
Changes in estimated future development costs	74,991	(9,585,405)	9,848,614
Sales of oil and gas produced during the period, net of production costs	(17,079,363)	(18,538,016)	(16,479,934)
Net change due to extensions, discoveries, and improved recovery	—	—	775,574
Net change due to revisions in quantity estimates	(18,821,014)	(9,391,321)	(23,757,788)
Net change due to sales of minerals in place	—	—	(3,150,277)
Development costs incurred during the period	16,327,883	7,785,095	—
Accretion of discount	21,870,650	31,974,540	45,896,187
Net change in discounted income taxes	36,598,239	34,157,767	58,073,450
Net changes in timing of production and other (a)	622,141	(15,240,698)	(78,909,327)
Balance, end of year	$77,957,319	$159,196,539	$226,077,672

(a) Due to the June 2013 fluid release event in the Delhi field, the operator expressed plans to produce the Delhi field at lower production rates. The decision to produce these reserves at lower rates over a longer period of time did not materially change the total quantities expected to be recovered, but resulted in a significant reduction in the discounted value of these reserves as of June 30, 2014.

Note 24 – Selected Quarterly Financial Data (Unaudited)

The following table presents summarized quarterly financial information for the years ended June 30, 2016 and 2015:

2016	First	Second (1)	Third	Fourth (2)
Revenues	$7,379,406	$6,622,927	$5,106,735	$7,240,434
Operating income (loss)	1,846,498	(454,987)	(681,147)	954,823
Net income (loss) available to common shareholders	$2,923,652	$654,697	$(298,183)	$20,705,894
Basic net income (loss) per share	$0.09	$0.02	$(0.01)	$0.63
Diluted net income (loss) per share	$0.09	$0.02	$(0.01)	$0.63

2015	First	Second (3)	Third	Fourth
Revenues	$4,004,827	$7,708,067	$7,064,689	$9,063,682
Operating income	1,840,866	2,162,294	1,245,990	3,334,547
Net income available to common shareholders	$960,435	$1,071,342	$566,011	$1,719,767
Basic net income per share	$0.03	$0.03	$0.02	$0.05
Diluted net income per share	$0.03	$0.03	$0.02	$0.05

(1) Includes $1.3 million restructuring charge.
(2) Includes gain on settlement of Delhi field litigation of $28.1 million.
(3) Impacted by the November 1, 2014 reversion of the Company's 23.9% working interest and 19.0% net revenue interest in the Delhi field.

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Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to this Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

As required by Securities and Exchange Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, an evaluation was conducted on the effectiveness of the Company's internal control over financial reporting based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Management concluded that the Company maintained effective internal control over financial reporting as of June 30, 2016.

The effectiveness of our internal control over financial reporting at June 30, 2016 has been audited by Hein & Associates LLP, the independent registered public accounting firm that also audited our financial statements. Their report is included in Item 8. "Financial Statements" of this Annual Report on form 10-K under the heading Report of Independent Registered Public Accounting Firm on internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the fourth quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers And Corporate Governance

Incorporated by reference to the Company's Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Company's 2016 fiscal year.

Item 11. Executive Compensation

Incorporated by reference to the Company's Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Company's 2016 fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference to the Company's Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Company's 2016 fiscal year.

Item 13. Certain Relationships and Related Transactions, Director Independence

Incorporated by reference to the Company's Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Company's 2016 fiscal year.

Item 14. Principal Accountant Fees and Services

Incorporated by reference to the Company's Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Company's 2016 fiscal year.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

1. Financial Statements.

Our consolidated financial statements are included in Part II, Item 8 of this report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Cash Flows
Consolidated Statements of Stockholders' Equity
Notes to the Consolidated Financial Statements

2. Financial Statements Schedules and supplementary information required to be submitted:

None.

3. Exhibits

A list of the exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed or furnished by us) is provided in the Exhibit Index of this report. Those exhibits incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. Otherwise, the exhibits are filed herewith.

GLOSSARY OF SELECTED PETROLEUM TERMS

The following abbreviations and definitions are terms commonly used in the crude oil and natural gas industry and throughout this form 10-K:
"BBL." A standard measure of volume for crude oil and liquid petroleum products; one barrel equals 42 U.S. gallons.
"BCF." Billion Cubic Feet of natural gas at standard temperature and pressure.
"BOE." Barrels of oil equivalent. BOE is calculated by converting 6 MCF of natural gas to 1 BBL of oil.
"BOPD." Barrels of oil per day.
"BTU" or "British Thermal Unit." The standard unit of measure of energy equal to the amount of heat required to raise the temperature of one pound of water 1 degree Fahrenheit. One Bbl of crude is typically 5.8 MMBTU, and one standard MCF is typically one MMBTU.
"CO2." Carbon dioxide, a gas that can be found in naturally occurring reservoirs, typically associated with ancient volcanoes, and also is a major byproduct from manufacturing and power production also utilized in enhanced oil recovery through injection into an oil reservoir.
"Developed Reserves." Reserves of any category that can be expected to be recovered (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
"EOR." Enhanced Oil Recovery projects involve injection of heat, miscible or immiscible gas, or chemicals into oil reservoirs, typically following full primary and secondary waterflood recovery efforts, in order to gain incremental recovery of oil from the reservoir.
"Field." An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geologic structural feature and/or stratigraphic feature.*
"Farmout." Sale or transfer of all or part of the operating rights from the working interest owner (the assignor or farm-out party), to an assignee (the farm-in party) who assumes all or some of the burden of development, in return for an interest in the property. The assignor may retain an overriding royalty or any other type of interest. For Federal tax purposes, a farm-out may be structured as a sale or lease, depending on the specific rights and carved out interests retained by the assignor.
"Gross Acres or Gross Wells." The total acres or number of wells participated in, regardless of the amount of working interest owned.
"Horizontal Drilling." Involves drilling horizontally out from a vertical well bore, thereby potentially increasing the area and reach of the well bore that is in contact with the reservoir.
"Hydraulic Fracturing." Involves pumping a fluid with or without particulates into a formation at high pressure, thereby creating fractures in the rock and leaving the particulates in the fractures to ensure that the fractures remain open, thereby potentially increasing the ability of the reservoir to produce oil or gas.
"LOE." Means lease operating expense(s), a current period expense incurred to operate a well.
"MBO." One thousand barrels of oil
"MBOE." One thousand barrels of oil equivalent.
"MCF." One thousand cubic feet of natural gas at standard conditions, being approximately sea level pressure and 60 degrees Fahrenheit temperature. Standard pressure in the state of Louisiana is deemed to be 15.025 psi by regulation, but varies in other states.
"MMBOE." One million barrels of oil equivalent.
"MMBTU." One million British thermal units.
"MMCF." One million cubic feet of natural gas at standard temperature and pressure.

"Mineral Royalty Interest." A royalty interest that is retained by the owner of the minerals underlying a lease. See "Royalty Interest".
"Net Acres or Net Wells." The sum of the fractional working interests owned in gross acres or gross wells.
"NGL." Natural gas liquids, being the combination of ethane, propane, butane and natural gasoline that can be removed from natural gas through processing, typically through refrigeration plants that utilize low temperatures, or through J-T plants that utilize compression, temperature reduction and expansion to a lower pressure.
"NYMEX." New York Mercantile Exchange.
"OOIP." Original Oil in Place. An estimate of the barrels originally contained in a reservoir before any production therefrom.
"Operator." An oil and gas joint venture participant that manages the joint venture, pays venture costs and bills the venture's non-operators for their share of venture costs. The operator is also responsible to market all oil and gas production, except for those non-operators who take their production in-kind.
"Overriding Royalty Interest or ORRI." A royalty interest that is created out of the operating or working interest. Unlike a royalty interest, an overriding royalty interest terminates with the operating interest from which it was created or carved out of. See "Royalty Interest".
"Permeability." The measure of ease with which a fluid can move through a reservoir. The unit of measure is a darcy, or any metric derivation thereof, such as a millidarcy, where one darcy equals 1,000 millidarcys. Extremely low permeability of 10 millidarcys, or less, are often associated with source rocks, such as shale, making extraction of hydrocarbons more difficult, than say sandstone traps, where permeability can be one to two darcys or more.
"Porosity." (of sand or sandstone). The relative volume of the pore space (or open area) compared to the total bulk volume of the reservoir, stated in percent. Higher porosity rocks provide more storage space for hydrocarbon accumulations than lower porosity rocks in a given cubic volume of reservoir.
“Possible Reserves.” Additional unproved reserves that analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves, but have at least a ten percent probability of being recovered.*
"Probable Developed Producing Reserves." Probable Reserves that are Developed and Producing.*
"Probable Reserves." 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.*
"Producing Reserves." Any category of reserves that have been developed and production has been initiated.*
"Proved Developed Reserves." Proved Reserves that can be expected to be recovered (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
"Proved Developed Nonproducing Reserves ("PDNP")." Proved Reserves that have been developed and no material amount of capital expenditures are required to bring on production, but production has not yet been initiated due to timing, markets, or lack of third party completed connection to a gas sales pipeline.*
"Proved Developed Producing Reserves ("PDP")." Proved Reserves that have been developed and production has been initiated.*
"Proved Reserves." Estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.*
"Proved Undeveloped Reserves ("PUD")." Proved Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.*

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.
(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.
"PSI," or pounds per square inch, a measure of pressure. Pressure is typically measured as "psig", or the pressure in excess of standard atmospheric pressure.
"Present Value." When used with respect to oil and gas reserves, present value means the estimated future net revenues computed by applying current prices of oil and gas reserves (with consideration of price changes only to the extent provided by contractual arrangements) to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet presented, less estimated future expenditures (based on current costs to be incurred in developing and producing the proved reserves) computed using a discount factor and assuming continuation of existing economic conditions.
"Productive Well." A well that is producing oil or gas or that is capable of production.
"PV-10." Means the present value, discounted at 10% per annum, of future net revenues (estimated future gross revenues less estimated future costs of production, development, and asset retirement costs) associated with reserves and is not necessarily the same as market value. PV-10 does not include estimated future income taxes. Unless otherwise noted, PV-10 is calculated using the pricing scheme as required by the Securities and Exchange Commission ("SEC"). PV-10 of proved reserves is calculated the same as the standardized measure of discounted future net cash flows, except that the standardized measure of discounted future net cash flows includes future estimated income taxes discounted at 10% per annum. See the definition of standardized measure of discounted future net cash flows.
"Royalty" or "Royalty Interest." 1) The mineral owner's share of oil or gas production (typically between 1/8 and 1/4), free of costs, but subject to severance taxes unless the lessor is a government. In certain circumstances, the royalty owner bears a proportionate share of the costs of making the natural gas saleable, such as processing, compression and gathering. 2) When a royalty interest is coterminous with and carved out of an operating or working interest, it is an "Overriding Royalty Interest," which also may generically be referred to as a Royalty.
"Shut-in Well." A well that is not on production, but has not yet been plugged and abandoned. Wells may be shut-in in anticipation of future utility as a producing well, plugging and abandonment or other use.
"Standardized Measure." The standardized measure of discounted future net cash flows (the "Standardized Measure") is an estimate of future net cash flows associated with proved reserves, discounted at 10% per annum. Future net cash flows is calculated by reducing future net revenues by estimated future income tax expenses and discounting at 10% per annum. The Standardized Measure and the PV-10 of proved reserves is calculated in the same exact fashion, except that the Standardized Measure includes future estimated income taxes discounted at 10% per annum. The Standardized Measure is in accordance with accounting standards generally accepted in the United States of America ("GAAP").
"SWIW." Salt water injection well.
"Undeveloped Reserves." Reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.*
"Working Interest." The interest in the oil and gas in place which is burdened with the cost of development and operation of the property. Also called the operating interest.
"Workover." A remedial operation on a completed well to restore, maintain or improve the well's production.

* This definition may be an abbreviated version of the complete definition as defined by the SEC in Rule 4-10(a) of Regulation S-X.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Houston, Texas, on the date indicated.

Evolution Petroleum Corporation

By: /s/ RANDALL D. KEYS
Randall D. Keys
President and Chief Executive Officer
(Principal Executive Officer)

Date: September 9, 2016

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date	Signature	Title
September 9, 2016	/s/ ROBERT S. HERLIN Robert S. Herlin	Executive Chairman of the Board
September 9, 2016	/s/ RANDALL D. KEYS Randall D. Keys	President and Chief Executive Officer (Principal Executive Officer)
September 9, 2016	/s/ DAVID JOE David Joe	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
September 9, 2016	/s/ RODERICK SCHULTZ Roderick Schultz	Chief Accounting Officer (Principal Accounting Officer)
September 9, 2016	/s/ EDWARD J. DIPAOLO Edward J. DiPaolo	Lead Director
September 9, 2016	/s/ GENE STOEVER Gene Stoever	Director
September 9, 2016	/s/ WILLIAM DOZIER William Dozier	Director
September 9, 2016	/s/ KELLY W. LOYD Kelly W. Loyd	Director

INDEX OF EXHIBITS

MASTER EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation (Previously filed as an exhibit to the Company's Current Report on Form 8-K on February 7, 2002)
3.2	Certificate of Amendment to Articles of Incorporation (Previously filed as an exhibit to the Company's Current Report on Form 8-K on February 7, 2002)
3.3	Certificate of Amendment to Articles of Incorporation (Previously filed as an exhibit to Form SB 2/A on October 19, 2005)
3.4	Certificate of Designation of Rights and Preferences for 8.5% Series A Cumulative Preferred Stock (Previously filed as an exhibit to the Company's Current Report of Form 8-K on June 29, 2011)
3.5	Bylaws (Previously filed as an exhibit to the Company's Current Report on Form 8-K on February 7, 2002)
3.6	Amended Bylaws (Previously filed as an exhibit to Form 10KSB on March 31, 2004)
4.1	Specimen form of the Company's Common Stock Certificate (Previously filed as an exhibit to Form S-3 on June 19, 2013)
4.2	Specimen form of the Company's 8.5% Series A Cumulative Preferred Stock Certificate (Previously filed as an exhibit to Form 8-A on June 29, 2011)
4.3	2004 Stock Plan (Previously filed as an exhibit to the Company's Definitive Information Statement on Schedule 14C on August 9, 2004)
4.4	Amended and Restated 2004 Stock Plan, adopted December 4, 2007 (previously filed as an exhibit to the Company's Definitive Information Statement on Schedule 14A on October 29, 2007)
4.5	Amendment to Amended and Restated 2004 Stock Plan, adopted December 5, 2011 (previously filed as an exhibit to the Company's Definitive Information Statement on Schedule 14A on October 28, 2011)
4.6	Form of Stock Option Agreement for the Natural Gas Systems 2004 Stock Plan (Previously filed as an exhibit to the Current Report on Form 8-K on April 8, 2005)
4.7	Form of Restricted Stock Agreement (Previously filed as an exhibit to Form 8-K on May 15, 2009)
4.8	Form of Contingent Performance Stock Grant under the Evolution Petroleum Corporation Amended and Restated 2004 Stock Plan (Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q on November 7, 2014)
4.9	Majority Voting Policy for Directors (Previously filed as an exhibit to the Company's Current Report on Form 8-K on October 31, 2012)
10.1	Executive Employment Agreement of Robert S. Herlin, dated April 4, 2005 (Previously filed as an exhibit to Form 8-K on April 8, 2005)
10.2	Executive Employment Agreement of Daryl V. Mazzanti, dated June 23, 2005 (Previously filed as an exhibit to Form 8-K on June 29, 2005)
10.3	Purchase and Sale Agreement I, by and between NGS Sub Corp. and Denbury Onshore, LLC, dated May 8, 2006 (Previously filed as an exhibit to Form 8-K on June 16, 2006)
10.4	Purchase and Sale Agreement II, by and between NGS Sub Corp. and Denbury Onshore, LLC, dated May 8, 2006 (Previously filed as an exhibit to Form 8-K on June 16, 2006)
10.5	Conveyance, Assignment and Bill of Sale Agreement, by and between NGS Sub Corp. and Denbury Onshore, LLC, dated May 8, 2006 (Previously filed as an exhibit to Form 8-K on June 16, 2006)
10.6	Unit Operating Agreement, by and between NGS Sub Corp. and Denbury Onshore, LLC, dated May 8, 2006 (Previously filed as an exhibit to Form 8-K on June 16, 2006)
10.7	Settlement Agreement, dated June 24, 2016, by and among Denbury Onshore, LLC, Denbury Resources Inc., NGS Sub Corp., Tertiaire Resources Company, and the Company (Filed herein)
10.8	Form of Indemnification Agreement for Officers and Directors, as adopted on September 20, 2006 (Previously filed as an exhibit to Form 8-K on September 22, 2006)

10.9	Technology Assignment Agreement dated June 30, 2011 between Evolution Petroleum Corporation and Daryl Mazzanti (Previously filed as an exhibit to Form 10-K on September 11, 2015)
10.10	Credit Agreement dated April 11, 2016 between Evolution Petroleum Corporation and MidFirst Bank (Previously filed as an exhibit to Form 8-K on April 15, 2016)

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EXHIBIT NUMBER	DESCRIPTION
14.1	Code of Business Conduct and Ethics for Natural Gas Systems, Inc. (Previously filed as an exhibit to Form 8-K on May 4, 2006)
21.1	List of Subsidiaries of Evolution Petroleum Corporation (Filed herein)
23.1	Consent of Hein & Associates, LLP (Filed herein)
23.2	Consent of DeGolyer and MacNaughton (Filed herein)
23.3	Consent of W.D. Von Gonten & Co. (Filed herein)
31.1	Certification of Chief Executive Officer Pursuant to Rule 15D-14 of the Securities Exchange Act of 1934, as Amended as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein)
31.2	Certification of President and Chief Financial Officer Pursuant to Rule 15D-14 of the Securities Exchange Act of 1934, as Amended as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein)
32.2	Certification of President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein)
99.1	Audit Committee Charter of the Board of Directors of Natural Gas Systems, Inc. (Previously filed as an exhibit to Form 8-K on May 4, 2006)
99.2	Compensation Committee Charter of the Board of Directors of Natural Gas Systems, Inc. (Previously filed as an exhibit to Form 8-K on May 4, 2006)
99.3	Nominating Committee Charter of the Board of Directors of Natural Gas Systems, Inc. (Previously filed as an exhibit to Form 8-K on May 4, 2006)
99.4	The summary of DeGolyer and MacNaughton's Report as of June 30, 2016, on oil and gas reserves (SEC Case) dated August 26, 2016 and certificate of qualification (Filed herein)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document