

Evolution Petroleum: How Much Flexibility Should a Small E&P Keep?

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Decision date and information cutoff: September 17, 2025, after the FY2025 Form 10-K was accepted by the SEC at 16:18:10 ET

Company: Evolution Petroleum Corporation (NYSE American: EPM)

The assignment

Classroom premise: Advise Evolution on the upcoming timing decision for six Chaveroo wells and explain how that decision should fit a broader FY2026 capital-allocation rule. The FY2025 Form 10-K says Evolution and its partner expected to make a final decision on when to spud those wells based on oil prices and completed well costs. The broader allocation recommendation is a classroom exercise: the company did not disclose a board vote, a dividend-cut threat, or an acquisition opportunity awaiting approval.

Use only the cited written sources available by the cutoff. The information set excludes remarks or a transcript from the September 17 earnings call, which was scheduled to begin before the 10-K acceptance time. Recommend how Evolution should set priorities among its disclosed development plan, additional discretionary development or acquisitions, debt and liquidity, and future dividends. The September 11, 2025 dividend declaration is already made; it is outside your decision.

Your two-page memo should recommend whether to proceed with, defer, or condition the Chaveroo spud timing decision, then show how that choice fits your capital-allocation priorities. State the strongest case against your recommendation and the facts that would change your advice. Do not invent a cash budget, project returns, or an oil-price/completed-cost trigger from the information provided. Mark any threshold or policy you introduce as a classroom assumption.

A portfolio built through acquisitions

Evolution Petroleum owns interests in onshore oil and natural-gas properties in several U.S. basins. Its stated approach is to acquire long-life, low-decline properties and pursue selective development and production enhancement. The company's interests include working interests and mineral or royalty interests; many of its properties are operated by third parties. Evolution says that this limits its ability to control operating and development decisions. [P1, printed pp. 13, 38; HTML lines 1410-1411]

The portfolio produces oil, natural gas, and natural-gas liquids. Proved reserves were 27.1 million barrels of oil equivalent (MMBOE) at June 30, 2025, down from 31.8 MMBOE a year

earlier. The filing attributes reserve movements to production and revisions, partly offset by acquisitions. That change does not show how much cash a particular project may generate or how quickly a partner will develop a well. [P1, printed p. 13]

Recent acquisitions show why the company sees a role for buying assets as well as developing existing ones. In April 2025, Evolution closed the TexMex acquisition for \$9.0 million before customary post-closing adjustments. Management described its estimated valuation as approximately 3.4 times next-12-month Adjusted EBITDA, using NYMEX strip pricing as of April 11. This is a management estimate using a non-GAAP measure and a specified price deck, not an independently verified or realized return. [P4, first paragraph, “Strategic Benefits” bullet 1 and footnote 1; P1, printed pp. 38, 42]

On August 4, Evolution closed a separate minerals and royalty acquisition in Oklahoma for approximately \$17 million. The company funded it with \$15 million of credit-facility borrowings and cash. [P1, HTML lines 317-322, 1433-1435]

Capital, cash, and a declared dividend

At June 30, 2025, Evolution reported \$2.5 million of cash and cash equivalents, \$37.5 million of credit-facility borrowings, and a \$4.0 million working-capital deficit. The facility had a \$65 million borrowing base and \$27.5 million of reported availability. Its maximum stated capacity was \$200 million, subject to a lender-determined borrowing base and the agreement’s other terms. [P1, HTML lines 1416-1423; P2, financial tables]

After the August acquisition and an August 5 letter of credit, the 10-K reported \$11.7 million of remaining borrowing availability. It did not report a directly comparable post-acquisition cash balance alongside that figure. Availability is not cash, and the filing does not establish a post-acquisition cash runway or an amount freely available for investment. [P1, HTML lines 1433-1435]

Evolution’s October 2024 at-the-market (ATM) agreement permits the company, at its discretion, to sell up to \$30 million of shares. It raised approximately \$3.5 million net under the ATM during FY2025. The company also had a shelf registration statement for up to \$500 million of debt or equity securities. Neither registration is a commitment to provide cash; an ATM sale would issue shares. [P1, HTML lines 1435-1437]

The board declared a \$0.12-per-share dividend on September 11, payable September 30, 2025. Evolution reported paying \$16.3 million in cash dividends during FY2025. The September payment is already declared. Any later dividend remains a board decision based on future earnings, financial condition, capital needs, and applicable restrictions. The credit agreement restricts distributions if a Default has occurred and is continuing or a Default would result. [P1, HTML lines 1247-1254, 1439-1440, 1487; P2, paragraphs 2-8 and 10-12; P3, §8.4, lines 1873-1874]

Development plan and the hedge covenant

Management expected FY2026 development capital expenditures of \$4 million to \$6 million, excluding acquisitions. Separately, the 10-K said Evolution expected to bring approximately five gross SCOOP/STACK wells online over the next 12 months; that period runs from the filing date and is not necessarily the same as FY2026. At Chaveroo, the company expected permits for the next six wells before FY2026's third quarter ended and disclosed that Evolution and its partner would make a final decision on spud timing based on oil prices and completed well costs. This is a joint timing decision, not a disclosed vote to approve all six wells. The filing does not say whether the Chaveroo wells are included in the \$4-\$6 million estimate or the five-well outlook, and provides no project-level economics or numeric trigger. [P1, HTML lines 1451-1455]

The credit agreement also contains a contractual hedging requirement. Article I, §1.1 defines "Utilization Percentage" as outstanding amount divided by the borrowing base when the leverage ratio is at least 2.25-to-1.00, or by the MFB Margined Collateral Value when the ratio is below 2.25-to-1.00. The 10-K summarizes the amended §7.14(a) trigger as Utilization Percentage rising above the 25% threshold of the applicable, leverage-dependent denominator. Once triggered, borrowers must enter required commodity hedges within 30 days and maintain monthly coverage for the next 12 full fiscal months and on a rolling 12-month basis thereafter. [P1, HTML lines 1422-1424, 1430; P3, Article I, §1.1, lines 972-980; P1, Exhibit 10.2.2, amended §7.14(a), lines 44-47]

The amendment allows aggregate crude-oil **or** natural-gas hedge volumes measured on a barrels-of-oil-equivalent basis. While utilization remains in the 25% hedging tier, it also permits a 72% natural-gas hedge for each full fiscal month in calendar 2026 in lieu of the 25% oil volume otherwise required. The filing reports covenant compliance at June 30, but does not state post-August utilization or the leverage ratio needed to select the denominator. The reported \$11.7 million availability alone does not establish whether the post-August trigger was met or what hedge level applied. [P1, HTML lines 1422-1423; P3, Article I, §1.1, lines 972-980; P1, Exhibit 10.2.2, amended §7.14(a), lines 44-47]

Exhibit 1. What is known-and when

Item	Publicly reported fact	Period / status
Cash and cash equivalents	\$2.5 million	June 30, 2025
Credit-facility borrowings	\$37.5 million	June 30, 2025
Working capital	\$4.0 million deficit	June 30, 2025
Borrowing base / availability	\$65 million base; \$27.5 million availability	June 30, 2025
Minerals acquisition	Approx. \$17 million; \$15 million borrowed plus cash	Closed August 4, 2025
Letter of credit / availability	\$0.8 million letter of credit; \$11.7 million remaining availability reported after the borrowing and letter of credit	August 5 / after FY2025 year-end
ATM / FY2025 proceeds	Up to \$30 million at company discretion; \$3.5 million net proceeds during FY2025	Agreement dated October 21, 2024 / year ended June 30, 2025
Quarterly dividend	\$0.12 per share	Declared September 11; payable September 30, 2025; not part of the choice
FY2026 development-capital estimate	\$4-\$6 million, excluding acquisitions	Management estimate for FY2026
SCOOP/STACK wells	About five gross wells expected online	Management expectation over the next 12 months after the Sep. 17, 2025 filing; not necessarily FY2026

Sources: P1, HTML lines 1416-1437, 1439-1440, 1451-1455; P2, financial tables and dividend paragraphs; P3, credit-agreement terms. Amounts are USD. “Availability” is borrowing-base capacity under the facility, not cash. No post-acquisition cash balance is supplied here. No linkage between the Chaveroo wells, the FY2026 capital estimate, and the rolling 12-month well outlook is disclosed.

Exhibit 2. Three classroom policy choices

These alternatives are constructed for discussion; none is a disclosed company proposal.

Policy	What it would prioritize	Main trade-off
A. Distribution continuity	Recommend proceeding with Chaveroo spud timing when the joint price-and-completed-cost review supports it; maintain the disclosed development plans while prioritizing future quarterly dividends and conditioning acquisitions on cash and credit conditions.	Supports shareholder-return continuity and timely development, but may leave less capacity for debt reduction or new opportunities if operating cash or availability tightens.

Policy	What it would prioritize	Main trade-off
B. Balance-sheet resilience	Defer Chaveroo spud timing if updated price/cost evidence would breach a classroom-defined liquidity or covenant buffer; limit other discretionary development and acquisitions until the buffer is met; make future dividends conditional on that test.	Preserves flexibility and reduces financing pressure, but may delay production or reserve investment and make distributions less predictable.
C. Conditional investment	Make a staged Chaveroo timing recommendation using classroom-defined price/cost and operator-readiness milestones; separately release additional development or acquisition capital only when project and liquidity tests pass; set future dividends after required spending and facility conditions.	Preserves the option to invest selectively while retaining guardrails, but requires reliable project and operator information the public record does not provide.

The Chaveroo spud-timing decision is separate from the \$4-\$6 million FY2026 capital estimate and the approximate five-gross-well, next-12-month outlook; the filing does not disclose how those figures relate. Any price/cost threshold, buffer, hurdle, acquisition limit, or dividend trigger in your memo is a **classroom assumption**, not company guidance. Your recommendation should state how it interacts with any facility hedging requirement if the exact trigger is met. It should not assume that the post-August trigger was or was not met.

Your memo

Recommend one policy or a clearly specified combination. Address:

1. What do you recommend for the upcoming joint timing decision on the six Chaveroo wells: proceed, defer, or condition the timing on further evidence? What evidence supports your call?
2. How should that decision fit the next capital-allocation cycle, and what evidence would you require before approving other discretionary development or an acquisition when assets are largely non-operated?
3. How should the board treat future dividends, facility availability, and hedging obligations without treating a registration or the \$200 million facility headline as cash?
4. What two operating or financial indicators would cause you to change the policy? Give the strongest counterargument to your own recommendation.

Use the public facts above; identify missing information rather than filling it with invented economics. No dollar-by-dollar budget or NPV is required.

Public sources

- **P1.** Evolution Petroleum Corporation, FY2025 Form 10-K, filed September 17, 2025. [SEC filing index](#); [filed 10-K](#).
- **P2.** “Reports Fiscal Fourth Quarter and Full Year Fiscal 2025 Results,” September 16, 2025. [Issuer release](#).

- **P3.** Amended and Restated Senior Secured Credit Agreement dated June 30, 2025, filed as an exhibit to the July 2 Form 8-K, as amended August 29, 2025. **Original agreement; August 29 amendment.**
- **P4.** “Evolution Petroleum Closes Acquisition of Non-Operated Oil and Natural Gas Assets in New Mexico, Texas, and Louisiana,” April 14, 2025. **Issuer release.**

This classroom case uses cited written sources available by September 17, 2025. It excludes the September 17 earnings-call remarks and transcript. The broader allocation assignment is hypothetical; the disclosed Chaveroo spud-timing decision is not presented as a board vote or approval of all six wells.