

## Management

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## Company Overview:

**Lucas Energy, Inc. (LEI)**, is an independent oil and gas company based in Houston, Texas with approximately 19,200 gross acres (14,200 net) of oil and gas leases in South Texas primarily in Gonzales County and Wilson County, Texas. The company holds oil and gas interests in the Austin Chalk formation (proved and producing), Buda formation (proved and producing), and Eagle Ford Shale formation (proved undeveloped).

Lucas is focused on building, revitalizing and developing a portfolio of oil and gas properties by acquiring what they believe are undervalued and underperforming oil and gas assets. New drilling, lateral drilling, workovers and chemical treatments are used by the firm to increase production.

Lucas operates forty-nine producing wells that produced an average of 194 gross and 114 net barrels of oil per day ("BOPD") during the six months ended September 30, 2010. In total, Lucas holds interests in fifty-two producing, shut-in, and previously plugged and abandoned wellbores. The company operates all of their oil and gas properties with the exception of one property located in Sabine County, Texas.

Lucas recently announced two joint ventures to develop their **Eagle Ford Shale** acreage in South Texas.

- **Hilcorp JV** – During the first quarter of the 2010-11 fiscal year (April 1, 2010 through June 30, 2010), Lucas Energy, Inc. entered into a joint venture with Hilcorp Energy I, LP, a related party to Hilcorp Energy Corporation, one of the largest privately owned oil and gas companies in the United States. Under the terms of the joint venture, Hilcorp acquired 85% of the working interest in the deep rights (rights below the base of the Austin Chalk formation, or the top of the Eagle Ford formation and deeper) to leases only in **Gonzales County, Texas** for cash consideration plus an obligation to carry Lucas for 15% to the tanks on the first two Eagle Ford wells drilled. Lucas retained all of its rights above the base of the Austin Chalk formation, all current production, all equipment and well bores, and well bore production rights to certain specific wells drilled below the Austin Chalk formation. To date, Lucas has completed three closings with Hilcorp in which Lucas and partners received approximately \$10.2 million in cash.
- **Hall Phoenix JV** – On November 15 Lucas announced that Hall Phoenix Energy LLC acquired the deep rights (Eagle Ford formation and below) in acreage operated by Lucas in **Wilson County, Texas**. Hall Phoenix Energy, Inc. acquired various working interests (from 50% up to 80%) from a third party joint venture partner of Lucas. Hall Phoenix Energy, LLC is a privately owned oil and gas company located in the Dallas, Texas area. It is, also, a shareholder in Lucas. The sale did not affect either the shallow rights (Austin Chalk formation and above), nor any of the interests owned by Lucas.

## Business Strategy

The Company acquires low producing, shut in, or abandoned oil wells with underlying resource potential. Lucas Energy has acreage in the fast growing Eagle Ford Shale trend near San Antonio, but the company has not departed from its base business

plan of (1) acquiring wells at a low cost, (2) improving production in the wells, and (3) developing the underlying upside potential with joint venture partners.

## Acquire & Exploit vs. Explore Approach

Lucas Energy intends to stay true to its base business plan:

- Acquire detailed data about each area before investing capital
  - Map the trend by review of well logs and test results
  - Hire local experts with knowledge of the wells and successful stimulation techniques
  - Determine that properties are available at a reasonable price
- Aggregate small leasehold positions into large blocks
  - Acquire leasehold (often held by production) that is overlooked by larger companies
  - Customize deal terms with mineral owners that often prefer to work with smaller companies
  - Use Lucas common stock where appropriate to share the upside potential with mineral owners
- Avoid exploration risk
  - Acquire and rework existing shut-in and stripper wells in proven areas with known geology
  - Use existing well casings to lower access cost to pay zones
- Use joint ventures to reduce risk
  - LEI 2009-II JV – Lucas entered into a joint venture in July 2009 with two private partners for the re-entry, and/or development of six wells in, or near, Gonzales County, Texas. The original six wells in the joint venture program included the Ervin No.1, the Gescheidle No.1, the Kayla No.1, the Mills Oil Unit No.1, the Norris No.1, and the Tucker No.1 wells. The joint venture was adjusted and now includes the Ervin No.1, the Gescheidle No.1, the Mills No.1, and the Norris No.1 all in Gonzales County, Texas and the Bates No.2R and Eschenburg No.4H wells in Wilson County, Texas. The joint venture agreement requires the joint venture partners to pay Lucas upfront for its interest in the acreage, the base cost of the equipment, and the value of any producing reserves on the leases. The joint venture partners then must pay for 90% of the development costs through the tanks and received a 90% working interest in the wells before payout reduced to an 80% working interest after payout. Lucas receives a 10% working interest before payout and a 20% working interest after payout. The promotion was in the upfront payment and the additional 10% reversionary working interest after payout.
  - LEI 2009-III JV – Lucas entered an agreement to do a second joint venture in October 2009 with the same primary private partner for the re-entry, workover, and/or new lateral drilling of several wells in three counties. The wells in this joint venture included the Ebrom No.1, the Snoga No.1, the Stobb No.1, the Stoeltje No.1, the Valcher No.1, and the Wall No.1 wells in Wilson County, Texas; and the Kainer No.1 well in Karnes County, Texas. This second joint venture agreement calls for the joint venture partner to pay Lucas upfront for its interest in the acreage, the base cost of the equipment, and the value of any producing reserves on the leases. The joint venture partner is required to pay for 80% of the development costs through the tanks and received a 70% working interest in the wells. Lucas would receive a 30% working interest in the wells. The promotion was in the upfront payment and the promoted working interest. Further, the joint venture partner acquired a 50% working interest in several additional leases in Wilson County, Texas.

## Areas of Operations

Lucas Energy now controls approximately 19,000 gross acres in Gonzalez, Wilson, Karnes, and Atascosa counties. Underlying 100% of its Austin Chalk and Buda production is the prolific liquids window of the Eagle Ford Shale formation. There are currently ~100 rigs running in the Eagle Ford play, up 7 times from the 15 rigs deployed in January, 2009.

The Austin Chalk and Buda are shaley limestone formations with high permeability and porosity characteristics. Depths are typically 9,000' and lateral extensions are currently being drilled about 4,500'. The wells require fracture stimulations in order to produce. Initial production rates on a horizontal well can be as high as 1,000 boepd.

## EPG Commentary

We feel a lot better about Lucas Energy after the deal with Hilcorp. The Company and partners have received more than \$10.2 million in cash from Hilcorp for the Eagle Ford joint venture. A portion of the proceeds were used to terminate and fully repay their bank credit facility.

Not only did the deal clean up the Balance Sheet but it gives Lucas significant upside potential in the Eagle Ford Shale.

On November 29 Lucas issued a press release providing their internal assessment of the Eagle Ford potential reserves (proved and probable) as of September 30, 2010. Lucas estimated that 2P reserves, net to their interest, are 4.3 million BOE with a net present value at a 10% discount rate ("PV10") of \$83.6 million. This is significantly higher than the \$51.9 million PV10 estimated by 3<sup>rd</sup> party engineers as of April 1, 2010.

William A. Sawyer, President and CEO of Lucas Energy, said, "Lucas sees much greater potential reserves from the oil window of the Eagle Ford formation than previously recognized by industry reserve engineers. Our research and internal calculations of potential reserves and PV10 values are much higher than in April, which results in a revised net asset value for Lucas of approximately \$6 per share currently."

This near-term catalyst makes Lucas Energy a speculative investment worth considering.

We will soon find out how good the Eagle Ford Shale is under some of Lucas's acreage. Hilcorp is completing the first well in the joint venture this month. Our Net Income and Cash Flow Forecast for Lucas Energy is attached.

## Net Income and Cash Flow Forecast Model

	FYE March 31		Fiscal Year ending March 31, 2011					Forecast 2012	
	Actual 2009	Actual 2010	Actual Qtr1 2011	Actual Qtr2 2011	Forecast Qtr3 2011	Forecast Qtr4 2011	Forecast 2011		
	REVENUES:								
Oil and gas revenues	\$3,382,060	\$1,777,736	\$577,540	\$938,590	\$1,037,760	\$1,354,050	\$3,907,940	\$8,833,000	
Consulting income	0	0	0	0	0	10	10	0	
<b>Total Revenues</b>	<b>3,382,060</b>	<b>1,777,736</b>	<b>577,540</b>	<b>938,590</b>	<b>1,037,760</b>	<b>1,354,060</b>	<b>3,907,950</b>	<b>8,833,000</b>	
EXPENSES:									
Lease operating expenses	1,345,928	1,048,333	310,107	309,090	320,927	428,490	1,368,614	2,250,833	< \$23/boe in 2011 dropping to \$20/boe in 2012
Severance and property taxes	171,688	129,432	38,301	50,473	57,077	74,473	220,324	485,815	< 5.5% of Oil & Gas Revenues
DD&A	899,949	787,340	212,109	352,183	376,740	465,750	1,406,782	2,813,542	< \$27/boe dropping to \$25/boe with yr-end reserve report
G&A	1,273,670	1,561,698	582,496	746,061	750,000	800,000	2,878,557	3,000,000	
Share based compensation	320,928	128,472	11,920	17,720	30,000	40,000	99,640	120,000	
<b>TOTAL EXPENSES</b>	<b>4,012,163</b>	<b>3,655,275</b>	<b>1,154,933</b>	<b>1,475,527</b>	<b>1,534,743</b>	<b>1,808,713</b>	<b>5,973,916</b>	<b>8,670,190</b>	
<b>OPERATING EARNING</b>	<b>(630,103)</b>	<b>(1,877,539)</b>	<b>(577,393)</b>	<b>(536,937)</b>	<b>(496,983)</b>	<b>(454,653)</b>	<b>(2,065,966)</b>	<b>162,810</b>	
OTHER (INCOME) EXPENSES									
Unrealized (gain) on marketable securities	(2,095,019)	(110,606)	(14,850)	(6,600)	0	0	(21,450)	0	< Lucas holds 3.3 million shares of Bonanza that have been written down to zero value as of 9/30/2010
Realized loss on marketable securities	(121,273)	(30,785)	0	(1,210)	0	0	(1,210)	0	
Interest income	1,970	0	0	0	0	0	0	0	
Interest expense - cash	(39,970)	(180,180)	(10,291)	0	0	0	(10,291)	0	
Amortization of deferred financing costs	(49,223)	(121,607)	(250,921)	0	0	0	(250,921)	0	
<b>INCOME BEFORE INCOME TAXES</b>	<b>(2,933,618)</b>	<b>(2,320,717)</b>	<b>(853,455)</b>	<b>(544,747)</b>	<b>(496,983)</b>	<b>(454,653)</b>	<b>(2,349,838)</b>	<b>162,810</b>	
INCOME TAXES (BENEFIT)									
Current	0	0	0	0	0	0	0	0	< Large NOL carryforward and IDC will eliminate all current income
Deferred	(834,127)	0	0	0	0	0	0	0	
<b>NET INCOME</b>	<b>(\$2,099,491)</b>	<b>(\$2,320,717)</b>	<b>(\$853,455)</b>	<b>(\$544,747)</b>	<b>(\$496,983)</b>	<b>(\$454,653)</b>	<b>(\$2,349,838)</b>	<b>\$162,810</b>	
Common Stock fully diluted	<b>10,237,830</b>	<b>10,812,810</b>	<b>13,351,877</b>	<b>13,696,043</b>	<b>13,800,000</b>	<b>13,800,000</b>	<b>13,800,000</b>	<b>14,000,000</b>	
Earnings per share	(\$0.21)	(\$0.21)	(\$0.06)	(\$0.04)	(\$0.04)	(\$0.03)	(\$0.17)	\$0.01	
NOTE: Current First Call Estimated EPS								NA	
Cashflow per share (before CapEx)	\$0.02	-\$0.12	-\$0.03	-\$0.01	-\$0.01	\$0.00	-\$0.05	\$0.21	< Free Cash Flow

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