

LUCAS ENERGY, INC.
3555 Timmons Lane, Suite 1550
Houston, Texas 77027

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON DECEMBER 16, 2011

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Lucas Energy, Inc., a Nevada corporation (the "Company"), will be held on December 16, 2011 at 10 a.m. Central Standard Time at the law offices of Dewey & LeBoeuf LLP at 1000 Main Street, Suite 2550, Houston, Texas 77002 (the "Annual Meeting" or the "Meeting") for the purpose of considering and voting upon the following matters:

1. To elect four (4) Directors to the Company's Board, each to serve a term of one year and until their respective successors have been elected and qualified, or until their earlier resignation or removal;
2. To ratify the Company's 2012 Stock Incentive Plan.
3. To ratify the appointment of Hein & Associates LLP, as the Company's independent auditors for the fiscal year ending March 31, 2012; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Any action may be taken on any one of the foregoing proposals at the Meeting on the date specified above or on any date or dates to which the Meeting may be adjourned. Only shareholders of record at the close of business on November 3, 2011 (the "Record Date") are entitled to notice of and to vote in person or by proxy at the meeting. The Company has mailed notice of the Meeting to shareholders of record as of the Record Date. However, our stock transfer books will remain open subsequent to the Record Date. At least ten days prior to the Meeting, a complete list of shareholders entitled to vote will be available for inspection by any shareholder for any purpose germane to the meeting, during ordinary business hours, at the office of the Corporate Secretary at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027.

As a shareholder of record, you are cordially invited to attend the meeting in person. Regardless of whether you expect to be present at the meeting, please complete, sign and date the enclosed proxy and mail it promptly in the enclosed envelope. Returning the enclosed proxy ("Proxy") will not affect your right to vote in person if you attend the meeting.

We have mailed a copy of our Annual Report on Form 10-K for the year ended March 31, 2011 (the "Annual Report"), as well as a copy of this Proxy Statement (collectively with the Annual Report, the "Proxy Materials") to each shareholder of record as of the Record Date. All shareholders may also access our Proxy Materials on our website at www.lucasenergy.com or at www.proxyease.com/lucasenergy/2011.

By Order of the Board of Directors

/s/ William A. Sawyer
William A. Sawyer
Chief Executive Officer

Houston, Texas
November 11, 2011

Even though you may plan to attend the meeting in person, please execute the enclosed proxy card and mail it promptly. A return envelope is enclosed for your convenience. Should you attend the meeting in person, you may revoke your proxy and vote in person.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOU ARE REQUESTED TO PROMPTLY COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ACCOMPANYING ENVELOPE.

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LUCAS ENERGY, INC.
3555 Timmons Lane, Suite 1550
Houston, Texas 77027

PROXY STATEMENT

FOR AN ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER 16, 2011

GENERAL

This Proxy Statement and accompanying Proxy Card are being furnished to you in connection with the solicitation on behalf of the Board of Directors of LUCAS ENERGY, INC. (the "Company" and the "Board") of proxies for use at the Annual Meeting of Shareholders to be held on December 16, 2011 (the "Annual Meeting" or the "Meeting"), and at any adjournment thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders.

The Annual Meeting will be held on December 16, 2011, at the law offices of Dewey & LeBoeuf LLP at 1000 Main Street, Suite 2550, Houston, Texas 77002, at 10 a.m., Central Standard Time. The Company's telephone number is (713) 528-1881.

On November 11, 2011, we will begin mailing a copy of our Annual Report on Form 10-K for the year ended March 31, 2011 (the "Annual Report"), as well as a copy of this Proxy Statement (collectively with the Annual Report, the "Proxy Materials") to each shareholder of record as of the Record Date. All shareholders may also access our Proxy Materials on our website at www.lucasenergy.com or at www.proxyease.com/lucasenergy/2011.

RECORD DATE

Shareholders of record at the close of business on November 3, 2011 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 19,535,826 shares of the Company's common stock, \$0.001 par value (the "Common Stock") were outstanding. For information regarding security ownership by management and by the beneficial owners of more than 5% of the Company's Common Stock, see "Beneficial Security Ownership of Management and Certain Beneficial Owners" below.

REVOCABILITY OF PROXIES

A shareholder may revoke any proxy at any time before its exercise by delivery of a written revocation to the President of the Company or a duly executed proxy bearing a later date. Attendance at the Annual Meeting will not itself be deemed to revoke a proxy unless the shareholder gives affirmative notice at the Meeting that the shareholder intends to revoke the proxy and vote in person.

VOTING AND SOLICITATION

All proxies will be voted in accordance with the instructions of the shareholder. If no choice is specified, the shares will be voted: (i) FOR the election of Directors as listed in Proposal No. 1 of this proxy statement; (ii) FOR the ratification of the of the Company's 2012 Stock Incentive Plan as listed in Proposal No. 2; and (iii) FOR the ratification of Hein & Associates LLP, as the Company's independent auditors for the fiscal year ended March 31, 2012, as described in greater detail in proposal three.

Each shareholder is entitled to one vote for each share of Common Stock held by him, her or it on all matters presented at the Annual Meeting. There are no shares of Preferred Stock currently outstanding. Shareholders do not have the right to cumulate their votes in the election of Directors.

Shareholder of Record: Shares Registered in Your Name

If on the Record Date your shares were registered in your name with the Company's transfer agent, then you are a shareholder of record. As such, you may vote in person at the meeting or by proxy. Whether or not you plan to attend the meeting, you are encouraged to submit electronically the enclosed proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on the Record Date your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and these proxy materials (or the notification of the internet availability of such materials) are required to be forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

Multiple Shareholders Sharing the Same Address

The Securities and Exchange Commission (the "SEC") has adopted rules that permit companies and intermediaries e.g., brokers to satisfy delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process potentially means extra convenience for shareholders and cost savings for companies. Shareholders sharing a same address may either contact the Company, or contact their broker, as applicable to request single or multiple proxy statement and annual report delivery, as desired.

Cost of Proxy Solicitation

The cost of soliciting proxies will be borne by the Company. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Proxies may also be solicited by certain of the Company's Directors, officers and regular employees, without additional compensation, personally or by telephone, telegram, letter or facsimile. The Company may engage a proxy solicitor to act on its behalf in soliciting proxies.

QUORUM; ABSTENTIONS; BROKER NON-VOTES

At the Annual Meeting, the presence, in person or by proxy, of shareholders holding a majority of the shares of Common Stock issued and outstanding on the Record Date shall constitute a quorum for the transaction of business at the Annual Meeting. Shares of Common Stock present in person or represented by proxy (including shares which abstain or do not vote with respect to one or more of the matters presented for shareholder approval) will be counted for purposes of determining whether a quorum exists at the Annual Meeting.

If a quorum is present, the affirmative vote of the holders of a majority of the votes cast by the shareholders entitled to vote at the Annual Meeting is required to approve any proposal submitted at the Annual Meeting, other than the election of Directors, which is required to be approved by a plurality of the votes cast. Although the Company will include abstentions and broker non-votes as present or represented for purposes of establishing a quorum for the transaction of business, the Company intends to exclude abstentions and broker non-votes from the tabulation of voting results on the election of Directors or on any other issues requiring approval of a majority of the votes cast.

BENEFICIAL SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth the record beneficial ownership of Common Stock of the Company as of the Record Date for the following: (i) each person or entity who is known to the Company to beneficially own more than 5% of the outstanding shares of the Company's Common Stock; (ii) each of the Company's Directors (and nominees for election as Directors); (iii) the Company's Chief Executive Officer and each of the officers ("Named Officers") named in the Summary Compensation Table herein; and (iv) all Directors and executive officers of the Company as a group.

The number and percentage of shares beneficially owned is determined under Rule 13d-3 as promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), by the Securities and Exchange Commission ("SEC" or "Commission"), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or dispositive power and also any shares that the individual has the right to acquire within sixty days of the Record Date through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and dispositive power (or shares such power) with respect to the shares shown as beneficially owned.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class (a) |
|-----------------------|---|--|-----------------------------|
| Common | J. Fred Hofheinz Chairman 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 911,354 (1)(2)(4) | 4.6% |
| Common | William A. Sawyer Chief Executive Officer and Director 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 398,507 (4)(5) | 2.0% |
| Common | W. Andrew Krusen, Jr. Director 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 501,000 (1)(3)(4) | 2.5% |
| Common | Peter K. Grunebaum Director 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 136,229 (4) | * % |
| Common | K. Andrew Lai CFO, Treasurer & Secretary 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 8,886 (6) | * % |
| Common | ALL EXECUTIVE OFFICERS AND DIRECTORS AS A GROUP (5 Persons) | 1,955,975 | 9.8% |

Beneficial ownership of the common stock is determined in accordance with the rules of the SEC and includes any shares of common stock over which a person exercises sole or shared voting or investment powers, or of which a person has a right to acquire ownership at any time within 60 days of November 3, 2011. Except as otherwise indicated, and subject to applicable community property laws, the persons named in this table have sole voting and investment power with respect to all shares of common stock held by them.

(a) Calculated based on 19,535,826 shares outstanding as of November 3, 2011.

* Less than one percent.

- (1) Excludes 501,659 shares of common stock owned by El Tex Petroleum LLC (“El Tex”), of which Mr. Hofheinz owns approximately 25.2% and of which Mr. Krusen owns approximately 18.8% (provided that El Tex is currently in the process of distributing substantially all of its assets, including the Company’s shares, to its owners, which process has not been completed to date), which shares Mr. Hofheinz and Mr. Krusen disclaim beneficial ownership. Both Mr. Hofheinz and Mr. Krusen resigned as Managers of El Tex in February 2011.
- (2) Includes warrants to purchase 83,334 shares of common stock which have an exercise price of \$1.00 per share.
- (3) Includes beneficial ownership of 240,000 shares of common stock and warrants to purchase 200,000 shares of common stock owned by Gulf Standard Energy Company LLC which have an exercise price of \$1.00 per share.
- (4) Includes options to purchase 24,000 shares of common stock which have an exercise price of \$2.07 per share.
- (5) Does not include options to purchase 200,000 shares of the Company’s common stock which were granted to Mr. Sawyer, on April 1, 2011, which vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share, as no options have vested to date. Does not include common stock to be issued quarterly and valued at \$18,750 which the Company agreed to issue to Mr. Sawyer pursuant to the terms of his employment agreement, described below under “Compensation of Named Executive Officers,” during the term of the agreement, which shares are due to Mr. Sawyer subsequent to the date of this proxy statement, as such shares are not issuable to Mr. Sawyer within 60 days of the Record Date.
- (6) Does not include options to purchase 160,000 shares of the Company’s common stock which were granted to K. Andrew Lai, on February 18, 2011, the date of his appointment as the CFO of the Company, which vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share, as no options have vested to date. Does not include common stock to be issued quarterly and valued at \$10,000 which the Company agreed to issue to Mr. Lai pursuant to the terms of his employment agreement, described below under “Compensation of Named Executive Officers,” during the term of the agreement, which shares are due to Mr. Lai (a) on November 18, 2011, as the total number of such shares due to Mr. Lai is not determinable as of the filing date of this Proxy Statement; and (b) subsequent to November 18, 2011, as such shares are not issuable to Mr. Lai within 60 days of the Record Date.

**PROPOSAL NO. 1
ELECTION OF DIRECTORS**

DIRECTORS AND NOMINEES FOR DIRECTOR

The Company's Bylaws currently provide for a Board of Directors (the "Board") of not less than one (1) or more than fifteen (15) members. The Company's Board currently has four (4) members. The Company's management recommends the four (4) Directors listed below for election at the Meeting. Each of the nominees has indicated his willingness to serve if elected, and each of the nominees already serves as a Director. At the Annual Meeting, shares represented by the accompanying Proxy will be voted for the election of the four (4) nominees recommended by the Company's management unless the Proxy is marked in such a manner as to withhold authority to so vote. If any nominee for any reason is unable to serve or for good cause will not serve, the proxies may be voted for such substitute nominee as the proxy holder may determine. The Company is not aware of any nominee who will be unable to, or for good cause will not, serve as a Director.

The Company's Nominating Committee has reviewed the qualifications of the Director nominees and has recommended each of the nominees for election to the Board.

The following table and accompanying descriptions indicate the name of each nominee/Director, and certain information regarding each nominee, including their age, principal occupation or employment, and the year in which each nominee first became a Director, if such person has previously served on the Company's Board of Directors.

| Nominee | Position | Director Since | Age |
|-----------------------|--------------------------|-----------------------|------------|
| J. Fred Hofheinz | Director, Chairman | September 18, 2008 | 73 |
| William A. Sawyer | President, CEO, Director | April 6, 2005 | 62 |
| Peter K. Grunebaum | Director | January 29, 2007 | 78 |
| W. Andrew Krusen, Jr. | Director | October 8, 2009 | 63 |

All Directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. There are no agreements with respect to the election of Directors. We have historically compensated our Directors for service on the Board and committees thereof through the issuance of shares of common stock, stock options and nominal cash compensation for meeting fees. Additionally, we reimburse Directors for expenses incurred by them in connection with the attendance at meetings of the Board and any committee thereof (as described below). The Board appoints annually the executive officers of the Company and the executive officers serve at the discretion of the Board.

The business experience of each of the persons listed above is as follows:

J. FRED HOFHEINZ, CHAIRMAN OF BOARD, CHAIR OF NOMINATING COMMITTEE

Mr. Hofheinz, the former Mayor of the City of Houston (1974-1978), began his business career with his late father, Roy Hofheinz, Sr., who built the Houston Astrodome. Mr. Hofheinz played a key role in the family real estate development projects surrounding the Astrodome, including an amusement park – Astroworld and four hotels. He was the senior officer of Ringling Brothers Barnum and Bailey Circus, which was owned by the Hofheinz family. In 1971, Mr. Hofheinz co-founded a closed circuit television company, Top Rank, which is now the leading professional boxing promotion firm in the nation. He has served as President of the Texas Municipal League and served on the boards of numerous other state and national organizations for municipal government elected officials. In addition to his law practice, Mr. Hofheinz also owned several direct interests in oil and gas companies. He has also dealt extensively with business interests, primarily oil and gas related, in the People's Republic of China and in the Ukraine.

For the past five years Mr. Hofheinz has been an investor and a practicing attorney with the firm of Williams, Birnberg & Anderson LLP, in Houston, Texas. While he has numerous investments in real

estate, his principal investment interest is in oil and gas. He has been actively engaged in successful exploration and production ventures, both domestic and international. He holds a PhD in economics from the University of Texas and takes an active interest in Houston's civic and charitable affairs. He was admitted to the Texas bar in 1964, having received his preparatory education at the University of Texas, (B.A., M.A., Ph.D., 1960-1964); and his Legal education at the University of Houston, (J.D., 1964). From July 1, 2007 to February 28, 2011, Mr. Hofheinz served as a Manager of El Tex Petroleum, LLC, which Lucas entered into an acquisition transaction with during fiscal 2010 as described in greater detail under "Certain Related Party Transactions," below.

Director Qualifications:

Mr. Hofheinz has extensive experience in the oil and gas industry and the business world in general, in particular with respect to publicly listed companies. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Hofheinz demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As such, we believe that Mr. Hofheinz is qualified to serve as a Director.

WILLIAM A. SAWYER, DIRECTOR, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Sawyer has been a Director of the Company since April 6, 2005. Mr. Sawyer has over 30 years of diversified experience in the energy industry with firms such as: ARCO, Houston Oil & Minerals, Superior Oil (Mobil), and ERCO. Mr. Sawyer founded the petroleum consulting firm of Exploitation Engineers, Inc. and his clients included private investors, independent oil companies, banking institutions, major energy and chemical companies, and the US government. In connection with Exploitation Engineers, Mr. Sawyer evaluated and managed large projects such as a private trust that held working interests in several hundred producing and non-producing oil and gas properties. Mr. Sawyer has been an expert witness in federal court, state court, and before several state agencies in Texas and Oklahoma, and he has testified as to the fair market value of mineral interests and sub-surface storage interests. Mr. Sawyer co-founded the Company and was originally appointed Vice President of the Company on June 13, 2006. Mr. Sawyer has served as a Director of the Company and as its chief operating officer, until his appointment to President and CEO on January 22, 2009.

Director Qualifications:

Mr. Sawyer has extensive experience in the oil and gas industry and the business world in general, in particular with respect to engineering management of mature oil wells, commercial, and reservoir management. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Sawyer demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As a result of the above, we believe that Mr. Sawyer is qualified to serve as a Director.

PETER K. GRUNEBAUM – DIRECTOR, CHAIR OF AUDIT COMMITTEE

Mr. Grunebaum is an independent investment banker with over 40 years of experience in the energy sector with a specialty in exploration and production. Previously he was the Managing Director of Fortrend International, an investment firm headquartered in New York, New York, a position he held from 1989 until the end of 2003. From 2003 to present, Mr. Grunebaum has been an independent investment banker. Mr. Grunebaum is a graduate of Lehigh University, and in addition to being a board member of Lucas, he is also on the Board of Stonemor Partners LP. [NASDAQ: STON].

Director Qualifications:

Mr. Grunebaum has extensive experience in the oil and gas industry and the business world in general, in particular with respect to founding and funding publicly listed companies such as Devon Energy. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Grunebaum demonstrates personal and professional integrity, ability,

judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As a result of the above, we believe that Mr. Grunebaum is qualified to serve as a Director.

W. ANDREW KRUSEN, JR. – DIRECTOR, CHAIR OF THE COMPENSATION COMMITTEE

Mr. Krusen has been Chairman and Chief Executive Officer of Dominion Financial Group, Inc. since 1987. Dominion Financial is a merchant banking organization that provides investment capital to the natural resources, communications and manufacturing and distribution sectors. Mr. Krusen is currently a Director and chairman of Florida Capital Group, Inc. – a Florida bank holding company, as well as Florida Capital Bank, N.A. its wholly owned subsidiary. He also serves as a Director of publicly traded Canada Flourspar Inc., a specialty mineral concern; and Raymond James Trust Company, a subsidiary of Raymond James Financial, Inc. – and numerous privately held companies, including Beall's Inc., Telovations, Inc., PlanSource Holdings, Inc. and Romark Laboratories, LLC. Mr. Krusen is a former member of the Young Presidents' Organization, and he is currently a member of the World President's Organization, Society of International Business Fellows and a Trustee of the International Tennis Hall of Fame. He is past Chairman of Tampa's Museum of Science and Industry. Mr. Krusen graduated from Princeton University in 1970. From July 1, 2007 to February 28, 2011, Mr. Krusen served as a Manager of El Tex Petroleum, LLC, which Lucas entered into an acquisition transaction with during fiscal 2010 as described in greater detail under "Certain Related Party Transactions," below.

Director Qualifications:

Mr. Krusen has extensive experience in the oil and gas industry and the business world in general, in particular with respect to founding and funding publicly listed companies. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Krusen demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As a result of the above, we believe that Mr. Krusen is qualified to serve as a Director.

Family Relationships

There are no family relationships among our Directors or executive officers.

Involvement in Certain Legal Proceedings

Our Directors, executive officers and control persons have not been involved in any of the following events during the past ten years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Board Leadership Structure

The roles of Chairman and Chief Executive Officer of the Company are currently held separately. Mr. Hofheinz serves as Chairman and Mr. Sawyer serves as CEO. The Board of Directors does not have a policy as to whether the Chairman should be an independent Director, an affiliated Director, or a member of management. Our Board believes that the Company's current leadership structure is appropriate because it effectively allocates authority, responsibility, and oversight between management and the independent members of our Board (including Mr. Hofheinz as Chairman). It does this by giving primary responsibility for the operational leadership and strategic direction of the Company to our CEO, while enabling the independent Directors to facilitate our Board's independent oversight of management, promote communication between management and our Board, and support our Board's consideration of key governance matters. The Board believes that its programs for overseeing risk, as described below, would be effective under a variety of leadership frameworks and therefore do not materially affect its choice of structure.

Risk Oversight

The Board exercises direct oversight of strategic risks to the Company. The Audit Committee reviews and assesses the Company's processes to manage business and financial risk and financial reporting risk. It also reviews the Company's policies for risk assessment and assesses steps management has taken to control significant risks. The Compensation Committee oversees risks relating to compensation programs and policies. In each case management periodically reports to our Board or relevant committee, which provides the relevant oversight on risk assessment and mitigation.

Vote Required

The election of the Director nominees listed above requires the affirmative vote of the holders of a plurality of the outstanding voting shares of the Company, present in person or by proxy at the Meeting. For the election of Directors, you may vote "FOR" all nominees or withhold authority to vote for all or some of the nominees. If you hold your shares through a broker, bank, trustee or other nominee and you do not instruct them on how to vote on this proposal, your broker or other nominee will not have authority to vote your shares and such non-vote will have the effect of withholding authority to vote for all of the nominees.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF THE DIRECTOR NOMINEES LISTED ABOVE.

**PROPOSAL NO. 2
TO RATIFY THE COMPANY'S 2012 STOCK INCENTIVE PLAN**

What are the stockholders being asked to approve?

On October 13, 2011, the Company's Board of Directors adopted, subject to the ratification of the shareholders, the Company's 2012 Stock Incentive Plan (the "Plan") in the form of the attached Exhibit A.

The following is a summary of the material features of the Plan:

What is the purpose of the Plan?

The Plan is intended to secure for the Company the benefits arising from ownership of the Company's common stock by the employees, officers, Directors and consultants of the Company, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company, qualified personnel for positions of exceptional responsibility, to reward employees, officers, Directors and consultants for their services to the Company and to motivate such individuals through added incentives to further contribute to the success of the Company.

Who is eligible to participate in the Plan?

The Plan will provide an opportunity for any employee, officer, Director or consultant of the Company, except for instances where their services are in connection with the offer or sale of securities in a capital-raising transaction, or they are directly or indirectly involved in the promotion or maintenance of a market for the Company's securities, subject to any other limitations provided by federal or state securities laws, to receive (i) incentive stock options (to eligible employees only); (ii) nonqualified stock options; (iii) restricted stock; (iv) stock awards; (v) shares in performance of services; or (vi) any combination of the foregoing. In making such determinations, the Board of Directors (or the Compensation Committee) may take into account the nature of the services rendered by such person, his or her present and potential future contribution to the Company's success, and such other factors as the Board of Directors (or the Compensation Committee) in its discretion shall deem relevant.

Who will administer the Plan?

The Plan shall be administered by the Board of Directors of the Company and/or the Company's Compensation Committee. The Board (or the Compensation Committee) shall have the exclusive right to interpret and construe the Plan, to select the eligible persons who shall receive an award, and to act in all matters pertaining to the grant of an award and the determination and interpretation of the provisions of the related award agreement, including, without limitation, the determination of the number of shares subject to stock options and the option period(s) and option price(s) thereof, the number of shares of restricted stock or shares subject to stock awards or performance shares subject to an award, the vesting periods (if any) and the form, terms, conditions and duration of each award, and any amendment thereof consistent with the provisions of the Plan.

How much common stock is subject to the Plan?

Subject to adjustment in connection with the payment of a stock dividend, a stock split or subdivision or combination of the shares of common stock, or a reorganization or reclassification of the Company's common stock, the maximum aggregate number of shares of common stock which may be issued pursuant to awards under the Plan is 1,500,000 shares. Such shares of common stock shall be made available from the authorized and unissued shares of the Company.

How many securities have been granted pursuant to the Plan since its approval by the Board of Directors?

No shares of common stock, options, or other securities have been issued under the Plan since approved by the Board of Directors.

Does the Company have any present plans to grant or issue securities pursuant to the Plan?

Yes, the Company plans to issue securities under the Plan from time to time to satisfy the requirements of Mr. Sawyer's and Mr. Lai's employment agreements (as described in greater detail below under "Compensation of Named Executive Officers"). The Company also believes that the authorization of such Plan will provide the Company greater flexibility at such time in the future, if ever, as the Company's Board of Directors believes it is in the best interest of the Company to grant or issue securities pursuant to the Plan.

New Plan Benefits

2012 Stock Incentive Plan

| Name and Position | Dollar Value (\$) | Number of Units (3) |
|--------------------------|--------------------------|----------------------------|
| William A. Sawyer, CEO | (1) | |
| K. Andrew Lai, CFO | (2) | |

- (1) Mr. Sawyer receives \$18,750 in the form of Company common stock each quarter pursuant to the terms of his employment agreement. It is not currently known how many of such shares and what dollar value of such shares will be issued pursuant to the 2012 Stock Incentive Plan.
- (2) Mr. Lai receives \$10,000 in the form of Company common stock each quarter pursuant to the terms of his employment agreement. It is not currently known how many of such shares and what dollar value of such shares will be issued pursuant to the 2012 Stock Incentive Plan.
- (3) The number of shares issuable to Mr. Sawyer and Mr. Lai pursuant to their employment agreements is not currently determinable as the number of such Units to be issued will fluctuate based on the market value of the Company's common stock when issued by the Company, pursuant to the terms of the employment agreements.

What will be the exercise price and expiration date of options and awards under the Plan?

The Board of Directors, in its sole discretion, shall determine the exercise price of any Options granted under the Plan which exercise price shall be set forth in the agreement evidencing the Option, provided however that at no time shall the exercise price be less than the greater of (a) the \$0.001 par value per share of the Company's common stock; and (b) the market price of the Company's common stock on the date of grant. Additionally, the Board of Directors has the sole discretion over the authorization of any stock awards.

What equitable adjustments will be made in the event of certain corporate transactions?

Upon the occurrence of:

- (i) the adoption of a plan of merger or consolidation of the Company with any other corporation or association as a result of which the holders of the voting capital stock of the Company as a group would receive less than 50% of the voting capital stock of the surviving or resulting corporation;
- (ii) the approval by the Board of Directors of an agreement providing for the sale or transfer

(other than as security for obligations of the Company) of substantially all of the assets of the Company; or

- (iii) in the absence of a prior expression of approval by the Board of Directors, the acquisition of more than 20% of the Company's voting capital stock by any person within the meaning of Rule 13d-3 under the Securities Act of 1933, as amended (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

and unless otherwise provided in the award agreement with respect to a particular award, all outstanding stock options shall become immediately exercisable in full, subject to any appropriate adjustments, and shall remain exercisable for the remaining option period, regardless of any provision in the related award agreement limiting the ability to exercise such stock option or any portion thereof for any length of time. All outstanding performance shares with respect to which the applicable performance period has not been completed shall be paid out as soon as practicable; and all outstanding shares of restricted stock with respect to which the restrictions have not lapsed shall be deemed vested and all such restrictions shall be deemed lapsed and the restriction period ended.

Additionally, after the merger of one or more corporations into the Company, any merger of the Company into another corporation, any consolidation of the Company and one or more corporations, or any other corporate reorganization of any form involving the Company as a party thereto and involving any exchange, conversion, adjustment or other modification of the outstanding shares of the common stock, each participant shall, at no additional cost, be entitled, upon any exercise of such participant's stock option, to receive, in lieu of the number of shares as to which such stock option shall then be so exercised, the number and class of shares of stock or other securities or such other property to which such participant would have been entitled to pursuant to the terms of the agreement of merger or consolidation or reorganization, if at the time of such merger or consolidation or reorganization, such participant had been a holder of record of a number of shares of common stock equal to the number of shares as to which such stock option shall then be so exercised.

What happens to options upon termination of employment or other relationships?

The incentive stock options shall lapse and cease to be exercisable upon the termination of service of an employee or director as defined in the Plan, or within such period following a termination of service as shall have been determined by the Board and set forth in the related award agreement; provided, further, that such period shall not exceed the period of time ending on the date three (3) months following a termination of service. Non-incentive stock options are governed by the related award agreements.

May the Plan be modified, amended or terminated?

The Board of Directors may adopt, establish, amend and rescind such rules, regulations and procedures as it may deem appropriate for the proper administration of the Plan, make all other determinations which are, in the Board's judgment, necessary or desirable for the proper administration of the Plan, amend the Plan or a stock award as provided in Article XI of the Plan, and/or terminate or suspend the Plan as provided in Article XI.

The description of the Plan is qualified in all respects by the actual provisions of the Plan, which is attached to this Proxy Statement as Exhibit A.

Vote Required

The ratification of the Company's 2012 Stock Incentive Plan requires the affirmative vote of the holders of a majority of the outstanding voting shares of the Company, present in person or by proxy at the Meeting. For the ratification of the Company's 2012 Stock Incentive Plan, you may vote "FOR" or "AGAINST" or abstain from voting. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have the effect of a vote "AGAINST" this proposal. If you hold your shares through a broker, bank, trustee or other nominee and you do not instruct them on how to vote on this

proposal, your broker or other nominee will not have authority to vote your shares and such non-vote will have the effect of a vote “AGAINST” the ratification of the Company’s 2012 Stock Incentive Plan.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” THE RATIFICATION OF THE COMPANY’S 2012 STOCK INCENTIVE PLAN.

PROPOSAL NO. 3
TO RATIFY THE APPOINTMENT OF HEIN & ASSOCIATES LLP, AS THE COMPANY'S
INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING MARCH 31, 2012.

The Board of Directors recommends that the shareholders vote for approval and ratification of the appointment of Hein & Associates LLP ("Hein") as the Company's independent registered accounting firm for the year ended March 31, 2012.

Effective October 27, 2011, the Audit Committee of the Company dismissed GBH CPAs, PC ("GBH") as its registered independent accounting firm.

In connection with the audits of the two fiscal years ended March 31, 2011, and the subsequent interim period through October 27, 2011, there have been no disagreements with GBH on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of GBH would have caused GBH to make reference to the subject matter of the disagreements in connection with its reports. GBH's audit reports on the consolidated financial statements of the Company as of and for the years ended March 31, 2011 and 2010 contained no adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles.

None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within the Company's two most recent fiscal years and the subsequent interim period through October 27, 2011.

On October 31, 2011, the Audit Committee engaged Hein as its new independent registered accounting firm, effective as of October 31, 2011. During the two most recent fiscal years, and any subsequent interim period prior to engaging Hein, neither the Company, nor anyone on its behalf, consulted Hein regarding (i) either the application of accounting principles to a specified transaction, completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and no written report or oral advice was provided to the Company by Hein that was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of either a disagreement (as defined in paragraph 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in paragraph 304(a)(1)(v) of Regulation S-K).

The Company requested that GBH furnish it with a letter addressed to the Securities and Exchange Commission ("SEC") stating whether it agrees with the above statements. A copy of GBH's letter to the SEC is attached as an exhibit to the Company's Form 8-K, filed with the SEC on November 2, 2011.

The Company does not anticipate a representative from Hein to be present at the Annual Meeting. In the event that a representative of Hein is present at the Annual Meeting, the representative will have the opportunity to make a statement if he/she desires to do so and the Company will allow such representative to be available to respond to appropriate questions.

Audit Fees

Our Audit Committee of the Board of Directors approves in advance the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services.

Audit Fees

The aggregate fees billed by our former independent auditors, GBH, for professional services rendered for the audit of our annual financial statements included in our Annual Reports on Form 10-K for the years ended March 31, 2011 and 2010, and for the review of quarterly financial statements included in our Quarterly Reports on Form 10-Q for the quarters ending June 30, September 30, and December 31, 2010 and 2009, were:

| | | |
|--------------|------------------|------------------|
| | <u>2011</u> | <u>2010</u> |
| GBH CPAs, PC | <u>\$130,000</u> | <u>\$102,500</u> |

Audit fees incurred by the Company were pre-approved by the Audit Committee. The Company did not incur any audit fees for Hein for the years ended March 31, 2011 and 2010, as Hein was appointed as the Company's independent registered accounting firm effective October 31, 2011.

Audit Related Fees: None.

Tax Fees: None.

All Other Fees: None.

We do not use the auditors for financial information system design and implementation. Such services, which include designing or implementing a system that aggregates source data underlying the financial statements or that generates information that is significant to our financial statements, are provided internally or by other service providers. We do not engage the auditors to provide compliance outsourcing services.

The Audit Committee of the Board of Directors has considered the nature and amount of fees billed by GBH and proposed to be billed by Hein and believes that the provision of services for activities unrelated to the audit is compatible with maintaining GBH's and Hein's independence.

What vote is required to ratify the appointment of Hein?

The ratification of Hein as the Company's independent accountants for the fiscal year ended March 31, 2012 requires the affirmative vote of the holders of a majority of the outstanding voting shares of the Company, present in person or by proxy at the Meeting. For the ratification of the appointment of Hein as our independent accountants for the fiscal year ended March 31, 2012, you may vote "FOR" or "AGAINST" or abstain from voting. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have the effect of a vote "AGAINST" such proposals. If you hold your shares through a broker, bank, trustee or other nominee and you do not instruct them on how to vote on this proposal, your broker or other nominee will not have authority to vote your shares and such non-vote will have the effect of a vote "AGAINST" this proposal.

**THE BOARD RECOMMENDS A VOTE "FOR" THE RATIFICATION OF
THE APPOINTMENT OF HEIN AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE
FISCAL YEAR ENDING MARCH 31, 2012**

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) requires our Directors and officers, and the persons who beneficially own more than ten percent of our common stock, to file reports of ownership and changes in ownership with the SEC. Copies of all filed reports are required to be furnished to us pursuant to Rule 16a-3 promulgated under the Exchange Act.

Based solely on the reports received by us and on the representations of the reporting persons, we believe that all required Directors, officers and greater than ten percent shareholders complied with applicable filing requirements during the fiscal year ended March 31, 2011, except that (a) J. Fred Hofheinz, William A. Sawyer, Peter K. Grunebaum and W. Andrew Krusen, Jr., each a Director of the Company, inadvertently did not timely file a Form 4 with the SEC in connection with their issuance by the Company of 12,000 shares of common stock for services rendered as a Director of the Company during the April 1, 2009 to March 31, 2010 fiscal year and the grant of options to purchase 24,000 shares of common stock to each Director for services to be rendered during the April 1, 2010 to March 31, 2011 fiscal year, which grants were approved by the stockholders of the Company effective January 10, 2011, but which reports were not filed until January 27, 2011 (Mr. Hofheinz); January 27, 2011 (Mr. Sawyer); January 28, 2011 (Mr. Grunebaum); and February 1, 2011 (Mr. Krusen); (b) William A. Sawyer inadvertently did not timely file a Form 4 with the SEC in connection with his issuance by the Company of 17,500 shares of common stock in consideration for services rendered on October 7, 2010, and an additional 17,500 shares of common stock in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months, which report was not filed until December 6, 2010; (c) Donald L. Sytsma failed to file a Form 4 or Form 5 disclosing his receipt of 30,000 shares of the Company’s common stock as severance pay in connection with his resignation as the Chief Financial Officer of the Company on October 7, 2010; (d) K. Andrew Lai inadvertently did not timely file a Form 4 with the SEC in connection with his grant from the Board of Directors on February 18, 2011 of options to purchase 160,000 shares of the Company’s common stock in connection with his appointment as the Chief Financial Officer of the Company, which have a term of five years and an exercise price of \$1.94 per share, which Form 4 was subsequently filed with the SEC on June 17, 2011; and (e) William A. Sawyer inadvertently did not timely file (i) a Form 4 with the SEC in connection with his grant from the Board of Directors on April 1, 2011 of options to purchase 200,000 shares of the Company’s common stock in connection with services rendered to the Company as the Chief Executive Officer of the Company, which have a term of five years and an exercise price of \$4.05 per share, which Form 4 was subsequently filed with the SEC on June 17, 2011 and (ii) a Form 4 with the SEC in connection with his October 1, 2011 issuance of 10,061 shares of common stock, equal to one quarterly installment of \$18,750 in shares, net of applicable payroll taxes, issuable to Mr. Sawyer pursuant to his Employment Agreement, which Form 4 was subsequently filed with the SEC on October 5, 2011.

CODE OF ETHICS

The Company adopted a code of ethics (“Code”) that applies to all of its Directors, officers, employees, consultants, contractors and agents of the Company. The Code of Ethics has been reviewed and approved by the Board of Directors. The Company’s Code of Ethics was filed as an exhibit to the Company’s Form 10-K dated March 31, 2009, filed with the SEC on June 29, 2009 as Exhibit 14.1. Original copies of the Code of Ethics are available, free of charge, by submitting a written request to the Company at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027.

WHISTLEBLOWER PROTECTION POLICY

The Company adopted a Whistleblower Protection Policy (“Whistleblower Policy”) that applies to all of its Directors, officers, employees, consultants, contractors and agents of the Company. The Whistleblower Policy has been reviewed and approved by the Board of Directors. The Company’s Whistleblower Policy was filed as an exhibit to the Company’s Form 10-K dated March 31, 2009 filed with the SEC on June 29, 2009 as Exhibit 14.2. Original copies of the Whistleblower Policy are available, free of charge, by submitting a written request to the Company at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027.

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to our executive officers.

| <u>Name</u> | <u>Position</u> | <u>Age</u> |
|-------------------|---------------------------------------|------------|
| William A. Sawyer | President and Chief Executive Officer | 62 |
| K. Andrew Lai | CFO, Treasurer, and Secretary | 47 |

WILLIAM A. SAWYER, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Information regarding Mr. Sawyer is set forth in Proposal No. 1 – Election of Directors.

K. ANDREW LAI, CHIEF FINANCIAL OFFICER, TREASURER AND SECRETARY

Effective February 18, 2011, the Company appointed K. Andrew Lai, as Chief Financial Officer, Treasurer and Secretary of the Company. Mr. Lai has over 20 years of corporate and financial experience primarily in the exploration and production sector of the oil and gas energy industry, with a specialization in accounting, legal and administrative functions. From April 2010 to January 2011, Mr. Lai was an international financial consultant. From October 2008 to April 2010, Mr. Lai served as Chief Financial Officer with Far East Energy Corporation ("Far East"), based in Houston, Texas. Mr. Lai joined Far East in January 2007 and served as a member of Far East's management team until his appointment as Chief Financial Officer in October 2008. From April 1999 to January 2007, Mr. Lai held various managerial positions with EOG Resources, Inc., in Houston, Texas. From 1995 to 1999, Mr. Lai was a sole practitioner at his own certified public accountant firm. From 1987 to 1995, Mr. Lai held various positions with UMC Petroleum Corp. (which subsequently merged into Devon Energy). Mr. Lai received from the University of Houston his Bachelor of Business Administration in December 1987, his Master of Business Administration in May 1991, and his Juris Doctorate in May 2004. Mr. Lai is a Certified Public Accountant, a member of the State Bar of Texas, and a member of the American Bar Association.

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EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The following table sets forth compensation information with respect to our chief executive officer, our two most highly compensated executive officers other than the chief executive officer who were serving as executive officers at the end of our last fiscal year, and individuals for whom disclosure would have been provided herein but for the fact they were not serving as an executive officer of the Company at the end of our last fiscal year.

| Name and Principal Position | Fiscal | Stock | Option | All Other | Total | |
|--|--------|------------|------------|------------|------------|------------|
| | Year | Salary | Awards | Awards | | Comp (7) |
| William A. Sawyer (1) President and Chief Executive Officer | 2011 | \$ 168,500 | \$ 60,770 | \$ 41,140 | \$ 11,000 | \$ 281,410 |
| | 2010 | 162,250 | 29,000 | - | 6,000 | 197,250 |
| K. Andrew Lai (2) Chief Financial Officer | 2011 | \$ 17,410 | \$ 5,000 | \$ 209,800 | \$ 2,270 | \$ 234,480 |
| John O'Keefe (3) Former Interim Chief Financial Officer | 2011 | \$ - | \$ - | \$ - | \$ 201,000 | \$ 201,000 |
| Donald L. Sytsma (4) Former Chief Financial Officer | 2011 | \$ 105,650 | \$ 83,090 | \$ - | \$ 7,070 | \$ 195,810 |
| | 2010 | 120,000 | 22,680 | - | 4,000 | 146,680 |
| James J. Cerna, Jr. (5) Former Chairman, President and Chief Executive Officer | 2011 | \$ - | \$ 167,750 | \$ - | \$ 64,730 | \$ 232,480 |
| | 2010 | - | - | - | 60,330 | 60,330 |
| Malek A. Bohsali (6) Former Chief Financial Officer | 2011 | \$ - | \$ - | \$ - | \$ - | \$ - |
| | 2010 | - | 25,000 | - | - | 25,000 |

(1) On October 7, 2010, the Board approved the issuance to Mr. Sawyer of 17,500 shares of common stock under the Company's 2010 Long Term Incentive Plan (the "Plan") and an additional 17,500 shares of common stock under the Plan in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months. The fair value of the 17,500 shares approved on October 7, 2010, and subsequently issued, was \$2.07 per share for a total stock value of \$36,050. As of March 31, 2011 (and as of the date of this Proxy), the performance criterion had not been met, and none of the additional 17,500 shares had vested. Mr. Sawyer also received 12,000 shares and a grant for options to purchase 24,000 shares of common stock in consideration for serving as a Director for the year ended March 31, 2010 and in consideration for services to be rendered for the year ended March 31, 2011, respectively. The fair value of the 12,000 shares approved on October 7, 2010, and subsequently issued, was \$2.07 per share for a total stock value of \$24,720. The options have an exercise price of \$2.07 per share and were fully vested at March 31, 2011. The options were valued using the Black-Scholes model resulting in the fair value of \$41,140. During the fiscal year ended March 31, 2010, a stock award was granted to Mr. Sawyer of 50,000 shares of common stock for the Company's joint venture partner's commitment to and initial funding of their 70% working interest in the LEI 2009-III capital program. The fair value of shares on the date earned was \$0.58 per share for a total stock award of \$29,000.

(2) Effective February 18, 2011, the Company appointed K. Andrew Lai, as Chief Financial Officer, Treasurer and Secretary of the Company. On February 18, 2011, Mr. Lai received a grant of options to

purchase 160,000 shares of common stock as part of his employment arrangement with the Company. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share. The options were valued using the Black-Scholes model resulting in the fair value of \$209,800 of which \$10,920 was recognized as compensation expense during the year ended March 31, 2011. Also recognized in the current year was \$5,000 of Mr. Lai's \$10,000 quarterly stock award under his employment agreement.

(3) On October 7, 2010, John O'Keefe was appointed as the interim Chief Financial Officer, Treasurer and Secretary of the Company. On February 18, 2011, the Company accepted the resignation of John O'Keefe from his positions as interim Chief Financial Officer, Treasurer and Secretary of the Company. The Company employed Mr. O'Keefe under a service agreement with Tatum LLC.

(4) Mr. Sytsma was appointed Chief Financial Officer and Treasurer of the Company effective April 14, 2009 and resigned effective October 7, 2010. In addition to monthly cash compensation, Mr. Sytsma's employment arrangement with the Company included a non-cash compensation component of 2,000 shares of common stock per month. The Company's closing share price on the date Mr. Sytsma was appointed Chief Financial Officer was \$0.56 per share. The fair value of shares earned is determined based on the closing share price on the last trading day of each month during the term of Mr. Sytsma's employment. As severance pay in connection with Mr. Sytsma's resignation, the Company agreed to pay Mr. Sytsma three months of salary and to issue Mr. Sytsma 30,000 restricted shares of common stock valued at \$61,800.

(5) Mr. Cerna, who resigned as an officer of the Company on September 2, 2008 and as a Director of the Company on May 5, 2009, was issued 86,027 shares of common stock in November 2010 as a final part of his employment contract. The shares were issued at a fair value of \$167,750.

(6) Mr. Bohsali served as Chief Financial Officer of the Company from April 10, 2007 through April 14, 2009. In July 2009, the Company issued 25,000 shares of common stock to Mr. Bohsali as part of his compensation package. The shares were issued at a fair value of \$25,000.

(7) All other compensation for the year ended March 31, 2011 includes the payment of \$11,000 to Mr. Sawyer as Director for attendance at four Board of Directors meetings and \$2,000 paid to Mr. Sytsma as the then Chief Financial Officer, Treasurer and Secretary of the Company for the attendance at one Board meeting. Also included was \$201,000 attributable to Mr. O'Keefe representing amounts paid to Tatum LLC and \$54,690 attributable to Mr. Cerna representing amounts relating to his employment arrangement. Finally, all other compensation for the year ended March 31, 2011 also includes medical reimbursement payments to Mr. Lai of \$2,270, Mr. Sytsma of \$5,070 and Mr. Cerna of \$10,040.

Compensation of Named Executive Officers

William A. Sawyer

Mr. Sawyer co-founded the Company and was originally appointed to a position with the Company on June 13, 2006. Mr. Sawyer has served as a Director and as its Chief Operating Officer, until his appointment to President and Chief Executive Officer on January 22, 2009. On March 20, 2007, the Company entered into an employment agreement with Mr. Sawyer (filed as exhibit 10.6 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2007). Mr. Sawyer's agreement was for a period of three (3) years and provided for payment of \$150,000 annually. Additionally, Mr. Sawyer's employment agreement provided for certain payments in the event of termination of employment. Effective October 1, 2009, the Compensation Committee approved an increase to Mr. Sawyer's base compensation to \$162,000 per annum. Mr. Sawyer's employment agreement terminated on March 20, 2010 and a new agreement was subsequently entered into effective as of April 1, 2011, as described below.

Notwithstanding the fact that Mr. Sawyer's employment agreement terminated pursuant to its terms on March 20, 2009, Mr. Sawyer continued to serve as Chief Executive Officer of the Company, and on October 7, 2010, the Compensation Committee approved an increase in Mr. Sawyer's annual salary to \$175,000 per year (effective as of October 1, 2010), the Board approved the immediate issuance to Mr. Sawyer of 17,500 shares of common stock under the Company's 2010 Long Term Incentive Plan (the

“2010 Plan”), and an additional 17,500 shares of common stock under the 2010 Plan in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months. As of March 31, 2011 (and as of the date of this Proxy), the performance criterion had not been met, and none of the additional 17,500 shares was vested. Mr. Sawyer also received 12,000 shares and options to purchase 24,000 shares of common stock in consideration for serving as a Director of the Company for the year ended March 31, 2010 and in consideration for services for the year ended March 31, 2011, respectively, as described in greater detail below under “Certain Related Party Transactions.”

Effective as of April 1, 2011, the Company entered into an employment agreement (the “Agreement”) with Mr. Sawyer (filed as exhibit 10.22 to the Company’s Annual Report on Form 10-K for the year ended March 31, 2011). The Agreement will terminate on April 1, 2014, unless extended or earlier terminated pursuant to the terms of such Agreement. Pursuant to the Agreement, Mr. Sawyer's base salary is \$250,000 per year, of which \$175,000 will be payable in cash and \$75,000 in shares of the Company’s common stock on a pro-rata, quarterly basis. He may also receive discretionary bonuses in an amount up to 50% of his base salary.

In conjunction with his appointment as Chief Executive Officer, Mr. Sawyer also received options to purchase up to 200,000 shares of the Company's common stock. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share.

If Mr. Sawyer's employment is terminated without Cause (as defined in the Agreement) or for Good Reason (as defined in the Agreement), he will receive a severance payment of 100% of his annual base salary; provided that if Mr. Sawyer's employment is terminated 6 months before or within 24 months of a Change in Control (as defined in the Agreement), he will receive a severance payment of 200% of his annual base salary. If Mr. Sawyer's employment is terminated as a result of death or Disability (as defined in the Agreement), the Company will pay his base salary which would have been payable to Mr. Sawyer through the date his employment is terminated and all amounts actually earned, accrued or owing as of the date of termination. If Mr. Sawyer’s employment is terminated for Cause or Mr. Sawyer voluntarily terminates his employment, the Company will pay his base salary and all amounts actually earned, accrued or owing as of the date of termination and he will be entitled for a period of three months after termination to exercise all options granted to him under his employment agreement or otherwise to the extent vested and exercisable on the date of termination. Mr. Sawyer's Agreement contains no covenant not to compete or similar restrictions after termination.

K. Andrew Lai

Mr. Lai was appointed Chief Financial Officer, Treasurer and Secretary of the Company on February 18, 2011. Effective as of that date, the Company entered into an employment agreement (the “Lai Agreement”) with Mr. Lai (filed as exhibit 10.23 to the Company’s Annual Report on Form 10-K for the year ended March 31, 2011). The Lai Agreement will terminate on February 18, 2014, unless extended or earlier terminated. Pursuant to the Agreement, Mr. Lai's base salary is \$190,000 per year, of which \$150,000 will be payable in cash and \$40,000 in shares of the Company’s common stock on a pro-rata, quarterly basis. He may also receive discretionary bonuses in an amount up to 50% of his base salary. In conjunction with his appointment as Chief Financial Officer, Mr. Lai also received options to purchase up to 160,000 shares of the Company's common stock. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share. If Mr. Lai's employment is terminated without Cause (as defined in the Lai Agreement) or for Good Reason (as defined in the Lai Agreement), he will receive a severance payment of 100% of his annual base salary; provided that if Mr. Lai's employment is terminated six months before or within 24 months of a Change in Control (as defined in the Lai Agreement), he will receive a severance payment of 200% of his annual base salary. If Mr. Lai's employment is terminated as a result of death or Disability (as defined in the Lai Agreement), the Company will pay his base salary which would have been payable to Mr. Lai through the date his employment is terminated and all amounts actually earned, accrued or owing as of the date of termination. If Mr. Lai’s employment is terminated for Cause or Mr. Lai voluntarily terminates his employment, the Company will pay his base salary and all amounts actually earned, accrued or owing as of the date of termination and he will be entitled for a period of three months after termination to exercise all options granted to him under his employment agreement or otherwise to the extent vested and exercisable on the date of termination. The Lai Agreement contains no covenant not to compete or similar restrictions after termination.

John O'Keefe

Mr. O'Keefe was appointed as the interim Chief Financial Officer, Treasurer and Secretary of the Company on October 7, 2010, and he served as the interim principal accounting and financial officer for the Company until his resignation on February 18, 2011. The Company employed Mr. O'Keefe under a service agreement with Tatum LLC.

Donald L. Sytsma

Mr. Sytsma was appointed Chief Financial Officer and Treasurer of the Company on April 14, 2009 and Secretary on or around September 30, 2009, and he served as the principal accounting and financial officer for the Company until his resignation as Chief Financial Officer, Treasurer and Secretary on October 7, 2010. Mr. Sytsma's prior compensation arrangement with the Company provided for a salary of \$11,000 per month for services as required by the Company, plus 2,000 shares of Company common stock per month. As severance pay in connection with Mr. Sytsma's resignation on October 7, 2010, the Company agreed to pay Mr. Sytsma three months of salary and to issue Mr. Sytsma 30,000 restricted shares of common stock.

James J. Cerna, Jr.

Mr. Cerna co-founded the Company and was originally appointed a Director and Chief Executive Officer on May 19, 2006, and he was appointed as president on June 12, 2006. On September 2, 2008, Mr. Cerna transferred his duties as president and Chief Executive Officer to Mr. Sikora and continued his role as Chairman of the Board. On May 5, 2009, Mr. Cerna's resigned as Chairman and Director. On March 20, 2007, the Company entered into an employment agreement with Mr. Cerna (filed as exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2007). Mr. Cerna's agreement was for a period of three years and provided for payment of \$175,000 annually in exchange for services to the Company. The agreement also provided for certain payments in the event of termination of employment. In connection with Company initiatives to scale back costs in response to low oil prices during our 4th fiscal quarter of 2009, Mr. Cerna agreed to suspend payment of his compensation under his employment agreement. Pursuant to an agreement, effective August 1, 2009, the Company commenced remitting \$7,292 per month until the remaining amount due under his employment agreement was paid. The Company agreed to issue 86,027 shares of stock to Mr. Cerna on November 24, 2010 to terminate all liabilities and payment obligations to Mr. Cerna under this agreement.

Malek A. Bohsali

Mr. Bohsali served as Chief Financial Officer of the Company from April 10, 2007 through April 14, 2009, and served as corporate secretary until his resignation effective September 30, 2009. Mr. Bohsali received compensation listed in the above compensation table.

Other resources utilized in the Company's operations are typically contractors or sub-contractors of vendors and service providers that are not owned directly or indirectly by the Company or any officer, Director or shareholder owning greater than five percent (5%) of the Company's outstanding shares, nor are they members of the referenced individual's immediate family. Such sub-contracting engagement and per job payments are commonplace in the Company's business. The Company expects to continue to utilize and pay such service providers and third party contractors as necessary to operate its day-to-day field operations.

Lucas 2010 Incentive Compensation Plan

The Company shareholders approved the Lucas Energy, Inc. 2010 Plan at the annual shareholder meeting held on March 30, 2010. The 2010 Plan provides the Company with the ability to offer stock options and restricted stock to employees, consultants and contractors as performance incentives. Shares issuable under the 2010 Plan were registered on Form S-8 registration statement that was filed with the

SEC on April 23, 2010. The NYSE Amex approved this listing application for the shares issuable under the 2010 Plan on May 6, 2010.

Under the Incentive Plan, 900,000 shares of the Company's common stock are authorized for initial issuance. As of November 3, 2011, an aggregate of 22,388 shares of common stock and options were available under the 2010 Plan for future grants. The number of shares available under the 2010 Plan is reduced one for one for each share delivered pursuant to an award under the 2010 Plan. Any issued shares that become available due to expiration, forfeiture, surrender, cancellation, termination or settlement in cash of an award under the Incentive Plan may be requested and used as part of a new award under the Plan.

The 2010 Plan is administered by the Compensation Committee and/or the Board in its discretion (the "Committee"). The Committee interprets the Plan and has broad discretion to select the eligible persons to whom awards will be granted, as well as the type, size and terms and conditions of each award, including the exercise price of stock options, the number of shares subject to awards, the expiration date of awards, and the vesting schedule or other restrictions applicable to awards. The 2010 Plan allows the Company to grant the following types of awards: (1) incentive stock options, (2) non-qualified stock options, and (3) restricted shares (i.e., shares subject to such restrictions, if any, as determined by the Compensation Committee or the Board).

Outstanding Equity Awards at March 31, 2011

The following table summarizes certain information regarding unexercised stock options outstanding as of March 31, 2011 for each of the Named Officers.

| Name | Number of Securities | Number of Securities | Stock Option | Stock Option |
|-------------------|--|--|----------------|-----------------|
| | Underlying Unexercised Stock Options Exercisable | Underlying Unexercised Stock Options Unexercisable | Exercise Price | Expiration Date |
| William A. Sawyer | 24,000 | - | \$2.07 | 1/10/2016 |
| K. Andrew Lai | - | 160,000 | \$1.94 | 2/18/2016 |

The Company does not currently have in place or provide retirement, disability or other benefits for its employees.

DIRECTOR COMPENSATION

The following table sets forth compensation information with respect to our Directors during our fiscal year ended March 31, 2011.

| Name | Director Compensation | | | |
|--------------------|-----------------------------|--------------|---------------|-----------|
| | Fees earned or paid in cash | Stock awards | Option awards | Total |
| Peter K. Grunebaum | \$ 14,500 | \$ 24,720 | \$ 41,140 | \$ 80,360 |
| J. Fred Hofheinz | 14,250 | 24,720 | 41,140 | 80,110 |
| W. Andrew Krusen | 14,750 | 24,720 | 41,140 | 80,610 |

Beginning with the October 7, 2010 meeting of the Board of Directors, the compensation due to each member of the Board of Directors was increased from \$2,000 to \$3,000 per meeting. Additionally beginning with the October 2010 meeting, the chairpersons of the various committees are paid \$750 per each committee meeting and the non-chairpersons are paid \$500 for each committee meeting. Non-employee directors have historically been granted shares of common stock for services provided to the Company as a director.

The Board of Directors of the Company at a meeting held October 7, 2010 (the "Grant Date"), approved the issuance of 12,000 shares of common stock to each Director for services rendered during the April 1, 2009 to March 31, 2010 fiscal year and the grant of options to purchase 24,000 shares of common

stock to each Director for services to be rendered during the April 1, 2010 to March 31, 2011 fiscal year (the "Options") pursuant to the Company's 2010. The Options have an exercise price of \$2.07 per share, the mean of the highest and lowest trading prices of the Company's common stock on the Grant Date, consistent with the terms of the Plan and vest to the Directors in tranches of 1/4th of such options per quarter (starting effective on April 1, 2010, the start of the 2011 fiscal year), with options to purchase 12,000 shares vesting as of the Grant Date, and options to purchase 6,000 shares of common stock vesting on December 31, 2010 and March 31, 2011, as long as such individuals remain as Directors. The fair value of the shares was \$24,720. The Options were fully vested at March 31, 2011 and were valued using the Black-Scholes model resulting in the fair value of \$41,140.

Compensation for serving as a Director for an individual that is a named executive officer is reflected in the above table on Executive Compensation.

CERTAIN RELATED PARTY TRANSACTIONS

During the past two fiscal years there have been no transactions between the Company and any officer, Director, or any shareholder owning greater than five percent (5%) of our outstanding shares, nor any member of the above referenced individual's immediate family, except as set forth below or otherwise disclosed above under "Executive Officer Compensation".

The Company acquired approximately 2,771 gross oil and gas lease acreage (approx. 2,078 acres net to the Company's interest) located in Wilson County, Texas from El Tex Petroleum, LLC ("El Tex"), which acquisition was approved by the Board in September 2009. The leases have eight shut-in or plugged wellbores that the Company believes are good candidates for restoration and revitalization procedures. The leasehold, wellbore and surface equipment acquisition price totaled approximately \$1.0 million and was comprised of 637,887 shares of the Company's common stock valued at \$0.77 per share, or approximately \$490,000, the Company's assumption of \$500,000 in debt plus accrued interest; and the remittance of \$68,000 in cash.

One Director of the Company (J. Fred Hofheinz) holds an approximate 25.2% interest in El Tex while a second Lucas Board member (W. Andrew Krusen, Jr.) holds an indirect beneficial ownership interest in El Tex of approximately 18.8% (provided that El Tex is currently in the process of distributing substantially all of its assets to its owners, including the Company's shares, which process has not been completed to date). Pursuant to NYSE Amex exchange rules, Company shareholders were required to approve the issuance of shares of common stock to El Tex due to the Directors holding in the aggregate more than a five percent (5%) indirect interest in the assets being acquired by the Company from El Tex. Additionally, the note holder of the debt assumed by the Company, J. Fred Hofheinz, is a Director of the Company. In connection with the Company's acquisition, the note holder agreed to convert the debt plus accrued interest due to him into shares of the Company's common stock. Pursuant to NYSE Amex exchange rules, Company shareholders were required to approve the issuance of the shares of common stock to the Director.

At the Company's shareholder meeting held on March 30, 2010, the shareholders approved the issuance of the shares of common stock to El Tex and the issuance of shares of common stock to the Director for the conversion of debt plus accrued interest assumed by the Company. NYSE Amex approved the listing application for the shares to be issued and on May 25, 2010, the Company issued 637,887 shares of common stock to El Tex and 683,686 shares of common stock to the Director that held the debt assumed by the Company. The shares of common stock were issued at \$0.77 per share which was the fair value of the shares at the time the acquisition was agreed and effected in September 2009.

Three wells acquired by Lucas from El Tex are part of the LEI 2009-III capital program, while one well is part of the LEI 2009-II six well program.

In addition, on February 23, 2010, Lucas paid \$250,000 to El Tex to acquire leases on additional properties.

In or around May 2010, the Company issued William A. Sawyer, the Company's President and Chief Executive Officer, 50,000 shares of common stock in connection with the Company's joint venture partner's commitment to and initial funding of their 70% working interest in the LEI 2009-III capital program.

The Board, at a meeting held October 7, 2010 (the Grant Date), approved the issuance of 12,000 shares of common stock to each Director and the grant of options to purchase 24,000 shares of common stock to each Director as described in greater detail above under "Director Compensation".

On October 7, 2010, the Compensation Committee approved an increase in Mr. Sawyer's annual salary to \$175,000 per year (effective as of October 1, 2010), the Board approved the immediate issuance to Mr. Sawyer of 17,500 shares of common stock under the Company's 2010 Plan, and an additional 17,500 shares of common stock under the 2010 Plan in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months. As of March 31, 2011, the Company's net production has not yet averaged over 10,000 barrels of oil per month for a period of six months and as such, Mr. Sawyer has not earned or been issued the additional 17,500 shares discussed above.

Donald L. Sytsma was appointed Chief Financial Officer and Treasurer of the Company on April 14, 2009 and Secretary on or around September 30, 2009, and he served as the principal accounting and financial officer for the Company until his resignation on October 7, 2010. Mr. Sytsma's compensation arrangement provided for a salary of \$11,000 per month for services as required by the Company, plus 2,000 shares of Company common stock per month. As severance pay in connection with Mr. Sytsma's resignation on October 7, 2010, the Company agreed to pay Mr. Sytsma three months of salary and to issue Mr. Sytsma 30,000 restricted shares of common stock.

On October 7, 2010, John O'Keefe was appointed as the Chief Financial Officer, Treasurer and Secretary of the Company.

In December 2010, the Company sold an aggregate of 2,510,506 units to certain institutional investors, each consisting of (a) one share of common stock; (b) one Series B Warrant to purchase one share of common stock at an exercise price of \$2.86 per share; and (c) one Series C Warrant to purchase one share of common stock at an exercise price of \$2.62 per share for a combined purchase price of \$2.38 per unit. An investor in the offering included Hall Phoenix Energy, LLC, who is a joint venture partner with Lucas in the Eagle Ford trend in South Texas.

On February 18, 2011, the Company accepted the resignation of John O'Keefe from his positions as Chief Financial Officer, Treasurer and Secretary of the Company. As a result of his resignation, Mr. O'Keefe no longer holds any officer position with the Company.

Also effective February 18, 2011, the Company appointed K. Andrew Lai, as Chief Financial Officer, Treasurer and Secretary of the Company and granted options to purchase 160,000 shares of the Company's common stock to Mr. Lai. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share.

On April 1, 2011, the Company granted options to purchase 200,000 shares of the Company's common stock to William A. Sawyer. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share.

On May 18, 2011, the Company issued K. Andrew Lai 3,861 shares of common stock valued at \$2.59 per share (the closing price of the Company's common stock on the grant date) representing \$10,000 in aggregate in connection with and pursuant to the terms of his employment agreement.

On July 1, 2011, the Company issued William A. Sawyer 6,721 shares of common stock valued at \$2.79 per share (the closing price of the Company's common stock on the grant date) representing \$18,750 in aggregate in connection with and pursuant to the terms of his employment agreement.

On August 18, 2011, the Company issued K. Andrew Lai 5,025 shares of common stock valued at \$1.99 per share (the closing price of the Company's common stock on the grant date) representing \$10,000 in aggregate in connection with and pursuant to the terms of his employment agreement.

On October 1, 2011, the Company agreed to issue William A. Sawyer 10,061 shares of common stock which, net of applicable payroll taxes, representing an aggregate value of \$18,750 (with such stock valued at \$1.30 per share (the closing price of the Company's common stock on September 30, 2011, the last trading day prior to the grant date)), in connection with and pursuant to his employment agreement.

It is our policy that any future material transactions between us and members of management or their affiliates shall be on terms no less favorable than those available from unaffiliated third parties.

DIRECTOR INDEPENDENCE

During the year ended March 31, 2011, the Board determined that a majority of the Board is independent under the definition of "independence" and in compliance with the listing standards of the NYSE Amex listing requirements. Based upon these standards, the Board has determined that all of the Directors are independent, with the exception of Mr. Sawyer, our President and Chief Executive Officer. See "Meetings and Committees of the Board of Directors" in Item 10.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During the fiscal year that ended on March 31, 2011, the Board held four meetings. All Directors attended all meetings of the Board and all committee meetings on which the Director served during fiscal year 2011. All of the current Directors attended our fiscal year 2011 annual shareholder meeting held on January 10, 2011.

During the fiscal year that ended on March 31, 2011, the Board determined that a majority of the Board is independent under the definition of independence and in compliance with the listing standards of the NYSE Amex listing requirements. Based upon these standards, the Board has determined that all of the Directors are independent, with the exception of Mr. Sawyer, our President and Chief Executive Officer.

The Board has a standing Audit Committee, Compensation Committee, and Nominating Committee.

The Audit Committee currently consists of Mr. Grunebaum (chair), Mr. Hofheinz and Mr. Krusen, each of whom is independent as defined in Section 803(A) of the NYSE Amex LLC Company Guide. The Audit Committee's function is to provide assistance to the Board in fulfilling the Board's oversight functions relating to the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the Company's independent auditors, and perform such other activities consistent with its charter and the Company's By-laws as the Committee or the Board deems appropriate. The Audit Committee produces an annual report for inclusion in our proxy statement. The Audit Committee is directly responsible for the appointment, retention, compensation, oversight and evaluation of the work of the independent registered public accounting firm (including resolution of disagreements between our management and the independent registered public accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee shall review and pre-approve all audit services, and non-audit services that exceed a de minimis standard, to be provided to us by our independent registered public accounting firm. The Audit Committee carries out all functions required by the NYSE Amex, the SEC and the federal securities laws. The Board has determined that Mr. Grunebaum, Mr. Hofheinz and Mr. Krusen are "independent," and Mr. Grunebaum is an "audit committee financial expert" as defined in the SEC's Regulation S-K, Item 407(d). During fiscal year 2011, the Audit Committee held four meetings. The Audit Committee's charter is available on our website at www.lucasenergy.com.

The Compensation Committee is comprised of Mr. Krusen (chair), Mr. Grunebaum and Mr. Hofheinz, each of whom is independent as defined in Section 803(A) of the NYSE Amex LLC Company Guide. The purpose of the Compensation Committee is to oversee the responsibilities relating to compensation of our executives and produce a report on executive compensation for inclusion in our proxy statement. The Compensation Committee may delegate its authority to subcommittees of independent Directors, as it deems appropriate. During fiscal year 2011, the Compensation Committee held four meetings. The Compensation Committee's charter is available on our website at www.lucasenergy.com.

The Nominating Committee is comprised of Mr. Hofheinz (chair), Mr. Grunebaum and Mr. Krusen, each of whom is independent as defined in Section 803(A) of the NYSE Amex LLC Company Guide. This Committee is responsible for (1) establishing criteria for selection of new Directors and nominees for vacancies on the Board, (2) approving Director nominations to be presented for shareholder approval at the Company's annual meeting, (3) identifying and assisting with the recruitment of qualified candidates for Board membership and for the positions of Chairman of the Board and Chairmen of the committees of the Board, (4) recommending to the Board to accept or decline any tendered resignation of a Director, (5) considering any nomination of Director candidates validly made by shareholders, (6) reviewing any Director conflict of interest issues and determining how to handle such issues, (7) insuring a review of incumbent Directors' performance and attendance at Board and committee meetings in connection with the independent Directors' decision regarding Directors to be slated for election at the Company's annual meeting, (8) providing appropriate orientation programs for new Directors, (9) reviewing and assessing the adequacy of the Company's corporate governance policies and practices and recommending any proposed changes to the Board, and (10) proposing any necessary actions to the Board. We have not paid any third party a fee to assist in the process of identifying and evaluating candidates for Director. During fiscal year 2011, the Nominating Committee held one meeting. The Nominating Committee's charter is available on our website at www.lucasenergy.com.

NOMINATIONS FOR THE BOARD OF DIRECTORS

The Nominating Committee of the Board considers nominees for Director based upon a number of qualifications, including their personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. There are no specific, minimum or absolute criteria for Board membership. The Committee makes every effort to ensure that the Board and its Committees include at least the required number of independent Directors, as that term is defined by applicable standards promulgated by the NYSE Amex and/or the SEC.

The Nominating Committee may use its network of contacts to compile a list of potential candidates. The Nominating Committee has not in the past relied upon professional search firms to identify Director nominees, but may engage such firms if so desired. The Nominating Committee may meet to discuss and consider candidates' qualifications and then choose a candidate by majority vote.

The Nominating Committee will consider qualified Director candidates recommended in good faith by shareholders, provided those nominees meet the requirements of AMEX and applicable federal securities law. The Nominating Committee's evaluation of candidates recommended by shareholders does not differ materially from its evaluation of candidates recommended from other sources.

Any shareholder wishing to recommend a nominee for election to the Board of Directors or to submit communications to the Board of Directors should submit such information as provided below. In the event the shareholder is submitting a nominee for election to the Board of Directors, the shareholder should include the candidate's name, credentials, contact information and his or her written consent to be considered as a candidate. These recommendations and communications should be submitted in writing to the Company, Attn: Corporate Secretary, Lucas Energy, Inc., 3555 Timmons Lane, Suite 1550, Houston, Texas 77027. The proposing shareholder should also include his or her contact information and a statement of his or her share ownership. The Board of Directors (or Committee) may request further information about the communications and shareholder recommended nominees in order to comply with any applicable laws, rules or regulations or to the extent such information is required to be provided by such shareholder pursuant to any applicable laws, rules or regulations.

AUDIT COMMITTEE REPORT

In connection with the fiscal year 2011 audited financial statements of Lucas, the Audit Committee of the Board of Directors of Lucas (1) reviewed and discussed the audited financial statements with Lucas's management; (2) discussed with Lucas's independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (Codification of Statements on Auditing Standards, AU 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T and Exchange Act Regulation S-X, Rule 2-07; (3) received the written disclosures and the letter from the independent auditors required by the applicable requirements of the PCAOB regarding the independent auditors' communications with the Audit Committee concerning independence; (4) discussed with the independent auditors the independent auditors' independence; and (5) considered whether the provision of non-audit services by Lucas's principal auditors is compatible with maintaining auditor independence.

Based upon these reviews and discussions, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements for fiscal year 2011 be included in Lucas's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 for filing with the Securities and Exchange Commission.

Audit Committee

Peter K. Grunebaum, Chairman
J. Fred Hofheinz
W. Andrew Krusen, Jr.

INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON:

(a) No officer or Director has any substantial interest in the matters to be acted upon, other than his role as an officer or Director.

(b) No Director has informed the Company that he intends to oppose the action taken by the Company set forth in this proxy.

SHAREHOLDER PROPOSALS

No security holder has requested the Company to include any proposals in this proxy. Shareholder proposals intended to be eligible for inclusion in the Company's Proxy Statement and proxy card relating to the 2012 Annual Meeting of shareholders of the Company must be submitted to the Company in accordance with Rule 14a-8 under the Exchange Act of 1934, not earlier than the close of business on August 18, 2012, and not later than the close of business on September 17, 2012, together with written notice of the shareholder's intention to present a proposal for action at the 2012 Annual Meeting of shareholders, unless our Annual Meeting date occurs more than 30 days before or 30 days after December 16, 2012. In that case, we must receive proposals not earlier than the close of business on the 120th day prior to the date of the 2012 Annual Meeting and not later than the close of business on the later of the 90th day prior to the date of the Annual Meeting or, if the first public announcement of the date of the Annual Meeting is less than 100 days prior to the date of the meeting, the 10th day following the day on which we first make a public announcement of the date of the meeting. The notice must be personally delivered to the Company or sent by first class certified mail, return receipt requested, postage prepaid, and must include the name and address of the shareholder, the number of voting securities held by the shareholder of record, a statement that the shareholder holds such shares beneficially and the text of the proposal to be presented for vote at the meeting, and a statement in support of the proposal.

A shareholder proposal is a shareholder's recommendation or requirement that the Company and/or the Board take action, which the shareholder intends to present at the 2012 Annual Meeting of the Company's shareholders. The proposal should state as clearly as possible the course of action that the shareholder believes the Company should follow and should be accompanied by a supporting statement. The proposal, including the accompanying supporting statement, may not exceed 500 words. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements. As the rules of the SEC make clear, simply submitting a proposal does not guarantee that it will be included.

FINANCIAL AND OTHER INFORMATION

The information under Items 7, 7A, 8 and 9 in the Company's Annual Report on Form 10-K for the year ended March 31, 2011 and the information under Items 1, 2 and 3 in the Company's Quarterly Reports on Form 10-Q for the quarter ended June 30, 2011 is incorporated herein by reference.

The Company will provide, without charge, to each person to whom a proxy statement is delivered, upon written or oral request of such person and by first class mail or other equally prompt means within one business day of receipt of such request, a copy of the financial statements described above, which has been incorporated by reference herein (not including exhibits to the information that is incorporated by reference unless such exhibits are specifically incorporated by reference into the information that this proxy statement incorporates). Individuals may request a copy of such information by sending a request to the Company, Attn: Corporate Secretary, Lucas Energy, Inc., 3555 Timmons Lane, Suite 1550, Houston, Texas 77027.

OTHER MATTERS

The Board knows of no other matters to be submitted to the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the person(s) named in the enclosed Proxy card to vote shares they represent as the Company may recommend or in accordance with their best judgment, pursuant to the discretionary authority granted by the Proxy.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to execute and return, at your earliest convenience, the accompanying proxy card in the envelope that has been enclosed.

By Order of the Board of Directors:

/s/ William A. Sawyer
William A. Sawyer
Chief Executive Officer
Houston, Texas
November 11, 2011

Exhibit A

LUCAS ENERGY, INC. 2012 STOCK INCENTIVE PLAN

ARTICLE I -- PREAMBLE

1.1 This 2012 Stock Incentive Plan of Lucas Energy, Inc. (the "**Company**") is intended to secure for the Company and its Affiliates the benefits arising from ownership of the Company's Common Stock by the Employees, Officers, Directors and Consultants of the Company and its Affiliates, all of whom are and will be responsible for the Company's future growth. The Plan is designed to help attract and retain for the Company and its Affiliates personnel of superior ability for positions of exceptional responsibility, to reward Employees, Officers, Directors and Consultants for their services and to motivate such individuals through added incentives to further contribute to the success of the Company and its Affiliates. With respect to persons subject to Section 16 of the Act, transactions under this Plan are intended to satisfy the requirements of Rule 16b-3 of the Act.

1.2 Awards under the Plan may be made to an Eligible Person in the form of (i) Incentive Stock Options (to Eligible Employees only); (ii) Nonqualified Stock Options; (iii) Restricted Stock; (iv) Stock Awards; (v) Performance Shares; or (vi) any combination of the foregoing.

1.3 The Company's board of directors adopted the Plan on October 13, 2011. The Plan shall be effective October 13, 2011 (the "**Effective Date**"), subject to approval by the shareholders of the Company to the extent necessary to satisfy the requirements of the Code, the Act, or other applicable federal or state law. Unless sooner terminated as provided elsewhere in this Plan, this Plan shall terminate upon the close of business on the day next preceding the tenth (10th) anniversary of the Effective Date. Award Agreements outstanding on such date shall continue to have force and effect in accordance with the provisions thereof.

1.4 The Plan shall be governed by, and construed in accordance with, the laws of the State of Nevada (except its choice-of-law provisions).

1.5 Capitalized terms shall have the meaning provided in Article II unless otherwise provided in this Plan or any related Award Agreement.

ARTICLE II -- DEFINITIONS

DEFINITIONS. Except where the context otherwise indicates, the following definitions apply:

2.1 "**Act**" means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.2 "**Affiliate**" means any parent corporation or subsidiary corporation of the Company, whether now or hereinafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

2.3 "**Award**" means an award granted to a Participant in accordance with the provisions of the Plan, including, but not limited to, Stock Options, Restricted Stock, Stock Awards, Performance Shares, or any combination of the foregoing.

2.4 "**Award Agreement**" means the separate written agreement evidencing each Award granted to a Participant under the Plan.

2.5 "**Board of Directors**" or "**Board**" means the Board of Directors of the Company, as constituted from time to time.

- 2.6 “**Bylaws**” shall mean the Bylaws of the Company as amended from time to time.
- 2.7 “**Change of Control**” means (i) the adoption of a plan of merger or consolidation of the Company with any other corporation or association as a result of which the holders of the voting capital stock of the Company as a group would receive less than 50% of the voting capital stock of the surviving or resulting corporation; (ii) the approval by the Board of Directors of an agreement providing for the sale or transfer (other than as security for obligations of the Company) of substantially all the assets of the Company; or (iii) in the absence of a prior expression of approval by the Board of Directors, the acquisition of more than 20% of the Company's voting capital stock by any person within the meaning of Rule 13d-3 under the Act (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company).
- 2.8 “**Code**” means the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder.
- 2.9 “**Committee**” means a committee of two or more members of the Board appointed by the Board in accordance with Section 3.2 of the Plan. In the event the Company has not designated a Committee pursuant to Section 3.2 of the Plan, “**Committee**” shall refer to the Compensation Committee of the Company (in the event the Compensation Committee has authority to administer the Plan) or the Board of Directors of the Company.
- 2.10 “**Common Stock**” means the Company’s common stock.
- 2.11 “**Company**” means Lucas Energy, Inc., a Nevada corporation.
- 2.12. “**Consultant**” means any person, including an advisor engaged by the Company or an Affiliate to render bona fide consulting or advisory services to the Company or an Affiliate, other than as an Employee, Director or Non-Employee Director.
- 2.13 “**Director**” means a member of the Board of Directors of the Company.
- 2.14 “**Disability**” means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.
- 2.15 “**Effective Date**” shall be the date set forth in Section 1.3 of the Plan.
- 2.16 “**Eligible Employee**” means an Eligible Person who is an Employee of the Company or any Affiliate.
- 2.17 “**Eligible Person**” means any Employee, Officer, Director, Non-Employee Director or Consultant of the Company or any Affiliate, except for instances where services are in connection with the offer or sale of securities in a capital-raising transaction, or they directly or indirectly promote or maintain a market for the Company’s securities, subject to any other limitations as may be provided by the Code, the Act, or the Board. In making such determinations, the Board may take into account the nature of the services rendered by such person, his or her present and potential contribution to the Company’s success, and such other factors as the Board in its discretion shall deem relevant.
- 2.19 “**Employee**” means an individual who is a common-law employee of the Company or an Affiliate including employment as an Officer. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute “**employment**” by the Company or an Affiliate.
- 2.20 “**ERISA**” means the Employee Retirement Income Security Act of 1974, as now in effect or as hereafter amended.

2.21 "**Fair Market Value**" means, as of any date and unless the Committee determines otherwise, the value of Common Stock determined as follows:

- (a) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the NYSE Amex, Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the day of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable;
- (b) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported for the date in question, the Fair Market Value will be the mean between the high bid and low asked prices for the Common Stock for the day of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable; or
- (c) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Committee.
- (d) The Committee also may adopt a different methodology for determining Fair Market Value with respect to one or more Awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular Award(s) (for example, and without limitation, the Committee may provide that Fair Market Value for purposes of one or more Awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

2.22 "**Grant Date**" means, as to any Award, the latest of:

- (a) the date on which the Board authorizes the grant of the Award; or
- (b) the date the Participant receiving the Award becomes an Employee or a Director of the Company or its Affiliate, to the extent employment status is a condition of the grant or a requirement of the Code or the Act; or
- (c) such other date (later than the dates described in (a) and (b) above) as the Board may designate and as set forth in the Participant's Award Agreement.

2.23 "**Immediate Family**" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and shall include adoptive relationships.

2.24 "**Incentive Stock Option**" means a Stock Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and is granted under Article IV of the Plan and designated as an Incentive Stock Option in a Participant's Award Agreement.

2.25 "**Non-Employee Director**" shall have the meaning set forth in Rule 16b-3 under the Act.

2.26 "**Nonqualified Stock Option**" means a Stock Option not intended to qualify as an Incentive Stock Option and is not so designated in the Participant's Award Agreement.

2.27 "**Officer**" means a person who is an officer of the Company within the meaning of Section 16 of the Act.

2.28 "**Option Period**" means the period during which a Stock Option may be exercised from time to time, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

2.29 "**Option Price**" means the purchase price for a share of Common Stock subject to purchase pursuant to a Stock Option, as established by the Board and set forth in the Award Agreement for each Participant who is granted a Stock Option.

2.30 "**Outside Director**" means a Director who either (i) is not a current employee of the Company or an "**affiliated corporation**" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "**affiliated corporation**" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "**affiliated corporation**" at any time and is not currently receiving direct or indirect remuneration from the Company or an "**affiliated corporation**" for services in any capacity other than as a Director or (ii) is otherwise considered an "**outside director**" for purposes of Section 162(m) of the Code.

2.31 "**Participant**" means an Eligible Person to whom an Award has been granted and who has entered into an Award Agreement evidencing the Award or, if applicable, such other person who holds an outstanding Award.

2.32 "**Performance Objectives**" shall have the meaning set forth in Article IX of the Plan.

2.33 "**Performance Period**" shall have the meaning set forth in Article IX of the Plan.

2.34 "**Performance Share**" means an Award under Article IX of the Plan of a unit valued by reference to the Common Stock, the payout of which is subject to achievement of such Performance Objectives, measured during one or more Performance Periods, as the Board, in its sole discretion, shall establish at the time of such Award and set forth in a Participant's Award Agreement.

2.35 "**Plan**" means this Lucas Energy, Inc. 2012 Stock Incentive Plan, as it may be amended from time to time.

2.36 "**Reporting Person**" means a person required to file reports under Section 16(a) of the Act.

2.37 "**Restricted Stock**" means an Award under Article VII of the Plan of shares of Common Stock that are at the time of the Award subject to restrictions or limitations as to the Participant's ability to sell, transfer, pledge or assign such shares, which restrictions or limitations may lapse separately or in combination at such time or times, in installments or otherwise, as the Board, in its sole discretion, shall determine at the time of such Award and set forth in a Participant's Award Agreement.

2.38 "**Restriction Period**" means the period commencing on the Grant Date with respect to such shares of Restricted Stock and ending on such date as the Board, in its sole discretion, shall establish and set forth in a Participant's Award Agreement.

2.39 "**Retirement**" means retirement as determined under procedures established by the Board or in any Award, as set forth in a Participant's Award Agreement.

2.40 "**Rule 16b-3**" means Rule 16b-3 promulgated under the Act or any successor to Rule 16b-3, as in effect from time to time. Those provisions of the Plan which make express reference to Rule 16b-3, or which are required in order for certain option transactions to qualify for exemption under Rule 16b-3, shall apply only to a Reporting Person.

2.41 "**Stock Award**" means an Award of shares of Common Stock under Article VIII of the Plan.

2.42 "**Stock Option**" means an Award under Article IV or Article V of the Plan of an option to purchase Common Stock. A Stock Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

2.43 "**Ten Percent Stockholder**" means an individual who owns (or is deemed to own pursuant to Section 424(d) of the Code), at the time of grant, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Affiliates.

2.44 "**Termination of Service**" means (i) in the case of an Eligible Employee, the discontinuance of employment of such Participant with the Company or its Subsidiaries for any reason other than a transfer to another member of the group consisting of the Company and its Affiliates and (ii) in the case of a Director who is not an Employee of the Company or any Affiliate, the date such Participant ceases to serve as a Director. The determination of whether a Participant has discontinued service shall be made by the Board in its sole discretion. In determining whether a Termination of Service has occurred, the Board may provide that service as a Consultant or service with a business enterprise in which the Company has a significant ownership interest shall be treated as employment with the Company.

ARTICLE III – ADMINISTRATION

3.1 The Plan shall be administered by the Board of Directors of the Company. The Board shall have the exclusive right to interpret and construe the Plan, to select the Eligible Persons who shall receive an Award, and to act in all matters pertaining to the grant of an Award and the determination and interpretation of the provisions of the related Award Agreement, including, without limitation, the determination of the number of shares subject to Stock Options and the Option Period(s) and Option Price(s) thereof, the number of shares of Restricted Stock or shares subject to Stock Awards or Performance Shares subject to an Award, the vesting periods (if any) and the form, terms, conditions and duration of each Award, and any amendment thereof consistent with the provisions of the Plan. The Board may adopt, establish, amend and rescind such rules, regulations and procedures as it may deem appropriate for the proper administration of the Plan, make all other determinations which are, in the Board's judgment, necessary or desirable for the proper administration of the Plan, amend the Plan or a Stock Award as provided in Article XI, and terminate or suspend the Plan as provided in Article XI. All acts, determinations and decisions of the Board made or taken pursuant to the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan or any Award Agreement, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all persons.

3.2 The Board may, to the full extent permitted by and consistent with applicable law and the Company's Bylaws, and subject to Subparagraph 3.2(b) hereinbelow, delegate any or all of its powers with respect to the administration of the Plan to the Company's Compensation Committee or another Committee of the Company consisting of not fewer than two members of the Board each of whom shall qualify (at the time of appointment to the Committee and during all periods of service on the Committee) in all respects as a Non-Employee Director and as an Outside Director.

- (a) If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in the Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not consistent with the provisions of the Plan, as may be adopted from time to time by the Board.
- (b) The Board may abolish the Committee at any time and reassume all powers and authority previously delegated to the Committee.
- (c) In addition to, and not in limitation of, the right of any Committee so designated by the Board to administer this Plan to grant Awards to Eligible Persons under this Plan, the full

Board of Directors and/or the Company's Compensation Committee may from time to time grant Awards to Eligible Persons pursuant to the terms and conditions of this Plan, subject to the requirements of the Code, Rule 16b-3 under the Act or any other applicable law, rule or regulation. In connection with any such grants, the Board of Directors and/or the Company's Compensation Committee shall have all of the power and authority of the Committee to determine the Eligible Persons to whom such Awards shall be granted and the other terms and conditions of such Awards.

3.3 Without limiting the provisions of this Article III, and subject to the provisions of Article X, the Board is authorized to take such action as it determines to be necessary or advisable, and fair and equitable to Participants and to the Company, with respect to an outstanding Award in the event of a Change of Control as described in Article X or other similar event. Such action may include, but shall not be limited to, establishing, amending or waiving the form, terms, conditions and duration of an Award and the related Award Agreement, so as to provide for earlier, later, extended or additional times for exercise or payments, differing methods for calculating payments, alternate forms and amounts of payment, an accelerated release of restrictions or other modifications. The Board may take such actions pursuant to this Section 3.3 by adopting rules and regulations of general applicability to all Participants or to certain categories of Participants, by including, amending or waiving terms and conditions in an Award and the related Award Agreement, or by taking action with respect to individual Participants from time to time.

3.4 Subject to the provisions of Section 3.9, the maximum aggregate number of shares of Common Stock which may be issued pursuant to Awards under the Plan shall be **One Million Five Hundred Thousand (1,500,000) shares**. Such shares of Common Stock shall be made available from authorized and unissued shares of the Company.

- (a) For all purposes under the Plan, each Performance Share awarded shall be counted as one share of Common Stock subject to an Award.
- (b) If, for any reason, any shares of Common Stock (including shares of Common Stock subject to Performance Shares) that have been awarded or are subject to issuance or purchase pursuant to Awards outstanding under the Plan are not delivered or purchased, or are reacquired by the Company, for any reason, including but not limited to a forfeiture of Restricted Stock or failure to earn Performance Shares or the termination, expiration or cancellation of a Stock Option, or any other termination of an Award without payment being made in the form of shares of Common Stock (whether or not Restricted Stock), such shares of Common Stock shall not be charged against the aggregate number of shares of Common Stock available for Award under the Plan and shall again be available for Awards under the Plan. In no event, however, may Common Stock that is surrendered or withheld to pay the exercise price of a Stock Option or to satisfy tax withholding requirements be available for future grants under the Plan.
- (c) The foregoing subsections (a) and (b) of this Section 3.4 shall be subject to any limitations provided by the Code or by Rule 16b-3 under the Act or by any other applicable law, rule or regulation.

3.5 Each Award granted under the Plan shall be evidenced by a written Award Agreement, which shall be subject to and shall incorporate (by reference or otherwise) the applicable terms and conditions of the Plan and shall include any other terms and conditions (not inconsistent with the Plan) required by the Board.

3.6 The Company shall not be required to issue or deliver any certificates for shares of Common Stock under the Plan prior to:

- (a) any required approval of the Plan by the shareholders of the Company; and

- (b) the completion of any registration or qualification of such shares of Common Stock under any federal or state law, or any ruling or regulation of any governmental body that the Company shall, in its sole discretion, determine to be necessary or advisable.

3.7 The Board may require any Participant acquiring shares of Common Stock pursuant to any Award under the Plan to represent to and agree with the Company in writing that such person is acquiring the shares of Common Stock for investment purposes and without a view to resale or distribution thereof. Shares of Common Stock issued and delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed and any applicable federal or state laws, and the Board may cause a legend or legends to be placed on the certificate or certificates representing any such shares to make appropriate reference to any such restrictions. In making such determination, the Board may rely upon an opinion of counsel for the Company.

3.8 Except as otherwise expressly provided in the Plan or in an Award Agreement with respect to an Award, no Participant shall have any right as a shareholder of the Company with respect to any shares of Common Stock subject to such Participant's Award except to the extent that, and until, one or more certificates representing such shares of Common Stock shall have been delivered to the Participant. No shares shall be required to be issued, and no certificates shall be required to be delivered, under the Plan unless and until all of the terms and conditions applicable to such Award shall have, in the sole discretion of the Board, been satisfied in full and any restrictions shall have lapsed in full, and unless and until all of the requirements of law and of all regulatory bodies having jurisdiction over the offer and sale, or issuance and delivery, of the shares shall have been fully complied with.

3.9 The total amount of shares with respect to which Awards may be granted under the Plan and rights of outstanding Awards (both as to the number of shares subject to the outstanding Awards and the Option Price(s) or other purchase price(s) of such shares, as applicable) shall be appropriately adjusted for any increase or decrease in the number of outstanding shares of Common Stock of the Company resulting from payment of a stock dividend on the Common Stock, a stock split or subdivision or combination of shares of the Common Stock, or a reorganization or reclassification of the Common Stock, or any other change in the structure of shares of the Common Stock. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

3.10 No director or person acting pursuant to authority delegated by the Board shall be liable for any action or determination under the Plan made in good faith. The members of the Board shall be entitled to indemnification by the Company in the manner and to the extent set forth in the Company's Articles of Incorporation, as amended, Bylaws or as otherwise provided from time to time regarding indemnification of Directors.

3.11 The Board shall be authorized to make adjustments in any performance based criteria or in the other terms and conditions of outstanding Awards in recognition of unusual or nonrecurring events affecting the Company (or any Affiliate, if applicable) or its financial statements or changes in applicable laws, regulations or accounting principles. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem necessary or desirable to reflect any such adjustment. In the event the Company (or any Affiliate, if applicable) shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another corporation or business entity, the Board may, in its sole discretion, make such adjustments in the terms of outstanding Awards under the Plan as it shall deem appropriate.

3.12 Subject to the express provisions of the Plan, the Board shall have full power and authority to determine whether, to what extent and under what circumstances any outstanding Award shall be

terminated, canceled, forfeited or suspended. Notwithstanding the foregoing or any other provision of the Plan or an Award Agreement, all Awards to any Participant that are subject to any restriction or have not been earned or exercised in full by the Participant shall be terminated and canceled if the Participant is terminated for cause, as determined by the Board in its sole discretion.

ARTICLE IV -- INCENTIVE STOCK OPTIONS

4.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Incentive Stock Options to Eligible Employees, subject to the provisions of this Article IV and Articles III and VI and subject to the following conditions:

- (a) Incentive Stock Options shall be granted only to Eligible Employees, each of whom may be granted one or more of such Incentive Stock Options at such time or times determined by the Board.
- (b) The Option Price per share of Common Stock for an Incentive Stock Option shall be set in the Award Agreement, but shall not be less than (i) one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date, or (ii) in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the Grant Date.
- (c) An Incentive Stock Option may be exercised in full or in part from time to time within ten (10) years from the Grant Date, or such shorter period as may be specified by the Board as the Option Period and set forth in the Award Agreement; provided, however, that, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, such period shall not exceed five (5) years from the Grant Date; and further, provided that, in any event, the Incentive Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement; and provided, further, that such period shall not exceed the period of time ending on the date three (3) months following a Termination of Service, unless employment shall have terminated:
 - (i) as a result of Disability, in which event such period shall not exceed the period of time ending on the date twelve (12) months following a Termination of Service; or
 - (ii) as a result of death, or if death shall have occurred following a Termination of Service (other than as a result of Disability) and during the period that the Incentive Stock Option was still exercisable, in which event such period may not exceed the period of time ending on the earlier of the date twelve (12) months after the date of death;and provided, further, that such period following a Termination of Service or death shall in no event extend beyond the original Option Period of the Incentive Stock Option.
- (d) The aggregate Fair Market Value of the shares of Common Stock with respect to which any Incentive Stock Options (whether under this Plan or any other plan established by the Company) are first exercisable during any calendar year by any Eligible Employee shall not exceed one hundred thousand dollars (\$100,000), determined based on the Fair Market Value(s) of such shares as of their respective Grant Dates; provided, however, that to the extent permitted under Section 422 of the Code, if the aggregate Fair Market Values of the shares of Common Stock with respect to which Stock Options intended to

be Incentive Stock Options are first exercisable by any Eligible Employee during any calendar year (whether such Stock Options are granted under this Plan or any other plan established by the Company) exceed one hundred thousand dollars (\$100,000), the Stock Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonqualified Stock Options.

- (e) No Incentive Stock Options may be granted more than ten (10) years from the Effective Date.
- (f) The Award Agreement for each Incentive Stock Option shall provide that the Participant shall notify the Company if such Participant sells or otherwise transfers any shares of Common Stock acquired upon exercise of the Incentive Stock Option within two (2) years of the Grant Date of such Incentive Stock Option or within one (1) year of the date such shares were acquired upon the exercise of such Incentive Stock Option.

4.2 Subject to the limitations of Section 3.4, the maximum aggregate number of shares of Common Stock subject to Incentive Stock Option Awards shall be the maximum aggregate number of shares available for Awards under the Plan.

4.3 The Board may provide for any other terms and conditions which it determines should be imposed for an Incentive Stock Option to qualify under Section 422 of the Code, as well as any other terms and conditions not inconsistent with this Article IV or Articles III or VI, as determined in its sole discretion and set forth in the Award Agreement for such Incentive Stock Option.

4.4 Each provision of this Article IV and of each Incentive Stock Option granted hereunder shall be construed in accordance with the provisions of Section 422 of the Code, and any provision hereof that cannot be so construed shall be disregarded.

ARTICLE V -- NONQUALIFIED STOCK OPTIONS

5.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Nonqualified Stock Options to Eligible Persons, subject to the provisions of this Article V and Articles III and VI and subject to the following conditions:

- (a) Nonqualified Stock Options may be granted to any Eligible Person, each of whom may be granted one or more of such Nonqualified Stock Options, at such time or times determined by the Board.
- (b) The Option Price per share of Common Stock for a Nonqualified Stock Option shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date; provided, however, that the exercise price of each Nonqualified Stock Option granted under the Plan shall in no event be less than the par value per share of the Company's Common Stock.
- (c) A Nonqualified Stock Option may be exercised in full or in part from time to time within the Option Period specified by the Board and set forth in the Award Agreement; provided, however, that, in any event, the Nonqualified Stock Option shall lapse and cease to be exercisable upon a Termination of Service or within such period following a Termination of Service as shall have been determined by the Board and set forth in the related Award Agreement.

5.2 The Board may provide for any other terms and conditions for a Nonqualified Stock Option not inconsistent with this Article V or Articles III or VI, as determined in its sole discretion and set forth in the Award Agreement for such Nonqualified Stock Option.

ARTICLE VI -- INCIDENTS OF STOCK OPTIONS

6.1 Each Stock Option shall be granted subject to such terms and conditions, if any, not inconsistent with this Plan, as shall be determined by the Board and set forth in the related Award Agreement, including any provisions as to continued employment as consideration for the grant or exercise of such Stock Option and any provisions which may be advisable to comply with applicable laws, regulations or rulings of any governmental authority.

6.2 Except as hereinafter described, a Stock Option shall not be transferable by the Participant other than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Participant only by the Participant or the Participant's guardian or legal representative. In the event of the death of a Participant, any unexercised Stock Options may be exercised to the extent otherwise provided herein or in such Participant's Award Agreement by the executor or personal representative of such Participant's estate or by any person who acquired the right to exercise such Stock Options by bequest under the Participant's will or by inheritance. The Board, in its sole discretion, may at any time permit a Participant to transfer a Nonqualified Stock Option for no consideration to or for the benefit of one or more members of the Participant's Immediate Family (including, without limitation, to a trust for the benefit of the Participant and/or one or more members of such Participant's Immediate Family or a corporation, partnership or limited liability company established and controlled by the Participant and/or one or more members of such Participant's Immediate Family), subject to such limits as the Board may establish. The transferee of such Nonqualified Stock Option shall remain subject to all terms and conditions applicable to such Nonqualified Stock Option prior to such transfer. The foregoing right to transfer the Nonqualified Stock Option, if granted by the Board shall apply to the right to consent to amendments to the Award Agreement.

6.3 Shares of Common Stock purchased upon exercise of a Stock Option shall be paid for in such amounts, at such times and upon such terms as shall be determined by the Board, subject to limitations set forth in the Stock Option Award Agreement. The Board may, in its sole discretion, permit the exercise of a Stock Option by payment in cash or by tendering shares of Common Stock (either by actual delivery of such shares or by attestation), or any combination thereof, as determined by the Board. In the sole discretion of the Board, payment in shares of Common Stock also may be made with shares received upon the exercise or partial exercise of the Stock Option, whether or not involving a series of exercises or partial exercises and whether or not share certificates for such shares surrendered have been delivered to the Participant. The Board also may, in its sole discretion, permit the payment of the exercise price of a Stock Option by the voluntary surrender of all or a portion of the Stock Option. Shares of Common Stock previously held by the Participant and surrendered in payment of the Option Price of a Stock Option shall be valued for such purpose at the Fair Market Value thereof on the date the Stock Option is exercised.

6.4 The holder of a Stock Option shall have no rights as a shareholder with respect to any shares covered by the Stock Option (including, without limitation, any voting rights, the right to inspect or receive the Company's balance sheets or financial statements or any rights to receive dividends or non-cash distributions with respect to such shares) until such time as the holder has exercised the Stock Option and then only with respect to the number of shares which are the subject of the exercise. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

6.5 The Board may permit the voluntary surrender of all or a portion of any Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Stock Option for the same or a different number of shares of Common Stock as the Stock Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Stock Option to such Participant. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at such Option Price, during such Option Period and on such other terms and conditions as are specified by the Board at the time the new Stock Option is granted. Upon surrender, the Stock Options surrendered shall be canceled and the shares of Common Stock previously subject to them shall be available for the grant of other Stock Options.

6.6 The Board may at any time offer to purchase a Participant's outstanding Stock Option for a payment equal to the value of such Stock Option payable in cash, shares of Common Stock or Restricted

Stock or other property upon surrender of the Participant's Stock Option, based on such terms and conditions as the Board shall establish and communicate to the Participant at the time that such offer is made.

6.7 The Board shall have the discretion, exercisable either at the time the Award is granted or at the time the Participant discontinues employment, to establish as a provision applicable to the exercise of one or more Stock Options that, during a limited period of exercisability following a Termination of Service, the Stock Option may be exercised not only with respect to the number of shares of Common Stock for which it is exercisable at the time of the Termination of Service but also with respect to one or more subsequent installments for which the Stock Option would have become exercisable had the Termination of Service not occurred.

ARTICLE VII -- RESTRICTED STOCK

7.1 The Board, in its sole discretion, may from time to time on or after the Effective Date award shares of Restricted Stock to Eligible Persons as a reward for past service and an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this Article VII.

7.2 The Board shall determine the terms and conditions of any Award of Restricted Stock, which shall be set forth in the related Award Agreement, including without limitation:

- (a) the purchase price, if any, to be paid for such Restricted Stock, which may be zero, subject to such minimum consideration as may be required by applicable law;
- (b) the duration of the Restriction Period or Restriction Periods with respect to such Restricted Stock and whether any events may accelerate or delay the end of such Restriction Period(s);
- (c) the circumstances upon which the restrictions or limitations shall lapse, and whether such restrictions or limitations shall lapse as to all shares of Restricted Stock at the end of the Restriction Period or as to a portion of the shares of Restricted Stock in installments during the Restriction Period by means of one or more vesting schedules;
- (d) whether such Restricted Stock is subject to repurchase by the Company or to a right of first refusal at a predetermined price or if the Restricted Stock may be forfeited entirely under certain conditions;
- (e) whether any performance goals may apply to a Restriction Period to shorten or lengthen such period; and
- (f) whether dividends and other distributions with respect to such Restricted Stock are to be paid currently to the Participant or withheld by the Company for the account of the Participant.

7.3 Awards of Restricted Stock must be accepted within a period of thirty (30) days after the Grant Date (or such shorter or longer period as the Board may specify at such time) by executing an Award Agreement with respect to such Restricted Stock and tendering the purchase price, if any. A prospective recipient of an Award of Restricted Stock shall not have any rights with respect to such Award, unless such recipient has executed an Award Agreement with respect to such Restricted Stock, has delivered a fully executed copy thereof to the Board and has otherwise complied with the applicable terms and conditions of such Award.

7.4 In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Restricted Stock, all shares of Restricted Stock held by a Participant and still subject to restrictions shall be

forfeited by the Participant upon the Participant's Termination of Service and shall be reacquired, canceled and retired by the Company. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Restricted Stock, in the event of the death, Disability or Retirement of a Participant during the Restriction Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may elect to waive in whole or in part any remaining restrictions with respect to all or any part of such Participant's Restricted Stock, if it finds that a waiver would be appropriate.

7.5 Except as otherwise provided in this Article VII, no shares of Restricted Stock received by a Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

7.6 Upon an Award of Restricted Stock to a Participant, a certificate or certificates representing the shares of such Restricted Stock will be issued to and registered in the name of the Participant. Unless otherwise determined by the Board, such certificate or certificates will be held in custody by the Company until (i) the Restriction Period expires and the restrictions or limitations lapse, in which case one or more certificates representing such shares of Restricted Stock that do not bear a restrictive legend (other than any legend as required under applicable federal or state securities laws) shall be delivered to the Participant, or (ii) a prior forfeiture by the Participant of the shares of Restricted Stock subject to such Restriction Period, in which case the Company shall cause such certificate or certificates to be canceled and the shares represented thereby to be retired, all as set forth in the Participant's Award Agreement. It shall be a condition of an Award of Restricted Stock that the Participant deliver to the Company a stock power endorsed in blank relating to the shares of Restricted Stock to be held in custody by the Company.

7.7 Except as provided in this Article VII or in the related Award Agreement, a Participant receiving an Award of shares of Restricted Stock Award shall have, with respect to such shares, all rights of a shareholder of the Company, including the right to vote the shares and the right to receive any distributions, unless and until such shares are otherwise forfeited by such Participant; provided, however, the Board may require that any cash dividends with respect to such shares of Restricted Stock be automatically reinvested in additional shares of Restricted Stock subject to the same restrictions as the underlying Award, or may require that cash dividends and other distributions on Restricted Stock be withheld by the Company or its Affiliates for the account of the Participant. The Board shall determine whether interest shall be paid on amounts withheld, the rate of any such interest, and the other terms applicable to such withheld amounts.

ARTICLE VIII -- STOCK AWARDS

8.1 The Board, in its sole discretion, may from time to time on or after the Effective Date grant Stock Awards to Eligible Persons in payment of compensation that has been earned or as compensation to be earned, including without limitation compensation awarded or earned concurrently with or prior to the grant of the Stock Award, subject to the terms and conditions set forth in this Article VIII.

8.2 For the purposes of this Plan, in determining the value of a Stock Award, all shares of Common Stock subject to such Stock Award shall be set in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the Grant Date.

8.3 Unless otherwise determined by the Board and set forth in the related Award Agreement, shares of Common Stock subject to a Stock Award will be issued, and one or more certificates representing such shares will be delivered, to the Participant as soon as practicable following the Grant Date of such Stock Award. Upon the issuance of such shares and the delivery of one or more certificates representing such shares to the Participant, such Participant shall be and become a shareholder of the Company fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder of the Company. Notwithstanding any other provision of this Plan, unless the Board expressly provides otherwise with respect to a Stock Award, as set forth in the related Award Agreement, no Stock Award shall be deemed to be an outstanding Award for purposes of the Plan.

ARTICLE IX -- PERFORMANCE SHARES

9.1 The Board, in its sole discretion, may from time to time on or after the Effective Date award Performance Shares to Eligible Persons as an incentive for the performance of future services that will contribute materially to the successful operation of the Company and its Affiliates, subject to the terms and conditions set forth in this Article IX.

9.2 The Board shall determine the terms and conditions of any Award of Performance Shares, which shall be set forth in the related Award Agreement, including without limitation:

- (a) the purchase price, if any, to be paid for such Performance Shares, which may be zero, subject to such minimum consideration as may be required by applicable law;
- (b) the performance period (the "**Performance Period**") and/or performance objectives (the "**Performance Objectives**") applicable to such Awards;
- (c) the number of Performance Shares that shall be paid to the Participant if the applicable Performance Objectives are exceeded or met in whole or in part; and
- (d) the form of settlement of a Performance Share.

9.3 At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Common Stock.

9.4 Performance Periods may overlap, and Participants may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

9.5 Performance Objectives may vary from Participant to Participant and between Awards and shall be based upon such performance criteria or combination of factors as the Board may deem appropriate, including, but not limited to, minimum earnings per share or return on equity. If during the course of a Performance Period there shall occur significant events which the Board expects to have a substantial effect on the applicable Performance Objectives during such period, the Board may revise such Performance Objectives.

9.6 In the sole discretion of the Board and as set forth in the Award Agreement for an Award of Performance Shares, all Performance Shares held by a Participant and not earned shall be forfeited by the Participant upon the Participant's Termination of Service. Notwithstanding the foregoing, unless otherwise provided in an Award Agreement with respect to an Award of Performance Shares, in the event of the death, Disability or Retirement of a Participant during the applicable Performance Period, or in other cases of special circumstances (including hardship or other special circumstances of a Participant whose employment is involuntarily terminated), the Board may determine to make a payment in settlement of such Performance Shares at the end of the Performance Period, based upon the extent to which the Performance Objectives were satisfied at the end of such period and pro rated for the portion of the Performance Period during which the Participant was employed by the Company or an Affiliate; provided, however, that the Board may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Board deems appropriate or desirable.

9.7 The settlement of a Performance Share shall be made in cash, whole shares of Common Stock or a combination thereof and shall be made as soon as practicable after the end of the applicable Performance Period. Notwithstanding the foregoing, the Board in its sole discretion may allow a Participant to defer payment in settlement of Performance Shares on terms and conditions approved by the Board and set forth in the related Award Agreement entered into in advance of the time of receipt or constructive receipt of payment by the Participant.

9.8 Performance Shares shall not be transferable by the Participant. The Board shall have the authority to place additional restrictions on the Performance Shares including, but not limited to, restrictions on

transfer of any shares of Common Stock that are delivered to a Participant in settlement of any Performance Shares.

ARTICLE X -- CHANGES OF CONTROL OR OTHER FUNDAMENTAL CHANGES

10.1 Upon the occurrence of a Change of Control and unless otherwise provided in the Award Agreement with respect to a particular Award:

- (a) all outstanding Stock Options shall become immediately exercisable in full, subject to any appropriate adjustments in the number of shares subject to the Stock Option and the Option Price, and shall remain exercisable for the remaining Option Period, regardless of any provision in the related Award Agreement limiting the exercisability of such Stock Option or any portion thereof for any length of time;
- (b) all outstanding Performance Shares with respect to which the applicable Performance Period has not been completed shall be paid out as soon as practicable as follows:
 - (i) all Performance Objectives applicable to the Award of Performance Shares shall be deemed to have been satisfied to the extent necessary to earn one hundred percent (100%) of the Performance Shares covered by the Award;
 - (ii) the applicable Performance Period shall be deemed to have been completed upon occurrence of the Change of Control;
 - (iii) the payment to the Participant in settlement of the Performance Shares shall be the amount determined by the Board, in its sole discretion, or in the manner stated in the Award Agreement, as multiplied by a fraction, the numerator of which is the number of full calendar months of the applicable Performance Period that have elapsed prior to occurrence of the Change of Control, and the denominator of which is the total number of months in the original Performance Period; and
 - (iv) upon the making of any such payment, the Award Agreement as to which it relates shall be deemed terminated and of no further force and effect.
- (c) all outstanding shares of Restricted Stock with respect to which the restrictions have not lapsed shall be deemed vested, and all such restrictions shall be deemed lapsed and the Restriction Period ended.

10.2 Anything contained herein to the contrary notwithstanding, upon the dissolution or liquidation of the Company, each Award granted under the Plan and then outstanding shall terminate; provided, however, that following the adoption of a plan of dissolution or liquidation, and in any event prior to the effective date of such dissolution or liquidation, each such outstanding Award granted hereunder shall be exercisable in full and all restrictions shall lapse, to the extent set forth in Section 10.1(a), (b) and (c) above.

10.3 After the merger of one or more corporations into the Company or any Affiliate, any merger of the Company into another corporation, any consolidation of the Company or any Affiliate of the Company and one or more corporations, or any other corporate reorganization of any form involving the Company as a party thereto and involving any exchange, conversion, adjustment or other modification of the outstanding shares of the Common Stock, each Participant shall, at no additional cost, be entitled, upon any exercise of such Participant's Stock Option, to receive, in lieu of the number of shares as to which such Stock Option shall then be so exercised, the number and class of shares of stock or other securities or such other property to which such Participant would have been entitled to pursuant to the terms of the agreement of merger or consolidation or reorganization, if at the time of such merger or consolidation or reorganization, such Participant had been a holder of record of a number of shares of Common Stock equal to the number of shares as to which such Stock Option shall then be so exercised. Comparable rights shall accrue to each

Participant in the event of successive mergers, consolidations or reorganizations of the character described above. The Board may, in its sole discretion, provide for similar adjustments upon the occurrence of such events with regard to other outstanding Awards under this Plan. The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Board in its sole discretion. Any such adjustment may provide for the elimination of any fractional shares which might otherwise become subject to an Award. All adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Incentive Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

ARTICLE XI -- AMENDMENT AND TERMINATION

11.1 Subject to the provisions of Section 11.2, the Board of Directors at any time and from time to time may amend or terminate the Plan as may be necessary or desirable to implement or discontinue the Plan or any provision hereof. To the extent required by the Act or the Code, however, no amendment, without approval by the Company's shareholders, shall:

- (a) materially alter the group of persons eligible to participate in the Plan;
- (b) except as provided in Section 3.4, change the maximum aggregate number of shares of Common Stock that are available for Awards under the Plan;
- (c) alter the class of individuals eligible to receive an Incentive Stock Option or increase the limit on Incentive Stock Options set forth in Section 4.1(d) or the value of shares of Common Stock for which an Eligible Employee may be granted an Incentive Stock Option.

11.2 No amendment to or discontinuance of the Plan or any provision hereof by the Board of Directors or the shareholders of the Company shall, without the written consent of the Participant, adversely affect (in the sole discretion of the Board) any Award theretofore granted to such Participant under this Plan; provided, however, that the Board retains the right and power to:

- (a) annul any Award if the Participant is terminated for cause as determined by the Board; and
- (b) convert any outstanding Incentive Stock Option to a Nonqualified Stock Option.

11.3 If a Change of Control has occurred, no amendment or termination shall impair the rights of any person with respect to an outstanding Award as provided in Article X.

ARTICLE XII -- MISCELLANEOUS PROVISIONS

12.1 Nothing in the Plan or any Award granted hereunder shall confer upon any Participant any right to continue in the employ of the Company or its Affiliates or to serve as a Director or shall interfere in any way with the right of the Company or its Affiliates or the shareholders of the Company, as applicable, to terminate the employment of a Participant or to release or remove a Director at any time. Unless specifically provided otherwise, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Company or its Affiliates for the benefit of their respective employees unless the Company shall determine otherwise. No Participant shall have any claim to an Award until it is actually granted under the Plan and an Award Agreement has been executed and delivered to the Company. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Board, be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as provided in Article VII with respect to Restricted Stock and except as otherwise provided by the Board.

12.2 The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required. Any provision herein relating to compliance with Rule 16b-3 under the Act shall not be applicable with respect to participation in the Plan by Participants who are not subject to Section 16 of the Act.

12.3 The terms of the Plan shall be binding upon the Company, its successors and assigns.

12.4 Neither a Stock Option nor any other type of equity-based compensation provided for hereunder shall be transferable except as provided for in Section 6.2. In addition to the transfer restrictions otherwise contained herein, additional transfer restrictions shall apply to the extent required by federal or state securities laws. If any Participant makes such a transfer in violation hereof, any obligation hereunder of the Company to such Participant shall terminate immediately.

12.5 This Plan and all actions taken hereunder shall be governed by the laws of the State of Nevada.

12.6 Each Participant exercising an Award hereunder agrees to give the Board prompt written notice of any election made by such Participant under Section 83(b) of the Code, or any similar provision thereof.

12.7 If any provision of this Plan or an Award Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award Agreement under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award Agreement, it shall be stricken, and the remainder of the Plan or the Award Agreement shall remain in full force and effect.

12.8 The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company or any of its Affiliates to make adjustments, reclassification, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or to dissolve, liquidate or sell, or to transfer all or part of its business or assets.

12.9 The Plan is not subject to the provisions of ERISA or qualified under Section 401(a) of the Code.

12.10 If a Participant is required to pay to the Company an amount with respect to income and employment tax withholding obligations in connection with (i) the exercise of a Nonqualified Stock Option, (ii) certain dispositions of Common Stock acquired upon the exercise of an Incentive Stock Option, or (iii) the receipt of Common Stock pursuant to any other Award, then the issuance of Common Stock to such Participant shall not be made (or the transfer of shares by such Participant shall not be required to be effected, as applicable) unless such withholding tax or other withholding liabilities shall have been satisfied in a manner acceptable to the Company. To the extent provided by the terms of an Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended March 31, 2011

or

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

Commission File Number: 1-32508

LUCAS ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada **98-0417780**
(State of other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3550 Timmons Lane, Suite 1550, Houston, Texas 77027
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: 713-528-1881

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---------------------------------|--|
| Common Stock, \$0.001 par value | NYSE AMEX |

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Common Stock aggregate market value held by non-affiliates as of September 30, 2010: \$19,234,838.

There were 16,835,813 shares of the registrant's common stock outstanding as of June 15, 2011.

Documents incorporated by reference: none.

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SIGNATURES

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). These forward-looking statements are generally located in the material set forth under the headings “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business”, “Properties” but may be found in other locations as well. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, among others,

- our growth strategies;
- anticipated trends in our business;
- our ability to make or integrate acquisitions; our liquidity and ability to finance our exploration, acquisition and development strategies;
- market conditions in the oil and gas industry; the timing, cost and procedure for proposed acquisitions;
- the impact of government regulation;
- estimates regarding future net revenues from oil and natural gas reserves and the present value thereof; planned capital expenditures (including the amount and nature thereof);
- increases in oil and gas production; the number of wells we anticipate drilling in the future;
- estimates, plans and projections relating to acquired properties; the number of potential drilling locations; and
- our financial position, business strategy and other plans and objectives for future operations.

We identify forward-looking statements by use of terms such as “may,” “will,” “expect,” “anticipate,” “estimate,” “hope,” “plan,” “believe,” “predict,” “envision,” “intend,” “will,” “continue,” “potential,” “should,” “confident,” “could” and similar words and expressions, although some forward-looking statements may be expressed differently. You should be aware that our actual results could differ materially from those contained in the forward-looking statements. You should consider carefully the statements under the “Risk Factors” section of this report and other sections of this report which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, and the following factors:

- the possibility that our acquisitions may involve unexpected costs;
- the volatility in commodity prices for oil and gas;
- the accuracy of internally estimated proved reserves;
- the presence or recoverability of estimated oil and gas reserves; the ability to replace oil and gas reserves;
- the availability and costs of drilling rigs and other oilfield services;
- environmental risks; exploration and development risks;
- competition;
- the inability to realize expected value from acquisitions;
- the ability of our management team to execute its plans to meet its goals; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our businesses, operations and pricing.

Forward-looking statements speak only as of the date of this report or the date of any document incorporated by reference in this report. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS.

General

Lucas Energy, Inc., a Nevada corporation, is an emerging independent oil and gas company based in Houston, Texas. Lucas Energy, Inc. together with its subsidiary, Lucas Energy Resources, Inc. (collectively, the "Company," "Lucas," "Lucas Energy," or "we") explores for, develops, produces and markets crude oil and natural gas from various known prolific and productive geological formations, including the Austin Chalk, Eagle Ford and Buda Formations, primarily in Gonzales, Wilson, Karnes and Atascosa Counties south of the City of San Antonio in South Texas and McKinley County, New Mexico. Incorporated in Nevada in December 2003 under the name Panorama Investments Corp., the Company changed its name to Lucas Energy, Inc. effective June 9, 2006. At that time, the shareholders of the Company also approved amendments to the Articles of Incorporation resulting in a 2.4 for 1 stock split of the Company's common stock. Our goal is to become a recognized player in the development and production of crude oil and natural gas in established oil fields.

The Company's strategy is twofold:

- We focus on building and developing a portfolio of oil and gas assets by acquiring what we believe are undervalued, underdeveloped and underperforming properties, and for which we believe we can increase production economically and profitably. We do not operate on land not known to be a productive field; that is, we do not drill wildcat wells.
- To efficiently pave the way towards growth, we enter into joint ventures, farm-outs and drilling arrangements with select and reputable oil and gas companies to exploit the productive geological formations in our properties.

Lucas Energy's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are made available, free of charge, through Lucas Energy's website, as soon as reasonably practicable after such reports have been filed with the United States Securities and Exchange Commission (SEC). Our website address is <http://www.lucasenergy.com>. Our fiscal year ends on the last day of March of the calendar year. We refer to the twelve-month period ended March 31, 2011 as our 2011 fiscal year.

At March 31, 2011, the Company's total gross surface developed and undeveloped acreage in the State of Texas approximated 19,900 acres and total net developed and undeveloped acreage as measured from the land surface to the bottom of the Austin Chalk Formation approximated 14,900 acres and from the base of the Austin Chalk downward approximated 4,600 acres. The Eagle Ford formation can be found in approximately 4,400 net acres of the total net acreage below the Austin Chalk. At March 31, 2011, the Company's total developed and undeveloped acreage in the State of New Mexico approximated 13,705 acres gross and 1,036 acres net. We currently operate 56 producing wells in the State of Texas that produce approximately 155 to 170 barrels of oil per day (BOPD), gross, and 115 to 130 BOPD, net. The ratio between the gross and net production varies from period to period as we have different working interests and net revenue interests in different wells. An affiliate of Hilcorp Energy Corporation operates two Eagle Ford horizontal wells, in each of which we have an 11% net revenue interest. The wells exhibited initial production of approximately 1,000 gross BOPD. We expect the two wells to average approximately 400 gross BOPD, or 44 net BOPD to Lucas, for the rest of the calendar year. Our oil production sales totaled 39,143 barrels of oil equivalent, net to our interest for our fiscal year ended March 31, 2011. We operate a

majority of our oil and gas properties. Our working and royalty interests vary at different fields and for different formations in our oil and gas properties.

At March 31, 2011, Lucas Energy's total estimated net proved reserves were 2.9 million barrels of oil equivalent (Boe), of which 2.8 million barrels (Bbls) were crude oil reserves, and 843.2 million cubic feet (MMcf) were natural gas reserves, and Lucas Energy's total estimated net probable reserves were 1.5 million barrels of oil equivalent (Boe), of which 1.3 million Bbls were crude oil reserves, and 809.6 MMcf were natural gas reserves (see Supplemental Information to Consolidated Financial Statements). As of March 31, 2011, Lucas employed 12 full-time employees. We also utilized about 10 contractors on an "as-needed" basis to carry out various functions of the Company, including but not limited to field operations, land administration and information technology maintenance. With the successful implementation of our business plan, we may seek additional employees.

Industry Segments

Lucas Energy's operations are all crude oil and natural gas exploration and production related.

Operations and Oil and Gas Properties

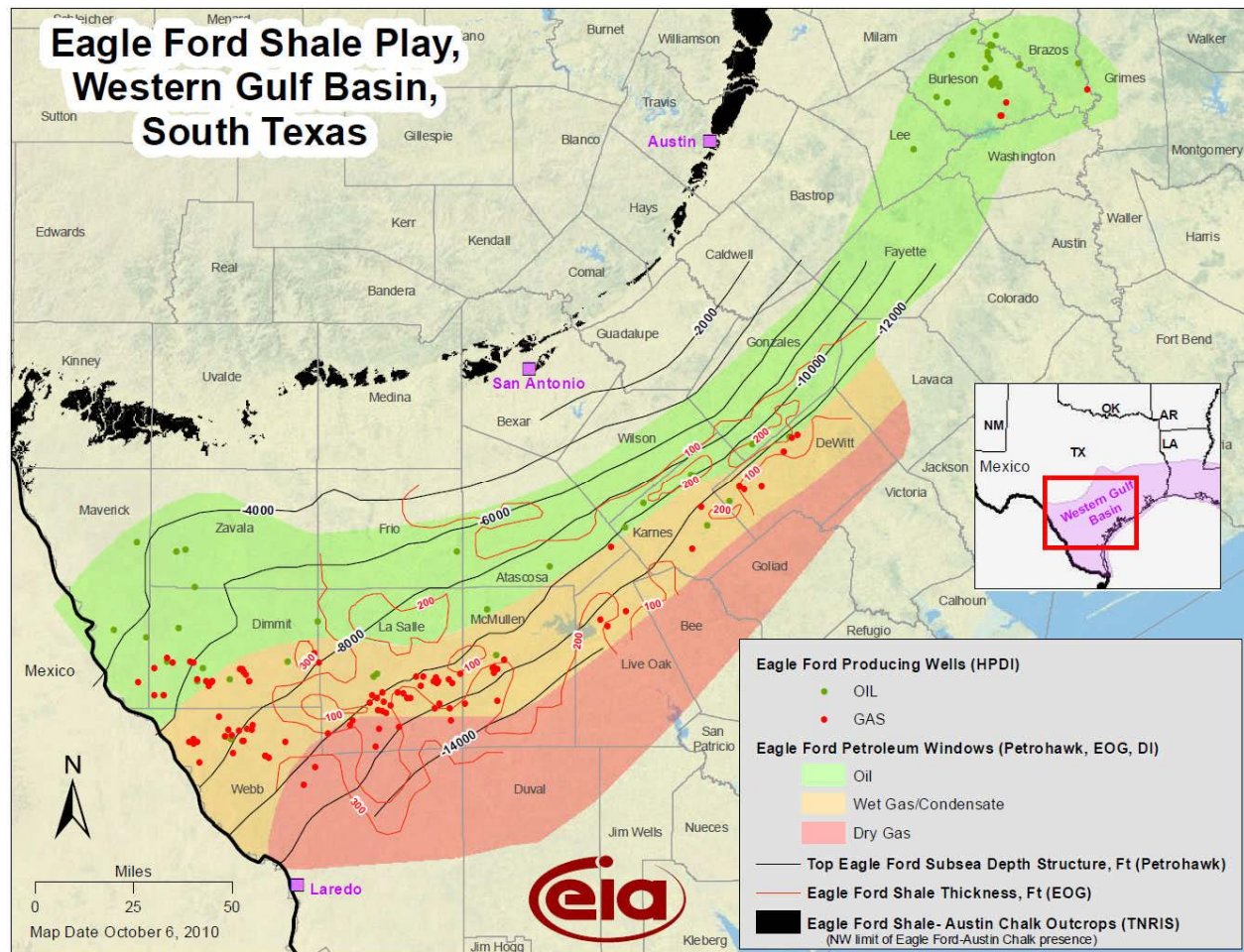
We operate in known productive areas; that is, we do not drill wildcat wells. Our holdings are found in a broad area of current industry activity in Gonzales, Wilson, Karnes and Atascosa Counties in Texas and McKinley County in New Mexico. In Texas, we concentrate on three vertically adjacent target formations: Austin Chalk, Eagle Ford, and Buda, listed in the order of increasing depth measuring from the land surface. Activity in this area has been uninterrupted since the late 1970's. The recent development of the Eagle Ford as a high potential producing zone has heightened industry interest and success. Lucas's acreage position is in the oil window of the Eagle Ford play. Lucas has logged the Eagle Ford, as well as the Austin and Buda, in multiple wells with modern technology shale logs. This advanced tool and analytical procedure allows detailed evaluation of the Eagle Ford formation. Lucas has successfully logged and tested several vertical wells in the Eagle Ford, and will include horizontal development drilling of the Eagle Ford in our future operations.

Austin Chalk

The Company's original activity started in Gonzales County by acquiring existing shut-in and stripper wells and improving production from those wells. Most of the wells had produced from the Austin Chalk. Our original approach was to open more of the Austin Chalk to the wellbore by drilling deeper into the formation and re-stimulating these wells. The Austin Chalk is a dense limestone, varying in thickness along its trend from approximately 200 feet to more than 800 feet. It produces by virtue of localized, highly-fractured intervals within the formation; and seismic data can be used to help identify these fractured zones. After discovery and development of the Austin Chalk formation in the Pearsall area in the 1950's, the Giddings field was rapidly exploited in the 1970's, which eventually expanded to include a long, narrow trend which extends from the Texas-Mexico border up through northeast Texas into Louisiana. Original drilling was done with vertical holes, but the current horizontal drilling techniques have greatly expanded development. We employ horizontal drilling in our ongoing Austin Chalk development.

Eagle Ford

Drilling activities by other operators over the recent years and the improvement in horizontal drilling, well stimulation, and completion technologies, have brought the Eagle Ford play to prominence as one of the foremost plays in the United States today. A few of the more active companies in this play include Apache Corporation, ConocoPhillips, EOG Resources, Inc., PetroHawk Energy, and Pioneer Natural Resources. Initial results have been very promising and the area has good industry infrastructure and capacity.



(source: U.S. Energy Information Administration)

On Lucas's leases, the Eagle Ford is a shale-like limestone with a high content of organic shale matter that directly underlies the Austin Chalk and is believed to be the primary source of oil and gas produced from the Austin Chalk. Reservoir thickness varies from approximately 80 feet in the shallower portions of the trend to more than 300 feet in the deeper areas. One of the more notable Eagle Ford producers is the #1 Domingo Torres well, originally completed in the Eagle Ford in 1977. This vertical well is positioned among Lucas's Gonzales County leases and has produced more than 140,000 barrels of oil.

Buda

The Buda limestone directly underlies the Eagle Ford. Its thickness varies from approximately 100 feet to more than 150 feet in this area. The Buda produces from natural fractures and matrix porosity and is prospective across this whole area. There are a number of Buda wells with cumulative production of more than 100,000 barrels of oil. Lucas has re-completed wells which previously produced from the Buda, and deepened and successfully completed other wells in the Buda. Future development plans include more of this type of activity in both vertical and horizontal wells.

Marketing

We operate exclusively in the United States oil and gas industry. Crude oil production sales are made directly to GulfMark Energy, Inc. and Texon LP. Our sales are made on a month-to-month basis, and title transfer occurs at an individual property's tank battery when the oil is loaded onto the purchaser's truck. Crude oil prices realized from production sales are indexed to published West Texas intermediate crude indexes.

Our natural gas production is associated gas resulting from crude oil production and is currently nominal. Natural gas is sold to Houston Pipeline Company on a month-to-month basis.

Although we believe that we are not dependent upon any one customer, our marketing arrangement with GulfMark accounted for approximately 91% and 87% of our revenue for the years ended March 31, 2011 and 2010, respectively. In the event that GulfMark is unwilling or unable to purchase our crude oil production, we believe alternative purchasers are readily available and sales would occur at competitive market prices.

We actively manage our crude oil inventory in field tanks and have engaged a local logistics company to expedite the trucking of oil in the tanks to market.

Competition

We are in direct competition for properties with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of Texas and elsewhere. Many competitors are large, well-known oil and gas and/or energy companies, although no single entity dominates the industry. Many of our competitors possess greater financial and personnel resources, enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than us. Additionally, there is competition from other fuel choices to supply the energy needs of consumers and industry. Management believes that there exists a viable marketplace for smaller producers of natural gas and oil.

Regulation

Lucas Energy's operations are subject to various types of regulation at the federal, state and local levels. These regulations include requiring permits for the drilling of wells; maintaining hazard prevention, health and safety plans; submitting notification and receiving permits related to the presence, use and release of certain materials incidental to oil and gas operations; and regulating the location of wells, the method of drilling and casing wells, the use, transportation, storage and disposal of fluids and materials used in connection with drilling and production activities, surface plugging and abandonment of wells and the transporting of production. Lucas Energy's operations are also subject to various conservation matters, including the number of wells which may be drilled in a unit, and the unitization or pooling of oil and gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration, while other states rely on voluntary pooling of lands and leases, which may make it more difficult to develop oil and gas properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally limit the venting or flaring of gas, and impose certain requirements regarding the ratable purchase of production. The effect of these regulations is to possibly limit the amounts of oil and gas Lucas can produce from its wells and to limit the number of wells or the locations at which Lucas Energy can drill.

In the United States, legislation affecting the oil and gas industry has been pervasive and is under constant review for amendment or expansion. Pursuant to such legislation, numerous federal, state and local

departments and agencies have issued extensive rules and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for failure to comply. These laws and regulations have a significant impact on oil and gas drilling, gas processing plants and production activities, increasing the cost of doing business and, consequently, affect profitability. Inasmuch as new legislation affecting the oil and gas industry is common-place and existing laws and regulations are frequently amended or reinterpreted, Lucas Energy may be unable to predict the future cost or impact of complying with these laws and regulations. Lucas Energy considers the cost of environmental protection a necessary and manageable part of its business. Lucas Energy has been able to plan for and comply with new environmental initiatives without materially altering its operating strategies.

Other Matters

Environmental. Our exploration, development, and production of oil and gas, including our operation of saltwater injection and disposal wells, are subject to various federal, state and local environmental laws and regulations. Such laws and regulations can increase the costs of planning, designing, installing and operating oil and gas wells. Our domestic activities are subject to a variety of environmental laws and regulations, including but not limited to, the Oil Pollution Act of 1990 (OPA), the Clean Water Act (CWA), the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), the Clean Air Act (CAA), and the Safe Drinking Water Act (SDWA), as well as state regulations promulgated under comparable state statutes. We are also subject to regulations governing the handling, transportation, storage, and disposal of naturally occurring radioactive materials that are found in our oil and gas operations. Civil and criminal fines and penalties may be imposed for non-compliance with these environmental laws and regulations. Additionally, these laws and regulations require the acquisition of permits or other governmental authorizations before undertaking certain activities, limit or prohibit other activities because of protected areas or species, and impose substantial liabilities for cleanup of pollution.

Under the OPA, a release of oil into water or other areas designated by the statute could result in the company being held responsible for the costs of remediating such a release, certain OPA specified damages, and natural resource damages. The extent of that liability could be extensive, as set forth in the statute, depending on the nature of the release. A release of oil in harmful quantities or other materials into water or other specified areas could also result in the company being held responsible under the CWA for the costs of remediation, and civil and criminal fines and penalties.

CERCLA and comparable state statutes, also known as "Superfund" laws, can impose joint and several and retroactive liability, without regard to fault or the legality of the original conduct, on certain classes of persons for the release of a "hazardous substance" into the environment. In practice, cleanup costs are usually allocated among various responsible parties. Potentially liable parties include site owners or operators, past owners or operators under certain conditions, and entities that arrange for the disposal or treatment of, or transport hazardous substances found at the site. Although CERCLA, as amended, currently exempts petroleum, including but not limited to, crude oil, gas and natural gas liquids, from the definition of hazardous substance, our operations may involve the use or handling of other materials that may be classified as hazardous substances under CERCLA. Furthermore, there can be no assurance that the exemption will be preserved in future amendments of the act, if any.

RCRA and comparable state and local requirements impose standards for the management, including treatment, storage, and disposal, of both hazardous and non-hazardous solid wastes. We generate hazardous and non-hazardous solid waste in connection with our routine operations. From time to time, proposals have been made that would reclassify certain oil and gas wastes, including wastes generated during drilling, production and pipeline operations, as "hazardous wastes" under RCRA, which would make such solid wastes subject to much more stringent handling, transportation, storage, disposal, and clean-up requirements.

This development could have a significant impact on our operating costs. While state laws vary on this issue, state initiatives to further regulate oil and gas wastes could have a similar impact. Because oil and gas exploration and production, and possibly other activities, have been conducted at some of our properties by previous owners and operators, materials from these operations remain on some of the properties and in some instances, require remediation. In addition, in certain instances, we have agreed to indemnify sellers of producing properties from which we have acquired reserves against certain liabilities for environmental claims associated with such properties. While we do not believe that costs to be incurred by us for compliance and remediating previously or currently owned or operated properties will be material, there can be no guarantee that such costs will not result in material expenditures.

Additionally, in the course of our routine oil and gas operations, surface spills and leaks, including casing leaks, of oil or other materials occur, and we incur costs for waste handling and environmental compliance. Moreover, we are able to control directly the operations of only those wells for which we act as the operator. Management believes that the Company is in substantial compliance with applicable environmental laws and regulations.

In response to liabilities associated with these activities, accruals have been established when reasonable estimates are possible. Such accruals primarily include estimated costs associated with remediation. Lucas Energy has used discounting to present value in determining its accrued liabilities for environmental remediation or well closure, but no material claims for possible recovery from third party insurers or other parties related to environmental costs have been recognized in Lucas Energy's financial statements. Lucas Energy adjusts the accruals when new remediation responsibilities are discovered and probable costs become estimable, or when current remediation estimates must be adjusted to reflect new information.

We do not anticipate being required in the near future to expend amounts that are material in relation to our total capital expenditures program by reason of environmental laws and regulations, but inasmuch as such laws and regulations are frequently changed, we are unable to predict the ultimate cost of compliance. There can be no assurance that more stringent laws and regulations protecting the environment will not be adopted or that we will not otherwise incur material expenses in connection with environmental laws and regulations in the future.

Occupational Health and Safety. Lucas Energy is also subject to laws and regulations concerning occupational safety and health. Due to the continued changes in these laws and regulations, and the judicial construction of many of them, Lucas Energy is unable to predict with any reasonable degree of certainty its future costs of complying with these laws and regulations. Lucas Energy considers the cost of safety and health compliance a necessary and manageable part of its business. Lucas Energy has been able to plan for and comply with new initiatives without materially altering its operating strategies.

Taxation. The operations of the Company, as is the case in the petroleum industry generally, are significantly affected by federal tax laws. Federal, as well as state, tax laws have many provisions applicable to corporations which could affect the future tax liabilities of the Company.

Commitments and Contingencies. Lucas Energy is liable for future restoration and abandonment costs associated with its oil and gas properties. These costs include future site restoration, post closure and other environmental exit costs. The costs of future restoration and well abandonment have not been determined in detail. State regulations require operators to post bonds that assure that well sites will be properly plugged and abandoned. Each state in which Lucas Energy operates requires a security bond varying in value from state to state and depending on the number of wells that Lucas Energy operates in that state. Management views this as a necessary requirement for operations within each state and does not

believe that these costs will have a material adverse effect on its financial position as a result of this requirement.

ITEM 1A. RISK FACTORS.

Before making an investment decision, you should consider the “Risk Factors” set forth below. The market or trading price of our securities could decline due to any of these risks. In addition, please read “Cautionary Note Regarding Forward-Looking Statements” in this filing, where we describe additional uncertainties associated with our business and the forward-looking statements included or incorporated by reference in this filing. Please note that additional risks not currently known to us or that we currently deem immaterial may also impair our business and operations.

Our securities should only be purchased by persons who can afford to lose their entire investment in us. You should carefully consider the following risk factors and other information in this filing before deciding to become a holder of our securities. If any of the following risks actually occur, our business and financial results could be negatively affected to a significant extent.

Risks Relating to Our Business

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

Our revenues, operating results, profitability, cash flow, future rate of growth and ability to borrow funds or obtain additional capital, as well as the carrying value of our oil and gas properties, are substantially dependent upon prevailing prices of crude oil and natural gas. Lower crude oil and natural gas prices also may reduce the amount of crude oil and natural gas that we can produce economically. Historically, the markets for crude oil and natural gas have been very volatile, and such markets are likely to continue to be volatile in the future. Prices for crude oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control, including: worldwide and domestic supplies of crude oil and natural gas; the level of consumer product demand; weather conditions and natural disasters; domestic and foreign governmental regulations; the price and availability of alternative fuels; political instability or armed conflict in oil producing regions; the price and level of foreign imports; and overall domestic and global economic conditions.

It is extremely difficult to predict future crude oil and natural gas price movements with any certainty. Declines in crude oil and natural gas prices may materially adversely affect our financial condition, liquidity, ability to finance planned capital expenditures and results of operations. Further, oil and gas prices do not move in tandem.

We have a limited operating history, and we may not be able to operate profitably in the near future, if at all.

We have a limited operating history and businesses such as ours, which are starting up or in the initial stages of development, present substantial business and financial risks and may suffer significant losses from which we cannot recover. We will face all of the challenges of a new business enterprise, including but not limited to, locating and successfully developing oil and gas properties, engaging the services of qualified support personnel and consultants, establishing budgets and implementing appropriate financial controls and internal operating policies and procedures. We will need to attract and retain a number of key employees and other service personnel.

We have limited operating capital.

While we believe that we have sufficient cash on hand and cash flow from operations to fund recurring production operating expenses and general and administrative requirements, over the longer term we may not. The amount of capital available to us is limited, and may not be sufficient to enable us to fully execute our capital expenditure program and growth initiatives without additional funding sources. Additional financing may also be required to achieve our objectives and provide working capital for organizational infrastructure developments necessary to achieve our growth plans and reach a level of oil and gas operating activities that allows us to take advantage of certain economies of scale inherent to our business which would provide us the ability to reduce costs on a per unit of production basis. There can be no assurance that we will be able to obtain such financing on attractive terms, if at all. We have no firm commitments for additional cash funding other than the amount we may receive in connection with the exercise of the Series C Warrants (as described below under “The outstanding Series C Warrants are only required to be exercised and the Company can only force the exercise of such warrants if certain conditions provided in such warrants are met”).

We may not be able to operate profitably in the near future, if at all.

We will face all of the challenges of a smaller microcap oil and natural gas company that operates in a highly competitive industry, including but not limited to: locating, acquiring and successfully developing oil and gas properties; raising financing to fund our capital expenditure program; attracting, engaging and retaining the services of qualified management, technical and support personnel; establishing budgets and maintaining internal operating policies and procedures; and the design and implementation of effective financial and disclosure controls to meet public company statutory compliance requirements. We can provide no assurance that we will achieve a level of profitability that will provide a return on invested capital or that will result in an increase in the market value of our securities. Accordingly, we are subject to the risk that, because of these factors and other general business risks noted throughout these “Risk Factors,” we may, in particular, not be able to profitably execute our plan of operation.

We require financing to execute our business plan and fund capital program requirements.

We believe that our current cash reserves, together with anticipated cash flow from operations, will be sufficient to meet our working capital and operating needs for approximately the next twelve months. However, to continue growth and to fund our business and expansion plans, we will require additional financing. The amount of capital available to us is limited, and may not be sufficient to enable us to fully execute our growth plans without additional fund raising. Additional financing may be required to meet our desired growth and strategic objectives and to provide more working capital for expanding our development and marketing capabilities and to achieve our ultimate plan of expansion and a larger scale of operations. There can be no assurance that we will be able to obtain such financing on attractive terms, if at all. We have no firm commitments for additional cash funding as of the date of this report.

We do not intend to pay dividends to our shareholders.

We do not currently intend to pay cash dividends on our common stock and do not anticipate paying any dividends at any time in the foreseeable future. At present, we will follow a policy of retaining all of our earnings, if any, to finance development and expansion of our business.

Our officers and directors have limited liability, and we are required in certain instances to indemnify our officers and directors for breaches of their fiduciary duties.

We have adopted provisions in our Articles of Incorporation and Bylaws which limit the liability of our officers and directors and provide for indemnification by us of our officers and directors to the full extent permitted by Nevada corporate law. Our articles generally provide that our officers and directors shall have no personal liability to us or our shareholders for monetary damages for breaches of their fiduciary duties as directors, except for breaches of their duties of loyalty, acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, acts involving unlawful payment of dividends or unlawful stock purchases or redemptions, or any transaction from which a director derives an improper personal benefit. Such provisions substantially limit our shareholders' ability to hold officers and directors liable for breaches of fiduciary duty, and may require us to indemnify our officers and directors.

We face intense competition.

We are in direct competition for properties with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of Texas and elsewhere. Many competitors are large, well-known oil and gas and/or energy companies, although no single entity dominates the industry. Many of our competitors possess greater financial and personnel resources enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than us. Additionally, there is competition from other fuel choices to supply the energy needs of consumers and industry. Management believes that a viable market place exists for smaller producers of natural gas and crude oil.

We depend significantly upon the continued involvement of our present management.

Our success depends to a significant degree upon the involvement of our management, who are in charge of our strategic planning and operations. We may need to attract and retain additional talented individuals in order to carry out our business objectives. The competition for such persons could be intense and there are no assurances that these individuals will be available to us.

Our business is subject to extensive regulation.

As many of our activities are subject to federal, state and local regulation, and as these rules are subject to constant change or amendment, there can be no assurance that our operations will not be adversely affected by new or different government regulations, laws or court decisions applicable to our operations.

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

Crude oil and natural gas operations are subject to extensive federal, state and local government regulations, which may be changed from time to time. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of crude oil and natural gas wells below actual production capacity in order to conserve supplies of crude oil and natural gas. There are federal, state and local laws and regulations primarily relating to protection of human health and the environment applicable to the development, production, handling, storage, transportation and disposal of crude oil and natural gas, byproducts thereof and other substances and materials produced or used in connection with crude oil and natural gas operations. In addition, we may inherit liability for environmental damages caused by previous owners of property we purchase or lease. As a result, we may incur substantial liabilities to third parties or governmental entities. The implementation of new, or the modification of existing, laws or regulations could have a material adverse effect on us.

Future increases on taxes on energy products, energy service companies and exploration activities may adversely affect our results of operations and increase our operating expenses.

Federal, state and local governments have jurisdiction in areas where the Company operates and impose taxes on the oil and natural gas products sold by the Company. Recently there have been discussions by federal, state and local officials concerning a variety of energy tax proposals, some of which, if passed, would add or increase taxes on energy products, service companies and exploration activities. Such matters are beyond the Company's ability to accurately predict or control; however, any such increase in taxes or additional taxes levied on the Company by federal, state or local jurisdictions could adversely affect our results of operations and/or increase our operating expenses.

Certain U.S. federal income tax deductions currently available with respect to oil and gas exploration and development may be eliminated as a result of future legislation.

The current administration has proposed legislation that would, if enacted into law, make significant changes to United States tax laws, including the elimination of certain key U.S. federal income tax incentives currently available to oil and natural gas exploration and production companies. These proposed changes include, but are not limited to: (1) the repeal of the percentage depletion allowance for oil and natural gas properties, (2) the elimination of current deductions for intangible drilling and development costs, (3) the elimination of the deduction for certain domestic production activities, and (4) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear whether any such changes will be enacted into law or how soon any such changes could become effective in the event they were enacted into law. The passage of any legislation as a result of these proposals or any other changes in U.S. federal income tax laws could eliminate certain tax deductions that are currently available with respect to oil and gas exploration and development activities undertaken by the Company, and any such changes could negatively affect our financial condition and results of operations.

The crude oil and natural gas reserves we report in our SEC filings are estimates and may prove to be inaccurate.

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

The SEC has historically prohibited us from including "probable reserves" and "possible reserves" in statutory public filings; however, in addition to permitting us to disclose proved reserve estimates, effective January 1, 2010, the SEC allows us to report "probable" and "possible" reserves realizing that both reserve categories are considered unproved reserves and as such, the SEC views the estimates to be inherently

unreliable. Probable and possible reserve estimates may be misunderstood or seen as misleading to investors that are not “experts” in the oil or natural gas industry. Unless you have such expertise, you should not place undue reliance on these estimates. Except as required by applicable law, we undertake no duty to update this information and do not intend to update this information.

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

Our growth will be materially dependent upon the success of our future development program. Drilling for crude oil and natural gas and reworking existing wells involves numerous risks, including the risk that no commercially productive crude oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is substantial and uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors beyond our control, including: unexpected drilling conditions; pressure or irregularities in formations; equipment failures or accidents; inability to obtain leases on economic terms, where applicable; adverse weather conditions and natural disasters; compliance with governmental requirements; and shortages or delays in the availability of drilling rigs or crews and the delivery of equipment.

Drilling or reworking is a highly speculative activity. Even when fully and correctly utilized, modern well completion techniques such as hydraulic fracturing and horizontal drilling do not guarantee that we will find crude oil and/or natural gas in our wells. 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. Horizontal drilling involves drilling horizontally out from an existing vertical well bore, thereby potentially increasing the area and reach of the well bore that is in contact with the reservoir. Our future drilling activities may not be successful and, if unsuccessful, such failure would have an adverse effect on our future results of operations and financial condition. We cannot assure you that our overall drilling success rate or our drilling success rate for activities within a particular geographic area will not decline. We may identify and develop prospects through a number of methods, some of which do not include lateral drilling or hydraulic fracturing, and some of which may be unproven. The drilling and results for these prospects may be particularly uncertain. Our drilling schedule may vary from our capital budget. The final determination with respect to the drilling of any scheduled or budgeted prospects will be dependent on a number of factors, including, but not limited to: the results of previous development efforts and the acquisition, review and analysis of data; the availability of sufficient capital resources to us and the other participants, if any, for the drilling of the prospects; the approval of the prospects by other participants, if any, after additional data has been compiled; economic and industry conditions at the time of drilling, including prevailing and anticipated prices for crude oil and natural gas and the availability of drilling rigs and crews; our financial resources and results; the availability of leases and permits on reasonable terms for the prospects; and the success of our drilling technology.

We cannot assure you that these projects can be successfully developed or that the wells discussed will, if drilled, encounter reservoirs of commercially productive crude oil or natural gas. There are numerous uncertainties in estimating quantities of proved reserves, including many factors beyond our control.

Because of the speculative nature of oil and gas exploration and development, there is substantial risk that we will not find any commercially exploitable oil or gas and that our business will fail.

The search for commercial quantities of oil as a business is extremely risky. We cannot provide investors with any assurance that we will be able to obtain rights to additional producing properties in the future and/or that any properties we obtain rights to will contain commercially exploitable quantities of oil

and/or gas. Future exploration and development expenditures made by us, if any, may not result in the discovery of commercial quantities of oil and/or gas in any future properties we may acquire the rights to, and problems such as unusual or unexpected formations and other conditions involved in oil and gas exploration often result in unsuccessful exploration efforts. If we are unable to find commercially exploitable quantities of oil and gas in any properties we may acquire in the future, and/or we are unable to commercially extract such quantities we may find in any properties we may acquire in the future, the value of our securities may decline in value.

Because of the inherent dangers involved in oil and gas exploration, there is a risk that we may incur liability or damages as we conduct our business operations, which could force us to expend a substantial amount of money in connection with litigation and/or a settlement.

The oil and natural gas business involves a variety of operating hazards and risks such as well blowouts, pipe failures, casing collapse, explosions, uncontrollable flows of oil, natural gas or well fluids, fires, spills, pollution, releases of toxic gas and other environmental hazards and risks. These hazards and risks could result in substantial losses to us from, among other things, injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations. In addition, we may be liable for environmental damages caused by previous owners of property purchased and leased by us in the future. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate the funds available for the purchase of properties and/or property interests, exploration, development or acquisitions or result in the loss of our properties and/or force us to expend substantial monies in connection with litigation or settlements. As such, there can be no assurance that any insurance we currently maintain or that we obtain in the future will be adequate to cover any losses or liabilities. We cannot predict the availability of insurance or the availability of insurance at premium levels that justify our purchase. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect our financial condition and operations. We may elect to self-insure if management believes that the cost of insurance, although available, is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations, which could lead to any investment in us declining in value or becoming worthless.

Risks Relating to Our Outstanding Securities

We may continue to have potential liability pursuant to the terms of the Purchase Agreement, even though our recently filed Form S-3 Registration Statement was declared effective.

We recently filed a Form S-3 resale Registration Statement to register the 4,230,589 unregistered shares of common stock (the Shares To Be Registered and the Registration Statement) issuable upon exercise of the respective associated warrants (the Associated Warrants) to remedy the fact that these shares of common stock were not previously registered or exempt from registration under the federal securities laws and to reduce our potential liability under the Purchase Agreement. The Form S-3 Registration Statement was subsequently declared effective by the SEC; however, as a result of the fact that the Shelf Registration (as defined in the Liquidity and Capital Resources section of Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations) did not have sufficient capacity to cover and register the entire amount of shares of common stock issuable in connection with the Units sold in the Offering (i.e., only the shares of common stock sold in connection with the Units and a portion of the shares of common stock issuable upon exercise of the Warrants were registered under the Shelf Registration, as described above), we may face claims for alleged damages in the future pursuant to the terms of the Purchase Agreement and the

Investors may seek to claim damages in the future against us for any alleged damages they may have suffered as a result of the above.

We may continue to have liability for the grant of the Warrants and as a result, the sale of the Units in violation of federal and state securities law, even though our resale Registration Statement was declared effective.

After the Closing Date of the Offering, we determined that we did not have an exemption from registration available under the federal or state securities laws for the offer and sale of the Shares To Be Registered and the Associated Warrants and they were not registered with the Securities and Exchange Commission pursuant to the Prospectus Supplement at time of the Offering. We subsequently filed and gained effectiveness of a Form S-3 resale Registration Statement to register the resale of the Shares To Be Registered to remedy the fact that, upon issuance, the shares of common stock issuable in connection with the exercise of the Associated Warrants will not have been previously registered or exempt from registration. However, we cannot remedy the fact that the Associated Warrants were originally granted improperly in December 2010. As such, the Investors and the Placement Agent may have continuing rescission rights under the federal and state securities laws in connection with the grant of the Associated Warrants (and possibly the entire Offering, including the sale of the Units, the shares and Shelf Registered Warrants included therewith) and we may face liability in connection with such ongoing rescission rights.

The Resale Registration Statement will not bar claims relating to our non-compliance with securities laws, and we may continue to be contingently liable for damages in an indeterminate amount.

The declaration of the effectiveness of the recently filed Form S-3 resale Registration Statement by the Commission will not bar claims relating to our non-compliance with applicable federal or state securities laws. Additionally, even after the effectiveness of the Registration Statement, the actions we have taken to remedy our non-compliance with securities laws in connection with the offer and sale of the Associated Warrants will not prevent regulators from pursuing enforcement actions or imposing penalties and fines against us with respect to any violations of securities laws.

We may be subject to liability, face claims for damages and be forced to expend our resources in the event the Investors bring action against us in the future.

As described in the Risk Factors above, we may have liability to the Investors or the placement agent in connection with our failure to keep effective the registration of the Shares To Be Registered and the Associated Warrants, as well as potential liability for breaches of the Purchase Agreement, as it relates to the Investors. In the event the Investors or the placement agent bring an action against us in connection with any of the above risks, we could be forced to expend significant funds in the defense of such action, could be forced to pay significant damages to the Investors in connection with such potential claims, and our management could be forced to expend a significant amount of their time in connection with such claims, instead of on our operations. Any of the above could have a material adverse effect on our operations and results of operations, and could force us to expend or pay significant amounts of money in the future.

If stockholders sell a large number of shares registered on our previously filed Registration Statements, all at once or in blocks, the trading value of our shares could decline in value.

We registered 2,510,506 shares of common stock and an additional 941,053 shares of common stock issuable upon the exercise of outstanding Series C Warrants in connection with the filing of our Prospectus Supplement No. 2 to our Form S-3 Registration Statement in December 2010. Additionally, pursuant to a resale Registration Statement, we registered an aggregate of 4,230,589 shares of common stock, which

number includes all of the shares of common stock issuable upon exercise of the Series B Warrants and the Series C Warrants, not previously registered in the December 2010 Prospectus Supplement to the Form S-3 Registration Statement. We only have 16,835,813 shares of common stock outstanding as of June 15, 2011. As a result, the offer or sale of large numbers of shares in the future, including those shares registered in our Form S-3 Prospectus Supplement and the resale Registration Statement may cause the market price of our securities to decline in value. The amount of common stock registered on behalf of the selling stockholders in the Registration Statements and which are eligible for immediate resale upon the exercise of the Warrants (including those registered in the Prospectus Supplement) and Agent Warrant, pursuant to their terms, would represent approximately 23.5% of our outstanding shares of common stock assuming the full exercise of all such warrants.

Nevada law and our Articles of Incorporation authorize us to issue shares of stock, which shares may cause substantial dilution to our existing shareholders.

We have authorized capital stock consisting of 100,000,000 shares of common stock, \$0.001 par value per share and 10,000,000 shares of preferred stock, \$0.001 par value per share. As of June 15, 2011, we have 16,835,813 shares of common stock outstanding and no shares of preferred stock issued and outstanding. As a result, our Board of Directors has the ability to issue a large number of additional shares of common stock without shareholder approval, subject to the requirements of the NYSE Amex Equities (which generally require shareholder approval for any transactions which would result in the issuance of more than 20% of our then outstanding shares of common stock or voting rights representing over 20% of our then outstanding shares of stock), which if issued could cause substantial dilution to our then shareholders. Additionally, shares of preferred stock may be issued by our Board of Directors without shareholder approval, with voting powers and such preferences and relative, participating, optional or other special rights and powers as determined by our Board of Directors, which may be greater than the shares of common stock currently outstanding. As a result, shares of preferred stock may be issued by our Board of Directors which cause the holders to have majority voting power over our shares, provide the holders of the preferred stock the right to convert the shares of preferred stock they hold into shares of our common stock, which may cause substantial dilution to our then common stock shareholders and/or have other rights and preferences greater than those of our common stock shareholders. Investors should keep in mind that the Board of Directors has the authority to issue additional shares of common stock and preferred stock, which could cause substantial dilution to our existing shareholders. Additionally, the dilutive effect of any preferred stock which we may issue may be exacerbated given the fact that such preferred stock may have super voting rights and/or other rights or preferences which could provide the preferred shareholders with substantial voting control over us subsequent to this filing and/or give those holders the power to prevent or cause a change in control. As a result, the issuance of shares of common stock and/or Preferred Stock may cause the value of our securities to decrease and/or become worthless.

The outstanding Series C Warrants are only required to be exercised, and the Company can only force the exercise of such warrants, if certain conditions provided in such warrants are met.

Each Series C Warrant has an exercise price of \$2.62 per share. The Series C Warrants are exercisable for the 10 trading day period ending on August 3, 2011, provided that the Company has the right to force the holders of the Series C Warrants to exercise the Series C Warrants if (a) the volume weighted average price (VWAP) of the Company's common stock on the NYSE Amex Equities exceeds \$3.28 during the 11th through the 20th trading days immediately prior to the 216th day following the Closing Date; or (b) if on the 216th day following the Closing Date, the exercise price of \$2.62 per share is less than the lower of (x) the VWAP for the ten days immediately preceding such date, and (y) the closing bid price on such date, subject in each case to the Company meeting certain requirements and maintaining certain conditions as set forth in such Series C Warrant. The Series C Warrants expire automatically if not exercised by the 216th day following the Closing Date (unless such date falls on a holiday or weekend, in which case the next non-

holiday or weekend date). The Series C Warrants also include a provision whereby the holders thereof are not eligible to exercise any portion of the warrants that would result in them becoming a beneficial owner of more than 9.99% of the Company's common stock. As such, the Company will not receive the \$6,577,525 due to the Company in connection with the exercise of the Series C Warrants if the conditions set forth above and described in greater detail in the Series C Warrants are not met, which require among other things, the trading price of the Company's common stock exceeding \$3.28. Furthermore, the Series B Warrants and Agent Warrants, which are exercisable at the option of the holders thereof and do not contain forced exercise provisions like the Series C Warrants, have exercise prices of \$2.86 and \$2.98, respectively, and will not be exercised by the holders thereof, and the Company will not receive any consideration in connection therewith, unless the trading price of the Company's common stock exceeds such exercise prices, and subject to such holder's option to exercise such warrants.

Additionally, the Series B Warrants, the Series C Warrants, and the warrants granted to the Company's placement agent, cannot be exercised unless there is a valid and effective registration statement covering the shares of common stock issuable upon exercise thereof on file with the SEC. In the event our previously filed Shelf Registration Statement, or the resale Registration Statement, are deemed ineffective and we are unable to rely on such Registration Statements for the issuance of the shares of common stock issuable in connection with the exercise of the warrants or any other securities, or any other issues arise which prevent the holders thereof from validly exercising their rights under such warrants, we will not receive any additional funds in connection with such securities, even assuming the trading price of the Company's common stock exceeds the exercise price of the warrants, and the holders thereof desire to exercise such warrants.

The Investors in the Company's December 2010 sale of 2,510,506 units obtained a right of first refusal to provide additional funding to the Company.

Pursuant to the Securities Purchase Agreement (the Purchase Agreement), pursuant to which certain investors purchased an aggregate of 2,510,506 units in December 2010, the Company agreed that, until the first anniversary of the Closing Date (which date was December 30, 2010), the Company would not undertake any of the following, without the prior written consent of all of the investors (the Investors) (as described in greater detail in the Purchase Agreement): (A) directly or indirectly, file any registration statement with the SEC, (B) directly or indirectly, offer, sell, grant any option to purchase, or otherwise dispose of (or announce any offer, sale, grant or any option to purchase or other disposition of) any of its equity securities, including without limitation any debt, preferred stock or other instrument or security (a Subsequent Placement), or (C) be party to any solicitations or negotiations with regard to the foregoing. Additionally, the Company agreed that until the second anniversary of the Closing Date, the Company would not, directly or indirectly, effect any Subsequent Placement unless the Company first provides the Investors notice of such Subsequent Placement and provides such Investors an opportunity to purchase up to 25% of the securities offered in such Subsequent Placement pursuant to the terms and conditions described in greater detail in the Purchase Agreement.

However, the above requirements do not apply to the Company's issuance or grant of any common stock issued or issuable: (i) in connection with any employee benefit plan approved by the Board of Directors, subject to a maximum of 150,000 shares to be issued to consultants in any calendar year; (ii) upon exercise of the Warrants and Agent Warrants; (iii) upon exercise of any options or convertible securities which were outstanding on the day immediately preceding the Closing Date; and (iv) in connection with mergers, acquisitions, strategic business transactions or joint ventures with a strategic partner who is not in the business of making financial investments, in each case with non-affiliated third parties and otherwise on an arm's-length basis, the primary purpose of which is not to raise additional capital (collectively (i) through (iv), Excluded Securities); provided that any shares issued or issuable in connection with any transaction contemplated by this clause (iv) that is either primarily (A) attributable to capital raising for the Company

(other than nominal amounts of capital) or (B) to raise capital for the Company, directly or indirectly, in connection with any transaction contemplated by this clause (iv), including, without limitation, securities issued in one or more related transactions or that result in similar economic consequences, shall not be deemed to be Excluded Securities.

As a result of the above, it may be harder for the Company to raise funding and/or issue securities in consideration for certain business purposes not included in the Excluded Securities, described above, which could prevent the Company from meeting its capital needs, limit the Company's ability to grow its operations and implement its business plan and ultimately cause the value of the Company's securities to decline in value.

Shareholders may be diluted significantly through our efforts to obtain financing and/or satisfy obligations through the issuance of additional shares of our common stock.

We currently have no committed source of financing (other than pursuant to Series C Warrants, which are required to be exercised assuming certain requirements therein (as described in greater detail above) are met. Wherever possible, our Board of Directors will attempt to use non-cash consideration to satisfy obligations. In many instances, we believe that the non-cash consideration will consist of restricted shares of our common stock. Our Board of Directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares of common stock (subject to NYSE Amex Equities rules which limit among other things, the number of shares we can issue without shareholder approval to no more than 20% of our outstanding shares of common stock). These actions will result in dilution of the ownership interests of existing shareholders, and that dilution may be material.

If persons engage in short sales of our common stock, including sales of shares to be issued upon exercise of our outstanding warrants, the price of our common stock may decline.

Selling short is a technique used by a stockholder to take advantage of an anticipated decline in the price of a security. In addition, holders of options and warrants will sometimes sell short knowing they can, in effect, cover through the exercise of an option or warrant, thus locking in a profit. A significant number of short sales or a large volume of other sales within a relatively short period of time can create downward pressure on the market price of a security. Further sales of common stock issued upon exercise of our outstanding warrants could cause even greater declines in the price of our common stock due to the number of additional shares available in the market upon such exercise, which could encourage short sales that could further undermine the value of our common stock. You could, therefore, experience a decline in the value of your investment as a result of short sales of our common stock.

Risks Related To Share Ownership

The market price for our common stock may be volatile, and you may not be able to sell our stock at a favorable price or at all.

Many factors could cause the market price of our common stock to rise and fall, including: actual or anticipated variations in our quarterly results of operations; changes in market valuations of companies in our industry; changes in expectations of future financial performance; fluctuations in stock market prices and volumes; issuances of dilutive common stock or other securities in the future; the addition or departure of key personnel; announcements by us or our competitors of acquisitions, investments or strategic alliances; and the increase or decline in the price of oil and natural gas.

It is possible that the proceeds from sales of our common stock may not equal or exceed the prices you paid for it plus the costs and fees of making the sales.

Substantial sales of our common stock, or the perception that such sales might occur, could depress the market price of our common stock.

We cannot predict whether future issuances of our common stock or resales in the open market will decrease the market price of our common stock. The impact of any such issuances or resales of our common stock on our market price may be increased as a result of the fact that our common stock is thinly, or infrequently, traded. The exercise of any options or the vesting of any restricted stock that we may grant to directors, executive officers and other employees in the future, the issuance of common stock in connection with acquisitions and other issuances of our common stock (including the sale of shares registered in the Registration Statements and/or pursuant to previous Registration Statements filed by the Company) could have an adverse effect on the market price of our common stock. In addition, future issuances of our common stock may be dilutive to existing shareholders. Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur, could lower the market price of our common stock.

ITEM 2. PROPERTIES.

Oil and Gas Exploration and Production - Properties and Reserves

Reserve Information. For estimates of Lucas's net proved producing reserves of crude oil and natural gas, as well as discussion of Lucas's proved and probable undeveloped reserves, see "Supplemental Information to Consolidated Financial Statements."

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the Company and the operators. The reserve data set forth in Supplemental Information to Consolidated Financial Statements represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and condensate, natural gas liquids and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the amount and quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers normally vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate upward or downward. Accordingly, reserve estimates are often different from the quantities ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based. For related discussion, see ITEM 1A. Risk Factors.

Management maintains internal controls designed to provide reasonable assurance that the estimates of proved reserves are computed and reported in accordance with rules and regulations as promulgated by the SEC. As stated above, Lucas retained Forrest A. Garb & Associates, Inc. to prepare estimates of our oil and gas reserves. Management works closely with this firm, and is responsible for providing the following information related to our oil and gas properties to the firm: working and net revenue interests, historical production rates, current operating and future development costs, and geoscience, engineering and other information. Our Chief Executive Officer reviews the final reserve estimate for completeness and reasonableness and, if necessary, discusses the process used and findings with the designated technical person at Forrest A. Garb & Associates, Inc. Our Chief Executive Officer has 35 years of oil and gas experience and is a registered professional engineer. The technical person primarily responsible for audit of our reserve estimates at Forrest A. Garb & Associates, Inc. meets the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Forrest

A. Garb & Associates, Inc. is an independent firm of petroleum engineers, geologists, geophysicists, and petro physicists; they do not own an interest in our properties and are not employed on a contingent fee basis. Reserve estimates are imprecise and subjective and may change at any time as additional information becomes available. Furthermore, estimates of oil and gas reserves are projections based on engineering data. There are uncertainties inherent in the interpretation of this data as well as the projection of future rates of production. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment.

In general, the rate of production from Lucas's crude oil and natural gas properties declines as reserves are produced. Except to the extent Lucas acquires additional properties containing proved reserves, conducts successful exploration, exploitation and development activities or, through engineering studies, identifies additional behind-pipe zones or secondary recovery reserves, the proved reserves of Lucas will decline as reserves are produced. The volumes to be generated from future activities of Lucas are therefore highly dependent upon the level of success in finding or acquiring additional reserves. For related discussion, see ITEM 1A. Risk Factors. Lucas's estimates of reserves filed with other federal agencies agree with the information set forth in Supplemental Information to Consolidated Financial Statements.

Acreage. The following table summarizes Lucas's developed and undeveloped acreage at March 31, 2011. Excluded is acreage in which Lucas's interest is limited to owned royalties and other similar interests.

In certain leases, our ownership varies at different depths; therefore, the net acreage in these leases is calculated with consideration of the varying ownership interests.

Our properties consist of working and royalty interests owned by us in various crude oil and natural gas wells and oil and gas lease acreage located in Atascosa, Gonzales, Jasper, Karnes, Sabine and Wilson Counties, Texas, and McKinley County, New Mexico.

| | <u>Acre</u> s |
|--|---------------|
| <u>State of Texas</u> | |
| Gross Acreage - Surface Area | 19,903 |
| Net Acreage by Formation Below Surface | |
| Austin Chalk and above | 14,879 |
| Below Austin Chalk * | 4,602 |
| <u>State of New Mexico</u> | |
| Gross Acreage | 13,705 |
| Net Acreage | 1,036 |

* The Eagle Ford formation can be found in approximately 4,400 net acres of the total net acreage below the Austin Chalk.

Wells

The following summarizes the Company's productive oil and gas wells as of March 31, 2011 and 2010. Productive wells are producing wells and wells capable of production, but not necessarily in production at this time. Gross wells are the total number of wells in which the Company has an interest. Net wells are the sum of the Company's fractional working interests owned in the gross wells.

| | <u>At March 31,</u> | |
|--------------------------------|---------------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| Crude oil wells, Texas: | | |
| Gross | 57 | 30 |
| Net | 47 | 26 |
| Natural gas wells, Texas: | | |
| Gross | 1 | - |
| Net | 0.8 | - |
| Crude oil wells, New Mexico: | | |
| Gross | 3 | - |
| Net | 2.3 | - |
| Natural gas wells, New Mexico: | | |
| Gross | 1 | - |
| Net | 0.7 | - |

The following summarizes our net production sold and capital expenditures for the years ended March 31, 2011, 2010, and 2009:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|----------------------|---------------------|---------------------|
| Production sales: | | | |
| Crude oil (Barrels or Bbls) | 37,687 | 26,858 | 41,309 |
| Natural gas (Thousand cubic feet or Mcf) | 8,737 | 5,849 | 7,505 |
| Total (barrels oil equivalent or Boe) | <u>39,143</u> | <u>27,833</u> | <u>42,560</u> |
| Capital expenditures * | <u>\$ 13,631,073</u> | <u>\$ 2,836,900</u> | <u>\$ 4,004,694</u> |

* Capital expenditures included oil and gas property acquisitions of \$9.1 million, \$1.9 million and \$0.5 million for the years ended March 31, 2011, 2010 and 2009, respectively.

Set forth in the following table is the average sales price per unit of crude oil and of natural gas and average cost of production per Boe produced by us for the years ended March 31, 2011, 2010 and 2009:

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--------------------------------------|-------------|-------------|-------------|
| Average sales price: | | | |
| Crude oil (\$/Bbl) | \$ 79.19 | \$ 65.60 | \$ 80.82 |
| Natural gas (\$/Mcf) | 4.30 | 2.73 | 5.77 |
| Average cost of production (\$/Boe): | 48.62 | 42.32 | 31.62 |

The following table sets forth the capitalized costs relating to oil and gas producing activities as of March 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Proved oil and gas producing properties | \$ 24,650,840 | \$ 24,699,722 |
| Accumulated depletion | <u>(3,709,719)</u> | <u>(2,482,433)</u> |
| Net capitalized costs | <u>\$ 20,941,121</u> | <u>\$ 22,217,289</u> |

We do not anticipate investing in or purchasing assets and/or property for the purpose of capital gains. It is our intention to purchase assets and/or property for the purpose of enhancing our primary business operations. We are not limited as to the percentage amount of our assets we may use to purchase any additional assets or properties.

ITEM 3. LEGAL PROCEEDINGS.

The information required by this Item is set forth under the "Contingencies – Legal Proceedings" caption in Note 7 of Notes to Consolidated Financial Statements in Item 8 and is incorporated by reference herein.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock is quoted on the NYSE Amex under the symbol LEI. Set forth in the table below are the quarterly high and low prices of our common stock for the past two fiscal years.

| | <u>High</u> | <u>Low</u> |
|----------------------------------|-------------|------------|
| 2011 | | |
| Quarter ended June 30, 2010 | \$3.39 | \$0.77 |
| Quarter ended September 30, 2010 | 2.65 | 1.35 |
| Quarter ended December 31, 2010 | 2.94 | 1.68 |
| Quarter ended March 31, 2011 | 5.23 | 1.80 |
| 2010 | | |
| Quarter ended June 30, 2009 | \$1.13 | \$0.80 |
| Quarter ended September 30, 2009 | 1.98 | 0.69 |
| Quarter ended December 31, 2009 | 0.67 | 0.44 |
| Quarter ended March 31, 2010 | 0.96 | 0.50 |

Holders

As of June 15, 2011, there were approximately 165 record holders and approximately 7,785 beneficial owners of Lucas's common stock.

Dividend Policy

We have not declared or, paid cash dividends, or made distributions in the past. We do not anticipate that we will pay cash dividends or make distributions in the foreseeable future. We currently intend to retain and reinvest future earnings to finance operations.

Securities Authorized for Issuance Under Compensation Plans

The following table includes certain information about our 2010 Long-Term Incentive Plan as of March 31, 2011, which has been approved by stockholders:

| | Number of Shares Authorized for Issuance under Plan | Number of Shares to be Issued upon Exercise of Outstanding Options | Weighted Average Exercise Price of Outstanding Options | Number of Shares Remaining Available for Future Issuance under Plan |
|----------------------------------|--|--|---|---|
| 2010 Long-Term Incentive Plan | 900,000 | 256,000 | \$1.99 | 411,473 |

Recent Sales of Unregistered Securities

During the year ended March 31, 2011, warrant holders exercised warrants to purchase 45,000 shares of common stock at \$1.00 per share. The warrants were originally issued to the warrant holders in connection with the purchase of units in a private equity placement in September 2009.

During the Quarter Ended March 31, 2011. In February 2011, we issued 21,739 restricted shares of common stock to an entity in consideration for the purchase from such entity of an interest in certain oil and gas leases located in Karnes and Gonzalez County, Texas. In March 2011, we issued 70,000 restricted shares of common stock to an entity in consideration for the purchase from such entity of all of its interest in a certain oil and gas lease located in Wilson County, Texas. In March 2011, we issued 10,000 restricted shares of common stock to an individual in consideration for the ratification of certain previously purchased oil and gas leases and the purchase of five loads of water.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, since the foregoing issuances did not involve a public offering, the recipients took the shares for investment and not resale and the Company took appropriate measures to restrict transfer. No underwriters or agents were involved in the foregoing issuances and the Company paid no underwriting discounts or commissions.

All of the share issuances were conducted in compliance with the exemption from registration provided by Rule 4(2).

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

Lucas Energy, Inc., a Nevada corporation, is an emerging independent oil and gas company based in Houston, Texas. Lucas Energy, Inc. together with its subsidiary (collectively, the "Company," "Lucas," "Lucas Energy," or "we") acquires oil and gas properties and develops, produces and markets crude oil and natural gas from various known prolific and productive geological formations, including the Austin Chalk, Eagle Ford and Buda Formations, primarily in Gonzales, Wilson, Karnes and Atascosa Counties south of the City of San Antonio in South Texas and McKinley County in New Mexico. Our goal is to become a recognized player in the development and production of crude oil and natural gas in established oil fields.

The Company's strategy is twofold:

- We focus on building and developing a portfolio of oil and gas assets by acquiring what we believe are undervalued, underdeveloped and underperforming properties and for which we believe we can increase production economically and profitably. We do not operate in land not known to be a productive field; that is, we do not drill wildcat wells.
- To efficiently pave the way towards growth, we enter into joint ventures, farm-outs and drilling arrangements with select and reputable oil and gas companies to exploit the productive geological formations in our properties.

Our fiscal year ends on the last day of March of the calendar year. We refer to the twelve-month period ended March 31, 2011 as our 2011 fiscal year.

At March 31, 2011, the Company's total gross surface developed and undeveloped acreage in the State of Texas approximated 19,900 acres and total net developed and undeveloped acreage as measured from the land surface to the bottom of the Austin Chalk Formation approximated 14,900 acres and from the base of the Austin Chalk downward approximated 4,600 acres. The Eagle Ford formation can be found in approximately 4,400 net acres of the total net acreage below the Austin Chalk. At March 31, 2011, the Company's total developed and undeveloped acreage in the State of New Mexico approximated 13,705 acres and 1,036 net. We currently operate 56 producing wells in the State of Texas that produce approximately 155 to 170 barrels of oil per day (BOPD), gross, and 115 to 130 BOPD, net. The ratio between the gross and net production varies from period to period as we have different working interests and net revenue interests in different wells. An affiliate of Hilcorp Energy Corporation operates two Eagle Ford horizontal wells, in each of which we have an 11% net revenue interest. The wells exhibited initial production of approximately 1,000 gross BOPD. We expect the two wells to average approximately 400 gross BOPD, or 44 net BOPD to Lucas, for the rest of the calendar year. Our oil production sales totaled 39,143 barrels of oil equivalent (Boe), net to our interest for our fiscal year ended March 31, 2011. We operate a majority of our oil and gas properties. Our working and royalty interests vary at different fields and for different formations in our oil and gas properties.

At March 31, 2011, Lucas Energy's total estimated net proved reserves were 2.9 million Boe, of which 2.8 million barrels (Bbls) were crude oil and 843.2 million cubic feet (MMcf) were natural gas reserves, and Lucas Energy's total estimated net probable reserves were 1.5 million Boe, of which 1.3 million Bbls were crude oil reserves, and 809.6 MMcf were natural gas reserves (see Supplemental Information to Consolidated Financial Statements). As of March 31, 2011, Lucas employed 12 full-time employees. We also utilized about 10 contractors on an "as-needed" basis to carry out various functions of the Company, including but not limited to field operations, land administration and information technology maintenance.

With the successful implementation of our business plan, we may seek additional employees in the near future to handle anticipated potential growth.

Operations

Several important developments have occurred since March 31, 2010, our prior year fiscal year end.

Increased Crude Oil and Natural Gas Sales Volumes. During the year ended March 31, 2011, our crude oil sales volumes increased to 37,687 Bbls or 103 BOPD from 26,858 Bbls, or 74 BOPD, during our prior fiscal year, an increase of 29 BOPD, or 39%. A majority of our crude oil sales volumes came from production from the Austin Chalk formation, and we are the operator of these wells. Included in the current fiscal year's sales volumes were 1,995 Bbls from two Eagle Ford wells operated by Hilcorp as a result of the farm-out agreement further described below.

At March 31, 2011, our crude oil inventory in the field tanks totaled approximately 8,300 Bbls net to Lucas as compared to approximately 4,200 Bbls net at March 31, 2010. The buildup in field tanks was due primarily to increased production, the shortage of oil trucks in the area and some of the tanks not filled to a capacity which would justify a load up by the trucking company. To remedy the situation, Lucas has engaged a local logistics company to expedite the trucking of oil in the field tanks to market. As of May 31, 2011, our crude oil inventory in field tanks totaled approximately 7,400 Bbls net.

In November 2010, Lucas acquired an interest in the ARCO Fee A-908 No.1 well from an independent operator. The well was shut in at the time of the acquisition, and Lucas put the well back on production as a natural gas well producing from the Austin Chalk formation. The aggregate gross production for the months of January through March 2011 was approximately 7,800 Mcf of natural gas and 300 Bbls of condensate. Currently, the well is producing approximately 300 Mcf of natural gas per day gross, or approximately 170 Mcf of natural gas per day, net to Lucas.

Increased Proved Reserves. Our estimated net proved crude oil and natural gas reserves at March 31, 2011 and 2010 were approximately 2.9 million Boe and approximately 2.0 million Boe, respectively, an increase of 0.9 million Boe or 45%. Crude oil reserves increased approximately 0.8 million Bbls or 41% and natural gas reserves increased 812.1 MMcf to 843.2 MMcf. Using the average monthly crude oil price of \$78.07 per Bbl and natural gas price of \$3.12 per Mcf for the twelve months ended March 31, 2011, our estimated discounted future net cash flow (PV10) before tax expense for our proved reserves was approximately \$56.5 million, an increase of \$9.0 million or 19% from a year ago using the same pricing methodology. Using a March 2011 crude oil price of \$96.10 per barrel and natural gas price of \$4.00 per Mcf, the estimated discounted net cash flow (PV10) before tax expense for our proved reserves was approximately \$109.0 million. Oil and natural gas prices have historically been volatile and such volatility can have a significant impact on our estimates of proved reserves and the related PV10 value.

Our estimated net probable crude oil and natural gas reserves at March 31, 2011 and 2010 were approximately 1.5 million Boe and 0.7 million Boe. Using the average monthly crude oil price of \$78.07 per Bbl and natural gas price of \$3.12 per Mcf for the twelve months ended March 31, 2011, our estimated discounted future net cash flow (PV10) before tax expense for our probable reserves was approximately \$7.3 million. Using a March 2011 crude oil price of \$96.10 per barrel and natural gas price of \$4.00 per Mcf, the estimated discounted net cash flow (PV10) before tax expense for our probable reserves was approximately \$17.2 million. Oil and natural gas prices have historically been volatile and such volatility can have a significant impact on our estimates of probable reserves and the related PV10 value.

For additional information about our reserves, see "Supplemental Information to Consolidated Financial Statements."

Eagle Ford Joint Venture Agreements. During the current year, Lucas entered into two separate purchase and sale agreements to convey a portion of its leasehold interest in the rights below the base of the Austin Chalk formation, which is also the top of the Eagle Ford formation, and deeper (the Deep Rights) for the development of the Eagle Ford. In both agreements, 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.

The first agreement was entered into during the first quarter of the fiscal year with Hilcorp Energy I, LP, an affiliate of Hilcorp Energy Company, one of the largest privately-owned oil and gas companies in the United States. Under the terms of the agreement, Hilcorp acquired 85% of the Deep Rights to our leases only in Gonzales County for cash consideration plus carrying Lucas for 15% to the tanks for the first two Eagle Ford wells drilled. Hilcorp completed the two horizontal wells in the fourth quarter of the current year. The second agreement was entered into during the fourth quarter of the current year with a subsidiary of Marathon Oil Corporation, Marathon Oil (East Texas) LP, whereby Marathon acquired 50% of the Deep Rights to our leases only in Wilson County for cash consideration. The total net proceeds from the two transactions were \$10.7 million, all of which was treated as a reduction in the carrying value of the Company's oil and gas properties. The property interests conveyed had an estimated acquisition cost of approximately \$1.5 million.

The Company uses the Full Cost Method of accounting for its oil and gas properties. Under this method, net proceeds from the sale of oil and gas properties, among other items are, in most circumstances, treated as a reduction to the capitalized costs of oil and gas properties on the Consolidated Balance Sheets. Another commonly used and acceptable method of accounting for oil and gas properties is the Successful Efforts Method. Under the Successful Efforts Method, the sale of a part of a proved property would be accounted for as the sale of an asset, and a gain or loss could be recognized. Therefore, the accounting for the transaction described above would differ for a company following the Full Cost method versus a company utilizing the Successful Efforts method of accounting for oil and gas properties.

On June 1, 2011, Marathon Oil Corporation announced in a press release that it planned to buy acreage in the Eagle Ford held by Hilcorp Resources, an affiliate of Hilcorp Energy Company, in a transaction valued at approximately \$3.5 billion. It was reported in the media (which we cannot confirm or verify) that Marathon would essentially be paying approximately \$21,000 to \$25,000 per acre in the Eagle Ford. Lucas is a joint venture partner with Hilcorp in the Eagle Ford trend in Gonzales County and with Marathon in Wilson County pursuant to the aforementioned agreements. Hilcorp is expected to continue as operator for another six months. Management expects development of the Eagle Ford acreage in which Lucas has interests to move forward since the press releases filed by Marathon indicated that Marathon will increase the number of drilling rigs from six to twenty.

Major Expenditures. The table below sets out the major components of our expenditures for the years ended March 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Additions to Oil and Gas Properties (Capitalized) | | |
| Acquisitions Using Cash | \$ 8,311,800 | \$ 1,059,600 |
| Other Capitalized Costs (a) | <u>4,631,400</u> | <u>920,900</u> |
| Subtotal | 12,943,200 | 1,980,500 |
| Acquisitions Using Shares | 503,200 | 725,800 |
| Other Non-Cash Acquisitions (b) | <u>184,700</u> | <u>674,500</u> |
| Total Additions to Oil and Gas Properties | 13,631,100 | 3,380,800 |
| Lease Operating Expenditures (Expensed) | 1,700,600 | 1,048,300 |
| Severance and Property Taxes (Expensed) | <u>202,700</u> | <u>129,400</u> |
| | <u>\$15,534,400</u> | <u>\$4,558,500</u> |
| | | |
| General and Administrative Expense | <u>\$ 2,933,900</u> | <u>\$ 1,561,700</u> |
| Share-Based Compensation (Non-Cash) | <u>\$ 1,130,100</u> | <u>\$ 128,500</u> |

(a) Other capitalized costs include title related expenses and tangible and intangible drilling costs.

(b) Other non-cash acquisitions include assumption of note payable and discharge of note receivable.

Project-Level Transactions. As we focus our efforts on increasing our production, we also continue to evaluate different possible project-level transactions. As an example, in April 2011, Lucas entered into a joint venture agreement with Seidler Oil & Gas, LP. Lucas will be the operator under the joint venture relationship, and expects to drill approximately eight new Austin Chalk wells, or new laterals in existing wells, during the 2011 calendar year. This joint venture is formed under standard industry terms, and will relate to both acreage currently held by Lucas, and newly acquired acreage. We intend to continue to enter into similar project-level transactions to exploit our oil and gas assets with varying degrees of potential.

Our Strategy

Building and developing under-developed properties. Acquisitions of oil and gas properties are a core part of our growth strategy. We do not acquire what the industry commonly refers to as "junk wells" which are wells that are worthless. We focus on acquiring shut-in wells that, in our assessment, have a high probability of additional recovery of reserves through our workover process or through the drilling of new laterals from old well bores. Specifically, we seek out opportunities to acquire wells located in mature oil fields that we believe are under-developed and have the potential to recover significant oil reserves that are still in place. The term "under-developed" is an industry term meaning that the reservoirs of interest have either not been fully exploited through drilling, or the reserves in current well bores, whether active or plugged and abandoned, have not been fully recovered by primary recovery techniques.

Most of the acquisition prospects on which we conduct initial screenings are sourced directly by our senior management or by specialized third-party consultants with local area knowledge. Some of the wells that we have acquired have reduced reservoir pressure or fluid entry restrictions which cause lower production rates, while other wells have experienced mechanical problems. Prospects that are of further interest to us after we complete our initial review, are evaluated for technical and economic viability. We target well acquisitions which we estimate to have the following:

- good opportunity and the appropriate acreage to drill additional laterals,
- payback period of less than 12 months, and
- projected internal rate of return on capital invested which is accretive to earnings.

Our workover procedure is directed toward bringing wells back into production or enhancing production through ordinary practices used in the oil and gas industry. Our workover procedures used on acquired wells include the installation of new or used equipment on the well; cleaning out the well or horizontal leg; treating the well with acid, soapy water, or proprietary chemicals sourced from third parties; re-entry of a plugged and abandoned well; and drilling of a new lateral, or lateral extension, on an existing well. Our well workover program enables us to hold leases for additional future development.

Additionally, we have conducted reservoir engineering on a program to drill new laterals from existing well-bores or offset locations that we have already leased. The purpose of these laterals are to provide more aerial access to the formation in order to increase the flow rate and to recover additional oil and gas reserves not recoverable from the existing vertical, straight holes.

Joint ventures, farm-outs and joint development arrangements. To efficiently pave the way towards growth, we plan to take advantage of our portfolio of geological formations under our leases. From time to time, we look for potential oil and gas business partners to provide expertise or financing to jointly develop our leases. This approach can be undertaken through an array of joint ventures, farm-outs and joint development arrangements to share costs, risks and benefits. We may enter into different arrangements, including but not limited to, farm-out, joint venture, drilling participation, limited partnership or any other suitable arrangement with respect to developing our properties and acquiring additional properties. Currently, we have joint venture agreements in place with several oil companies, including a major independent oil company, focused on the Eagle Ford formation.

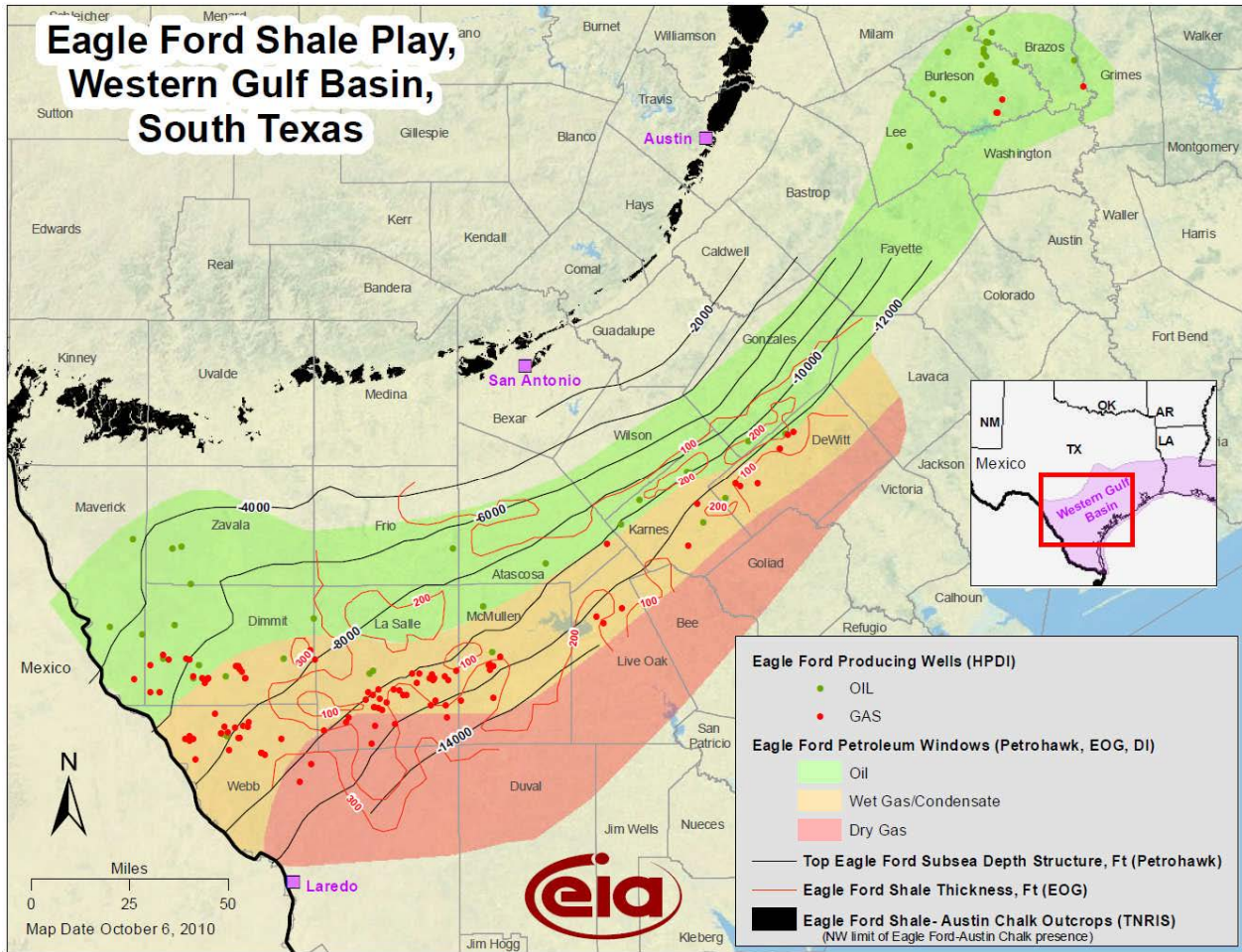
Operations and Oil and Gas Properties

We operate in known productive areas; that is, we do not drill wildcat wells. Our holdings are found in a broad area of current industry activity in Gonzales, Wilson, Karnes and Atascosa Counties in Texas and McKinley County in New Mexico. In Texas, we concentrate on three vertically adjacent target formations: Austin Chalk, Eagle Ford, and Buda, listed in the order of increasing depth measuring from the land surface. Activity in this area has been uninterrupted since the late 1970's. The recent development of the Eagle Ford as a high potential producing zone has heightened industry interest and success. Lucas's acreage position is in the oil window of the Eagle Ford play. Lucas has logged the Eagle Ford, as well as the Austin and Buda, in multiple wells with modern technology shale logs. This advanced tool and analytical procedure allows detailed evaluation of the Eagle Ford formation. Lucas has successfully logged and tested several vertical wells in the Eagle Ford, and will include horizontal development drilling of the Eagle Ford in our future operations.

Austin Chalk. The Company's original activity started in Gonzales County by acquiring existing shut-in and stripper wells and improving production in those wells. Most of the wells had produced from the Austin Chalk. Our original approach was to open more of the Austin Chalk to the wellbore by drilling deeper into the formation and re-stimulating these wells. The Austin Chalk is a dense limestone, varying in thickness along its trend from approximately 200 feet to more than 800 feet. It produces by virtue of localized, highly-fractured intervals within the formation; and seismic data can be used to help identify these fractured zones. After discovery and development of the Austin Chalk formation in the Pearsall area in the 1950's, the Giddings field was rapidly exploited in the 1970's, which eventually expanded to include a long, narrow trend which extends from the Texas-Mexico border up through northeast Texas into Louisiana.

Original drilling was done with vertical holes, but the current horizontal drilling techniques have greatly expanded development. We employ horizontal drilling in our ongoing Austin Chalk development.

Eagle Ford. Drilling activities by other operators over the recent years and the improvement in horizontal drilling, well stimulation, and completion technologies, have brought the Eagle Ford play to prominence as one of the foremost plays in the United States today. A few of the more active companies in this play include Apache Corporation, ConocoPhillips, EOG Resources, Inc., PetroHawk Energy and Pioneer Natural Resources. Initial results have been very promising and the area has good industry infrastructure and capacity.



(source: U.S. Energy Information Administration)

On Lucas's leases, the Eagle Ford is a shale-like limestone with a high content of organic shale matter that directly underlies the Austin Chalk and is believed to be the primary source of oil and gas produced from the Austin Chalk. Reservoir thickness varies from approximately 80 feet in the shallower portions of the trend to more than 300 feet in the deeper areas. One of the more notable Eagle Ford producers is the #1 Domingo Torres well, originally completed in the Eagle Ford in 1977. This vertical well is positioned among Lucas's Gonzales County leases and has produced more than 140,000 barrels of oil.

Buda. The Buda limestone directly underlies the Eagle Ford. Its thickness varies from approximately 100 feet to more than 150 feet in this area. The Buda produces from natural fractures and matrix porosity and is prospective across this whole area. There are a number of Buda wells with cumulative production of more than 100,000 barrels of oil. Lucas has re-completed wells which previously produced from the Buda, and deepened and successfully completed other wells in the Buda. Future development plans include more of this type of activity in both vertical and horizontal wells.

Our Strengths

We believe our strengths will help us successfully execute our business strategies:

We benefit from the increasing value, attention and activity in the Eagle Ford. Activity levels in the Eagle Ford continue to increase. It was reported at the May 2011 North American Petroleum Accounting Council meeting that the number of wells completed in the Eagle Ford increased from below 75 in 2009 to approximately 345 in 2010 and that the number of wells completed in the Eagle Ford for the first two months of 2011 was 116. We benefit from the increasing number of wells drilled and the corresponding data available from public and governmental sources. This activity and data have begun to define the geographic extent of the Eagle Ford formation, which we believe will assist us in evaluating future leasehold acquisitions and development operations. In addition, the leading operators in the Eagle Ford have developed drilling and completion technologies that have significantly reduced production risk and decreased per unit drilling and completion costs.

Our size, local knowledge and contacts allow us to pursue a broader range of acquisition opportunities. Our size provides us with the opportunity to acquire smaller acreage blocks that may be less attractive to larger operators in the area. Certain local landowners have expressed their preference to have Lucas operate on their properties rather than other companies. We believe that our acquisition of these smaller blocks will have a meaningful impact on our overall acreage position.

Experienced management team with proven acquisition, operating and financing capabilities. Mr. William A. Sawyer, our Chief Executive Officer, has 35 years of oil and gas experience, his operation experience includes ARCO, Houston Oil & Minerals, Superior Oil and ERCO. Mr. Sawyer is a registered professional engineer and is the founder of Exploitation Engineers, a petroleum consulting firm. He is complemented by Mr. K. Andrew Lai, our Chief Financial Officer, who has 24 years of upstream oil and gas industry finance experience. His career includes various finance managerial positions at EOG Resources, Inc. and UMC Petroleum Corp., which eventually merged into Devon Energy, Inc.

We essentially have no outstanding indebtedness and have the ability to generate funding through the sale of common and preferred stock. The Company has no material outstanding financing indebtedness. The Company currently has the ability (subject to certain requirements of Form S-3 and the amount of securities previously sold in primary offerings by the Company pursuant to Form S-3 in the last twelve calendar months) to register and sell additional shares of its common stock under a shelf registration. In addition, at Lucas's annual meeting of stockholders held on January 10, 2011, the stockholders approved an amendment to Lucas's Articles of Incorporation to authorize the Board of Directors to designate and issue shares of preferred stock. As a result of such amendment, the Board is permitted to issue up to 10,000,000 shares of preferred stock from time to time for any proper corporate purpose, including acquisitions of other businesses or properties and to raise additional capital with such terms and conditions as the Board may determine in its sole authority. The Company has not issued any shares of its preferred stock.

Results of Operations

The following discussion and analysis of the results of operations for each of the two fiscal years in the period ended March 31, 2011 should be read in conjunction with the consolidated financial statements of Lucas Energy and notes thereto beginning with page F-1. As used below, the abbreviations "Bbls" stands for barrels, "Mcf" for thousand cubic feet and "Boe" for barrels of oil equivalent.

We reported a net loss for the year ended March 31, 2011 of \$4.5 million, or \$0.31 per share. For the year ended March 31, 2010, we reported a net loss of \$2.3 million, or \$0.21 per share. Net loss increased by \$2.2 million year over year, primarily due to increased operating expenses, partially offset by increased operating revenues.

Net Operating Revenues

The following table sets forth the revenue and production data for continuing operations for the years ended March 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> | <u>Increase</u> | <u>% Incr(Decr)</u> |
|--------------------------------|--------------------|--------------------|--------------------|-------------------------|
| Sale Volumes: | | | | |
| Crude Oil (Bbls) | 37,687 | 26,858 | 10,829 | 40% |
| Natural Gas (Mcf) | 8,737 | 5,849 | 2,888 | 49% |
| Total (Boe) | 39,143 | 27,833 | 11,310 | 41% |
| | | | | |
| Crude Oil (Bbls per day) | 103 | 74 | 29 | 39% |
| Natural Gas (Mcf per day) | 24 | 16 | 8 | 50% |
| Total (Boe per day) | 107 | 77 | 30 | 39% |
| | | | | |
| Crude Oil in Tanks | | | | |
| At End of Period (Bbls) | 8,300 | 4,200 | 4,100 | 98% |
| | | | | |
| Average Sale Price: | | | | |
| Crude Oil (\$/Bbl) | \$ 79.19 | \$ 65.60 | \$ 13.59 | 21% |
| Natural Gas (\$/Mcf) | \$ 4.30 | \$ 2.73 | \$ 1.57 | 58% |
| | | | | |
| Net Operating Revenues: | | | | |
| Crude Oil | \$2,984,504 | \$1,761,782 | \$1,222,722 | 69% |
| Natural Gas | 37,581 | 15,954 | 21,627 | 136% |
| Total Revenues | <u>\$3,022,085</u> | <u>\$1,777,736</u> | <u>\$1,244,349</u> | 70% |

Total crude oil and natural gas revenues for the year ended March 31, 2011 increased \$1,244,300, or 70%, to \$3,022,100 from \$1,777,700 for the same period a year ago, due primarily to a favorable crude oil volume variance of \$857,500 and a favorable crude oil price variance of \$365,000. The increase in crude oil volumes sold was due to higher production levels during the 2011 fiscal year as compared to the prior year was attributable to production from 10 newly acquired wells along with production from 12 successfully re-completed wells during the 2011 fiscal year.

Lucas recognizes oil and natural gas revenue under the sales method of accounting for its interests in producing wells as crude oil and natural gas is produced and sold from those wells. Costs associated with production are expensed in the period incurred. Crude oil produced but remaining as inventory in field tanks is not recorded in Lucas's financial statements. At March 31, 2011, our crude oil inventory in field tanks

totaled approximately 8,300 Bbls net to Lucas as compared to approximately 4,200 Bbls net at March 31, 2010. The buildup in field tanks was due primarily to increased production, the shortage of oil trucks in the area and some of the tanks not filled to a capacity which would justify a load up by the trucking company. To remedy the situation, Lucas has engaged a local logistics company to expedite the trucking of oil in the tanks to market.

Operating and Other Expenses

| | <u>2011</u> | <u>2010</u> | <u>Increase (Decrease)</u> | <u>% Incr(Decr)</u> |
|--|--------------|--------------|--------------------------------|-------------------------|
| Lease Operating Expenses | \$ 1,700,576 | \$ 1,048,333 | \$ 652,243 | 62% |
| Severance and Property Taxes | 202,709 | 129,432 | 73,277 | 57% |
| Depreciation, Depletion, and Amortization | 1,291,581 | 787,340 | 504,241 | 64% |
| General and Administrative | 2,933,930 | 1,561,698 | 1,372,232 | 88% |
| Share-Based Compensation | 1,130,070 | 128,472 | 1,001,598 | 780% |
| Interest Expense | 262,144 | 301,787 | (39,643) | -13% |

Lease Operating Expenses. Lease operating expenses can be divided into the following categories: costs to operate and maintain Lucas's crude oil and natural gas wells, the cost of workovers and lease and well administrative expenses. Operating and maintenance expenses include, among other things, pumping services, salt water disposal, equipment repair and maintenance, compression expense, lease upkeep and fuel and power. Workovers are operations to restore or maintain production from existing wells. Each of these categories of costs individually fluctuates from time to time as Lucas attempts to maintain and increase production while maintaining efficient, safe and environmentally responsible operations. The costs of services charged to Lucas by vendors, fluctuate over time.

Lease operating expenses of \$1,700,600 for the year ended March 31, 2011 increased \$652,200, or 62%, from \$1,048,300 for the same period a year ago, primarily due to increased expenses associated with increased production including workover costs of \$303,400, treatment costs of \$121,200 and maintenance costs of \$126,800 along with higher fuel and water hauling costs of \$133,800 resulting from newly acquired and successfully completed wells, partially offset by a decrease in rental expense of \$43,400.

Depreciation, Depletion, Amortization and Accretion (“DD&A”). DD&A of the cost of proved oil and gas properties is calculated using the unit-of-production method. Under Full Cost Accounting, the amortization base is comprised of the total capitalized costs and total future investment costs associated with all proved reserves.

DD&A expenses for the year ended March 31, 2011 increased \$504,200, or 64%, to \$1,291,600 from \$787,300 for the same period a year ago. The increase was primarily due to increased production of 11,300 Boe and a higher unit DD&A rate. The corresponding increases in DD&A due to increased production and higher unit DD&A rate were \$499,300 and \$57,300, respectively. The unit DD&A rate increased to \$31.35 per Boe from \$26.28 per Boe due primarily to an increase in the future investment costs associated with the Company's proved undeveloped reserves for the year ended March 31, 2011 as compared to the same period a year ago.

General and Administrative Expenses. General and administrative expenses increased approximately \$1,372,200 for the year ended March 31, 2011 as compared to the prior year primarily due to an increase in professional fees, company payroll and investor relations expense of approximately \$660,100, \$337,400 and 252,400, respectively.

Share-Based Compensation. Share-based compensation, which is included in General and Administrative expense in the Consolidated Statements of Operations increased approximately \$1,001,600 for the year ended March 31, 2011 as compared to the prior year primarily due to an increase in share-based compensation paid to consultants of approximately \$517,300 and to officers and directors of approximately \$484,300. Share-based compensation is utilized for the purpose of conserving cash resources for use in field development activities and operations.

Interest Expense. Interest expense decreased by approximately \$39,600 due primarily to the May 2010 payment of the outstanding balance under the Amegy Credit Facility and termination of the related credit agreement.

Liquidity and Capital Resources

Cash Flow

The primary sources of cash for Lucas during the two-year period ended March 31, 2011 were funds generated from sales of crude oil and natural gas, proceeds from the sale of oil and gas properties, proceeds from short-term borrowings and proceeds from sale of shares of the Company's common stock. The primary uses of cash were funds used in operations, acquisitions of oil and gas properties and equipment, and repayments of debt.

Net cash used by operating activities was \$4,844,800 for the year ended March 31, 2011 as compared to net cash provided by operating activities of \$1,246,200 for the same period a year ago. The decrease in net cash provided by operating activities of \$6,091,000 primarily reflects an increase in cash operating expenses of \$2,097,800, and unfavorable changes in working capital and other assets and liabilities of \$5,369,800, partially offset by an increase in crude oil and natural gas revenues of \$1,244,300.

Net cash provided by investing activities of \$820,600 for the year ended March 31, 2011 increased by \$778,400 from \$42,200 for the same period a year ago due primarily to an increase in proceeds from the sale of oil and gas properties of \$12,131,500 and favorable changes in working capital associated with investing activities of \$282,200, partially offset by an increase in purchase of oil and gas property and equipment of \$11,462,700.

Net cash provided by financing activities of \$4,672,500 for the year ended March 31, 2011 included proceeds from the issuances of shares of our common stock of \$6,777,500, partially offset by the full repayment of the Amegy Bank Credit Facility of \$2,150,000. Cash provided by financing activities for the year ended March 31, 2010 included short-term borrowings of \$740,000 and proceeds from issuances of shares of our common stock of \$277,500, offset by the repayment of the Amegy Bank Credit Facility of \$500,000 and cash paid for deferred offering costs of \$119,900.

Financing

The Company has no material outstanding financing indebtedness. In connection with an oil and gas property acquisition, we assumed a note payable which had a balance on March 31, 2011 of approximately \$91,000. Lucas may also take action in the future to sell additional securities pursuant to shelf offerings, subject to the rules and regulations of the NYSE Amex and the requirements of Form S-3, which prohibit Lucas, until such time as the aggregate market value of its voting and non-voting common equity held by non-affiliates (the Non-Affiliate Market Value) is \$75 million or more, if ever, from selling more than one-third of its Non-Affiliate Market Value in primary offerings pursuant to Form S-3 during any 12 calendar months. During the 12 months ended March 31, 2011, Lucas had sold \$10 million of securities in primary

offerings pursuant to Form S-3 and had a Non-Affiliated Market Value of approximately \$50 to 60 million, allowing Lucas to sell approximately \$16.7 to \$20 million (i.e., one-third of such Non-Affiliate Market Value) in aggregate in any 12 month period under Form S-3. As a result, Lucas had the ability to sell approximately \$6.7 million to \$10 million of additional securities in primary offerings under Form S-3 as of March 31, 2011. In order to sell additional securities in primary offerings under Form S-3, Lucas will need to file and obtain effectiveness of a Form S-3 primary offering document and also file a prospectus supplement in connection therewith disclosing the material terms of the proposed offering transaction.

Additionally, at Lucas's annual meeting of stockholders held on January 10, 2011, the stockholders approved an amendment to Lucas's Articles of Incorporation to authorize the Board of Directors to designate and issue shares of preferred stock. As a result of such amendment, the Board is permitted to issue up to 10,000,000 shares of preferred stock from time to time for any proper corporate purpose, including acquisitions of other businesses or properties and the raising of additional capital. Lucas has no definitive plans to sell or issue preferred stock securities at this time. Currently, no shares of the Company's preferred stock are issued or outstanding.

Effective December 30, 2010 (the Closing Date), the Company sold an aggregate of 2,510,506 units pursuant to a Securities Purchase Agreement (the Purchase Agreement) to certain institutional investors (the Investors), each consisting of (a) one share of our common stock; (b) one Series B Warrant to purchase one share of our common stock at an exercise price of \$2.86 per share (the Series B Warrants); and (c) one Series C Warrant to purchase one share of our common stock at an exercise price of \$2.62 per share (the Series C Warrants and together with the Series B Warrants, the Warrants, and collectively with the shares of common stock, the Units). The Offering grossed almost \$6 million in cash and netted \$5.5 million after expenses.

The Units were offered through a Prospectus Supplement (Supplement No. 2) filed with the Securities and Exchange Commission on December 30, 2010 and accompanying base prospectus (the Prospectus Supplement) filed in connection with the Company's Form S-3 shelf registration statement previously filed with the Securities and Exchange Commission on December 31, 2009, which registered an aggregate of \$10,000,000 in securities (the Shelf Registration). The Company originally believed on the Closing Date and at the time of the filing of the Prospectus Supplement, that the Shelf Registration had sufficient capacity to cover and register all of the shares of common stock sold in connection with the Units, all of the Series B Warrants, all of the Series C Warrants, and warrants to purchase 150,630 shares of our common stock granted to the placement agent (the Agent Warrants), and all of the shares of common stock issuable upon the exercise of such warrants in the Prospectus Supplement. However, the Company subsequently determined that this was not the case. Specifically, the Company later determined that the Shelf Registration only had sufficient capacity to cover and register the 2,510,506 shares of common stock included in the Units and 941,053 shares out of the 2,510,506 shares of common stock issuable under the Series C Warrants and such warrants on the Prospectus Supplement (the Shelf Registered Warrants). The Company subsequently filed a Form S-3 resale Registration Statement to register the shares of common stock underlying the Class B Warrants and those Class C Warrants not registered in the Shelf Registration (see also "We may continue to have potential liability pursuant to the terms of the Purchase Agreement, even though our recently filed Form S-3 Registration Statement was declared effective" under Risk Factors herein).

During the year ended March 31, 2011, we raised \$1.2 million, net to Lucas through an "at-the-market" ("ATM") public equity offering in which we sold 778,170 newly issued shares of common stock from our effective S-3 shelf registration statement.

We anticipate that cash flows from operating activities; cash on hand at March 31, 2011; future equity placements under our S-3 shelf registration statement through an ATM public offering(s) or registered direct placement(s); and/or other debt or equity placements will be sufficient to fund our operating and

administrative requirements for the 2012 fiscal year. Additionally, we expect to fund our 2012 fiscal year oil and gas capital expenditure requirements through a combination of cash on hand, sales of additional properties; joint venture arrangements, working interest participants' buy-in to existing wells and programs, and other sources of capital, such as private equity and debt placements, public offerings, and traditional reserve-based financing and credit facilities.

We currently have no definitive agreements or arrangements for additional funding, other than rights we may have under the Series C Warrants (described under Note 9 to the Consolidated Financial Statements), subject to certain conditions being met for such exercises, and our other outstanding warrants. Future financings could result in significant dilution to our shareholders or may not be available on acceptable terms in the time frame necessary, or may not be available or acceptable to us at all.

Contractual Obligations

At March 31, 2011, Lucas did not have any drilling, drilling rig or related commitments. The following table summarizes Lucas's contractual obligations at March 31, 2011:

| <u>Contractual Obligations</u> | <u>Total</u> | <u>Years Ended March 31,</u> | | | |
|---------------------------------|-------------------|------------------------------|--------------------|--------------------|------------------------|
| | | <u>2012</u> | <u>2013 - 2014</u> | <u>2015 - 2016</u> | <u>2017 and Beyond</u> |
| Current and Long-Term Debt | \$ 90,841 | \$ 30,727 | \$ 60,114 | \$ - | \$ - |
| Non-Cancelable Operating Leases | 92,348 | 82,320 | 10,028 | - | - |
| Interest Payments | | | | | |
| on Long-Term Debt | 15,757 | 9,247 | 6,510 | - | - |
| Total Contractual Obligations | <u>\$ 198,946</u> | <u>\$ 122,294</u> | <u>\$ 76,652</u> | <u>\$ -</u> | <u>\$ -</u> |

Off-Balance Sheet Arrangements

Lucas does not participate in financial transactions that generate relationships with unconsolidated entities or financial partnerships. Such entities or partnerships, often referred to as variable interest entities (VIE) or special purpose entities (SPE), are generally established for the purpose of facilitating off-balance sheet arrangements or other limited purposes. Lucas was not involved in any unconsolidated VIE or SPE financial transactions or any other "off-balance sheet arrangement" (as defined in Item 303(a)(4)(ii) of Regulation S-K) during any of the periods covered by this report, and currently has no intention of participating in any such transaction or arrangement in the foreseeable future.

Critical Accounting Policies

Lucas prepares its financial statements and the accompanying notes in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions about future events that affect the reported amounts in the financial statements and the accompanying notes. Lucas identifies certain accounting policies as critical based on, among other things, their impact on the portrayal of Lucas's financial condition, results of operations or liquidity, and the degree of difficulty, subjectivity and complexity in their deployment. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. Management routinely discusses the development, selection and disclosure of each of the critical accounting policies. Following is a discussion of Lucas's most critical accounting policies:

Proved Oil and Gas Reserves

Lucas's independent petroleum consultants estimate proved oil and gas reserves, which directly impact financial accounting estimates, including depreciation, depletion and amortization. Proved reserves represent estimated quantities of crude oil and condensate, natural gas liquids and natural gas that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions existing at the time the estimates were made. The process of estimating quantities of proved oil and gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Consequently, material revisions (upward or downward) to existing reserve estimates may occur from time to time. For related discussion, see ITEM 1A. Risk Factors.

Oil and Gas Properties, Full Cost Method

Lucas uses the full cost method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells used to find proved reserves, and to drill and equip development wells including directly related overhead costs and related asset retirement costs are capitalized.

Under this method, all costs, including internal costs directly related to acquisition, exploration and development activities are capitalized as oil and gas property costs on a country-by-country basis. Properties not subject to amortization consist of exploration and development costs, which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired. Lucas assesses overall values of unproved properties, if any, on at least an annual basis or when there has been an indication that impairment in value may have occurred. Impairment of unproved properties is assessed based on management's intention with regard to future development of individually significant properties and the ability of Lucas to obtain funds to finance their programs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Costs of oil and gas properties are amortized using the units of production method. Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves.

Ceiling Test

In applying the full cost method, Lucas performs an impairment test (ceiling test) at each reporting date, whereby the carrying value of property and equipment is compared to the "estimated present value," of its proved reserves discounted at a 10-percent interest rate of future net revenues, based on current economic and operating conditions at the end of the period, plus the cost of properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties. If capitalized costs exceed this limit, the excess is charged as an impairment expense.

Share-Based Compensation

In accounting for share-based compensation, judgments and estimates are made regarding, among other things, the appropriate valuation methodology to follow in valuing stock compensation awards and the related inputs required by those valuation methodologies. Assumptions regarding expected volatility of

Lucas's common stock, the level of risk-free interest rates, expected dividend yields on Lucas's stock, the expected term of the awards and other valuation inputs are subject to change. Any such changes could result in different valuations and thus impact the amount of share-based compensation expense recognized in the Consolidated Statements of Operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated financial statements as of March 31, 2011 and 2010 and for the fiscal years ended March 31, 2011 and 2010 have been audited by GBH CPAs, PC, an independent registered public accounting firm, and have been prepared in accordance with generally accepted accounting principles pursuant to Regulation S-X as promulgated by the SEC. The aforementioned consolidated financial statements are included herein starting with page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Annual Report on Form 10-K, our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2011, as required by Rule 13a-15 of the Exchange Act. Based on the evaluation described above, our management, including our principal executive officer and principal financial officer, have concluded that, as of March 31, 2011, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of our Principal

Executive Officer and Principal Financial Officer 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 (GAAP) 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 issuer;
- 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 issuer are being made only in accordance with authorizations of management and directors of the issuer; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate as a result of changes in conditions or deterioration in the degree of compliance.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2011 based on the criteria framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, our management has concluded that our internal control over financial reporting was effective as of March 31, 2011.

Changes in Internal Control Over Financial Reporting.

There have not been any changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS and CORPORATE GOVERNANCE

The following table sets forth the names, ages, and offices held by our directors and executive officers:

| <u>Name</u> | <u>Position</u> | <u>Date First Elected</u> | <u>Age</u> |
|-----------------------|------------------------------------|---------------------------|------------|
| J. Fred Hofheinz | Chairman of Board | September 18, 2008 | 73 |
| William A. Sawyer | Chief Executive Officer, Director | April 6, 2005 | 62 |
| K. Andrew Lai | Chief Financial Officer, Treasurer | February 18, 2011 | 47 |
| Peter K. Grunebaum | Director | January 29, 2007 | 77 |
| W. Andrew Krusen, Jr. | Director | October 8, 2009 | 63 |

Information Concerning the Board of Directors and its Committees.

All Directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. There are no agreements with respect to the election of Directors. We have historically compensated our Directors for service on the Board and committees thereof through the issuance of shares of common stock and nominal cash compensation for meeting fees. Additionally, we reimburse Directors for expenses incurred by them in connection with the attendance at meetings of the Board and any committee thereof (as described below). The Board appoints annually the executive officers of the Company and the executive officers serve at the discretion of the Board.

The business experience of each of the persons listed above during the past five years is as follows:

J. FRED HOFHEINZ, CHAIRMAN OF BOARD, CHAIR OF NOMINATING COMMITTEE

Mr. Hofheinz, the former Mayor of the City of Houston (1974-1978), began his business career with his late father, Roy Hofheinz, Sr., who built the Houston Astrodome. Mr. Hofheinz played a key role in the family real estate development projects surrounding the Astrodome, including an amusement park – Astroworld and four hotels. He was the senior officer of Ringling Brothers Barnum and Bailey Circus, which was owned by the Hofheinz family. In 1971, Mr. Hofheinz co-founded a closed circuit television company, Top Rank, which is now the leading professional boxing promotion firm in the nation. He has served as President of the Texas Municipal League and served on the boards of numerous other state and national organizations for municipal government elected officials. In addition to his law practice, Mr. Hofheinz also owned several direct interests in oil and gas companies. He has also dealt extensively with business interests, primarily oil and gas related, in the People’s Republic of China and in the Ukraine.

For the past five years Mr. Hofheinz has been an investor and a practicing attorney with the firm of Williams, Birnberg & Anderson LLP in Houston, Texas. While he has numerous investments in real estate, his principal investment interest is in oil and gas. He has been actively engaged in successful exploration and production ventures, both domestic and international. He holds a PhD in economics, from the University of Texas and takes an active interest in Houston’s civic and charitable affairs. He was admitted to the Texas bar in 1964, having received his preparatory education at the University of Texas, (B.A., M.A., Ph.D., 1960-1964); and his Legal education at the University of Houston (J.D., 1964). From July 1, 2007 to February 28, 2011, Mr. Hofheinz served as a Manager of El Tex Petroleum, LLC, which Lucas entered into an acquisition transaction with during fiscal 2010 as described in greater detail under “Certain Relationships and Related Transactions,” below.

Director Qualifications:

Mr. Hofheinz has extensive experience in the oil and gas industry and the business world in general, in particular with respect to publicly listed companies. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Hofheinz demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As such, we believe that Mr. Hofheinz is qualified to serve as a Director.

WILLIAM A. SAWYER, DIRECTOR, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Sawyer has been a Director of the Company since April 6, 2005. Mr. Sawyer has over 30 years of diversified experience in the energy industry with firms such as; ARCO, Houston Oil & Minerals, Superior Oil (Mobil), and ERCO. Mr. Sawyer founded the petroleum consulting firm of Exploitation Engineers, Inc. and his clients included private investors, independent oil companies, banking institutions, major energy and chemical companies, and the US government. In connection with Exploitation Engineers, Mr. Sawyer evaluated and managed large projects such as a private trust that held working interests in several hundred producing and non-producing oil and gas properties. Mr. Sawyer has been an expert witness in federal court, state court, and before several state agencies in Texas and Oklahoma, and he has testified as to the fair market value of mineral interests and sub-surface storage interests. Mr. Sawyer co-founded the Company and was originally appointed to Vice President of the Company on June 13, 2006. Mr. Sawyer has served as a Director of the Company and as its chief operating officer, until his appointment to President and CEO on January 22, 2009.

Director Qualifications:

Mr. Sawyer has extensive experience in the oil and gas industry and the business world in general, in particular with respect to engineering management of mature oil wells, commercial, and reservoir management. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Sawyer demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As a result of the above, we believe that Mr. Sawyer is qualified to serve as a Director.

K. ANDREW LAI, CHIEF FINANCIAL OFFICER, TREASURER AND SECRETARY

Effective February 18, 2011, the Company appointed K. Andrew Lai, as Chief Financial Officer, Treasurer and Secretary of the Company. Mr. Lai has over 20 years of corporate and financial experience primarily in the exploration and production sector of the oil and gas energy industry, with a specialization in accounting, legal and administrative functions. From April 2010 to January 2011, Mr. Lai was an international financial consultant. From October 2008 to April 2010, Mr. Lai served as Chief Financial Officer with Far East Energy Corporation (Far East), based in Houston, Texas. Mr. Lai joined Far East in January 2007 and served as a member of Far East's management team until his appointment as Chief Financial Officer in October 2008. From April 1999 to January 2007, Mr. Lai held various managerial positions with EOG Resources, Inc., in Houston, Texas. From 1995 to 1999, Mr. Lai was a sole practitioner at his own certified public accountant firm. From 1987 to 1995, Mr. Lai held various positions with UMC Petroleum Corp. (which subsequently merged into Devon Energy). Mr. Lai received his Bachelor of Business Administration from the University of Houston in December 1987, his Master of Business Administration from the University of Houston in May 1991, and his Juris Doctorate from the University of Houston in May 2004. Mr. Lai is a Certified Public Accountant, a member of the State Bar of Texas, a member of the American Bar Association, and the American Institute of Certified Public Accountants.

PETER K. GRUNEBAUM – DIRECTOR, CHAIR OF AUDIT COMMITTEE

Mr. Grunebaum is an independent investment banker with over 40 years of experience in the energy sector with a specialty in exploration and production. Previously he was the Managing Director of Fortrend International, an investment firm headquartered in New York, New York, a position he held from 1989 until the end of 2003. From 2003 to present, Mr. Grunebaum has been an independent investment banker. Mr. Grunebaum is a graduate of Lehigh University, and in addition to being a board member of Lucas, he is also on the Board of Prepaid Legal Services, Inc. [NYSE:PPD] and Stonemor Partners LP. [NASDAQ: STON].

Director Qualifications:

Mr. Grunebaum has extensive experience in the oil and gas industry and the business world in general, in particular with respect to founding and funding publicly listed companies such as Devon Energy. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Grunebaum demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As a result of the above, we believe that Mr. Grunebaum is qualified to serve as a Director.

W. ANDREW KRUSEN, JR. – DIRECTOR, CHAIR OF THE COMPENSATION COMMITTEE

Mr. Krusen has been Chairman and Chief Executive Officer of Dominion Financial Group, Inc. since 1987. Dominion Financial is a merchant banking organization that provides investment capital to the natural resources, communications and manufacturing and distribution sectors. Mr. Krusen is currently a Director and chairman of Florida Capital Group, Inc. – a Florida bank holding company, as well as Florida Capital Bank, N.A. its wholly-owned subsidiary. He also serves as a Director of publicly-traded Canada Flourspar Inc., a specialty mineral concern; and Raymond James Trust Company, a subsidiary of Raymond James Financial, Inc. – and numerous privately held companies, including Beall's Inc., Telovations, Inc., PlanSource Holdings, Inc., and Romark Laboratories, LLC. Mr. Krusen is a former member of the Young Presidents' Organization, and he is currently a member of the World President's Organization, Society of International Business Fellows and a Trustee of the International Tennis Hall of Fame. He is past Chairman of Tampa's Museum of Science and Industry. Mr. Krusen graduated from Princeton University in 1970. From July 1, 2007 to February 28, 2011, Mr. Krusen served as a Manager of El Tex Petroleum, LLC, which Lucas entered into an acquisition transaction with during fiscal 2010 as described in greater detail under "Certain Relationships and Related Transactions," below.

Director Qualifications:

Mr. Krusen has extensive experience in the oil and gas industry and the business world in general, in particular with respect to founding and funding publicly listed companies. He also has extensive academic and practical knowledge of doing business in Texas and the United States. In addition, we believe Mr. Krusen demonstrates personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. As a result of the above, we believe that Mr. Krusen is qualified to serve as a Director.

Family Relationships

There are no family relationships among our Directors or executive officers.

Involvement in Certain Legal Proceedings

Our Directors, executive officers and control persons have not been involved in any of the following events during the past ten years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Board Leadership Structure

The roles of Chairman and Chief Executive Officer of the Company are currently held separately. Mr. Hofheinz serves as Chairman and Mr. Sawyer serves as Chief Executive Officer. The Board of Directors does not have a policy as to whether the Chairman should be an independent Director, an affiliated Director, or a member of management. Our Board believes that the Company's current leadership structure is appropriate because it effectively allocates authority, responsibility, and oversight between management and the independent members of our Board (including Mr. Hofheinz as Chairman). It does this by giving primary responsibility for the operational leadership and strategic direction of the Company to our Chief Executive Officer, while enabling the independent Directors to facilitate our Board's independent oversight of management, promote communication between management and our Board, and support our Board's consideration of key governance matters. The Board believes that its programs for overseeing risk, as described below, would be effective under a variety of leadership frameworks and therefore do not materially affect its choice of structure.

Risk Oversight

The Board exercises direct oversight of strategic risks to the Company. The Audit Committee reviews and assesses the Company's processes to manage business and financial risk and financial reporting risk. It also reviews the Company's policies for risk assessment and assesses steps management has taken to control significant risks. The Compensation Committee oversees risks relating to compensation programs and policies. In each case management periodically reports to our Board or relevant committee, which provides the relevant oversight on risk assessment and mitigation.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires our Directors and officers, and the persons who beneficially own more than ten percent of our common stock, to file reports of ownership and changes in ownership with the SEC. Copies of all filed reports are required to be furnished to us pursuant to Rule 16a-3 promulgated under the Exchange Act.

Based solely on the reports received by us and on the representations of the reporting persons, we believe that all required Directors, officers and greater than ten percent shareholders complied with applicable filing requirements during the fiscal year ended March 31, 2011, except that (a) J. Fred Hofheinz, William A. Sawyer, Peter K. Grunebaum and W. Andrew Krusen, Jr., each a Director of the Company, inadvertently did not timely file a Form 4 with the SEC in connection with their issuance by the Company of 12,000 shares of common stock for services rendered as a Director of the Company during the April 1, 2009 to March 31, 2010 fiscal year and the grant of options to purchase 24,000 shares of common stock to each Director for services to be rendered during the April 1, 2010 to March 31, 2011 fiscal year, which grants were approved by the stockholders of the Company effective January 10, 2011, but which reports were not filed until January 27, 2011 (Mr. Hofheinz); January 27, 2011 (Mr. Sawyer); January 28, 2011 (Mr. Grunebaum); and February 1, 2011 (Mr. Krusen); (b) William A. Sawyer inadvertently did not timely file a Form 4 with the SEC in connection with his issuance by the Company of 17,500 shares of common stock in consideration for services rendered on October 7, 2010, and an additional 17,500 shares of common stock in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months, which report was not filed until December 6, 2010; (c) Donald L. Sytsma failed to file a Form 4 or Form 5 disclosing his receipt of 30,000 shares of the Company's common stock as severance pay in connection with his resignation as the Chief Financial Officer of the Company on October 7, 2010; (d) K. Andrew Lai inadvertently did not timely file a Form 4 with the SEC in connection with his grant from the Board of Directors on February 18, 2011 of options to purchase 160,000 shares of the Company's common stock in connection with his appointment as the Chief Financial Officer of the Company, which have a term of five years and an exercise price of \$1.94 per share, which Form 4 was subsequently filed with the SEC on June 17, 2011; and (e) William A. Sawyer inadvertently did not timely file a Form 4 with the SEC in connection with his grant from the Board of Directors on April 1, 2011 of options to purchase 200,000 shares of the Company's common stock in connection with services rendered to the Company as the Chief Executive Officer of the Company, which have a term of five years and an exercise price of \$4.05 per share, which Form 4 was subsequently filed with the SEC on June 17, 2011.

CODE OF ETHICS

The Company adopted a code of ethics (Code) that applies to all of its Directors, officers, employees, consultants, contractors and agents of the Company. The Code of Ethics has been reviewed and approved by the Board of Directors. The Company's Code of Ethics was filed as an exhibit to the Company's Form 10-K dated March 31, 2009 filed with the SEC on June 29, 2009 as Exhibit 14.1. Original copies of the Code of Ethics are available, free of charge, by submitting a written request to the Company at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027.

WHISTLEBLOWER PROTECTION POLICY

The Company adopted a Whistleblower Protection Policy (Policy) that applies to all of its Directors, officers, employees, consultants, contractors and agents of the Company. The Whistleblower Policy has been reviewed and approved by the Board of Directors. The Company's Whistleblower Policy was filed as an exhibit to the Company's Form 10-K dated March 31, 2009 filed with the SEC on June 29, 2009 as Exhibit 14.2. Original copies of the Whistleblower Policy are available, free of charge, by submitting a written request to the Company at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027.

CORPORATE GOVERNANCE

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During the fiscal year that ended on March 31, 2011, the Board held four meetings. All Directors attended all meetings of the Board and all committee meetings on which the Director served during fiscal year 2011. All of the current Directors attended our fiscal year 2011 annual shareholder meeting held on January 10, 2011.

The Board has a standing Audit Committee, Compensation Committee, and Nominating Committee.

The Audit Committee currently consists of Mr. Grunebaum (chair), Mr. Hofheinz and Mr. Krusen, each of whom is independent as defined in Section 803(A) of the NYSE Amex LLC Company Guide. The Audit Committee's function is to provide assistance to the Board in fulfilling the Board's oversight functions relating to the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the Company's independent auditors, and perform such other activities consistent with its charter and our By-laws as the Committee or the Board deems appropriate. The Audit Committee produces an annual report for inclusion in our proxy statement. The Audit Committee is directly responsible for the appointment, retention, compensation, oversight and evaluation of the work of the independent registered public accounting firm (including resolution of disagreements between our management and the independent registered public accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee shall review and pre-approve all audit services, and non-audit services that exceed a de minimis standard, to be provided to us by our independent registered public accounting firm. The Audit Committee carries out all functions required by the NYSE AMEX, the SEC and the federal securities laws. The Board has determined that Mr. Grunebaum, Mr. Hofheinz and Mr. Krusen are "independent," and Mr. Grunebaum is an "audit committee financial expert" as defined in the SEC's Regulation S-K, Item 407(d). During fiscal year 2011, the Audit Committee held four meetings. The Audit Committee's charter is available on our website at www.lucasenergy.com.

The Compensation Committee is comprised of Mr. Krusen (chair), Mr. Grunebaum and Mr. Hofheinz, each of whom is independent as defined in Section 803(A) of the NYSE Amex LLC Company Guide. The purpose of the Compensation Committee is to oversee the responsibilities relating to compensation of our executives and produce a report on executive compensation for inclusion in our proxy statement. The Compensation Committee may delegate its authority to subcommittees of independent Directors, as it deems appropriate. During fiscal year 2011, the Compensation Committee held four meetings. The Compensation Committee's charter is available on our website at www.lucasenergy.com.

The Nominating Committee is comprised of Mr. Hofheinz (chair), Mr. Grunebaum and Mr. Krusen, each of whom is independent as defined in Section 803(A) of the NYSE Amex LLC Company Guide. This Committee is responsible for (1) establishing criteria for selection of new Directors and nominees for vacancies on the Board, (2) approving Director nominations to be presented for shareholder approval at the Company's annual meeting, (3) identifying and assisting with the recruitment of qualified candidates for Board membership and for the positions of Chairman of the Board and Chairmen of the committees of the Board, (4) recommending to the Board to accept or decline any tendered resignation of a Director, (5) considering any nomination of Director candidates validly made by shareholders, (6) reviewing any Director conflict of interest issues and determining how to handle such issues, (7) insuring a review of incumbent Directors' performance and attendance at Board and committee meetings in connection with the independent Directors' decision regarding Directors to be slated for election at the Company's annual meeting, (8) providing appropriate orientation programs for new Directors, (9) reviewing and assessing the adequacy of the Company's corporate governance policies and practices and recommending any proposed changes to the

Board, and (10) proposing any necessary actions to the Board. We have not paid any third party a fee to assist in the process of identifying and evaluating candidates for Director. During fiscal year 2011, the Nominating Committee held one meeting. The Nominating Committee's charter is available on our website at www.lucasenergy.com.

NOMINATIONS FOR THE BOARD OF DIRECTORS

The Nominating Committee of the Board considers nominees for Director based upon a number of qualifications, including their personal and professional integrity, ability, judgment, and effectiveness in serving the long-term interests of the Company's shareholders. There are no specific, minimum or absolute criteria for Board membership. The Committee makes every effort to ensure that the Board and its Committees include at least the required number of independent Directors, as that term is defined by applicable standards promulgated by the NYSE Amex and/or the SEC.

The Nominating Committee may use its network of contacts to compile a list of potential candidates. The Nominating Committee has not in the past relied upon professional search firms to identify Director nominees, but may engage such firms if so desired. The Nominating Committee may meet to discuss and consider candidates' qualifications and then choose a candidate by majority vote.

The Nominating Committee will consider qualified Director candidates recommended in good faith by shareholders, provided those nominees meet the requirements of AMEX and applicable federal securities law. The Nominating Committee's evaluation of candidates recommended by shareholders does not differ materially from its evaluation of candidates recommended from other sources. Any shareholder wishing to recommend a nominee should submit the candidate's name, credentials, contact information and his or her written consent to be considered as a candidate. These recommendations should be submitted in writing to the Company, Attn: Corporate Secretary, Lucas Energy, Inc., 3555 Timmons Lane, Suite 1550, Houston, Texas 77027. The proposing shareholder should also include his or her contact information and a statement of his or her share ownership. The Committee may request further information about shareholder recommended nominees in order to comply with any applicable laws, rules or regulations or to the extent such information is required to be provided by such shareholder pursuant to any applicable laws, rules or regulations.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth compensation information with respect to our chief executive officer, our two most highly compensated executive officers other than the chief executive officer who were serving as executive officers at the end of our fiscal year, and individuals for whom disclosure would have been provided herein but for the fact they were not serving as an executive officer of the Company at the end of our fiscal year.

| <u>Name and Principal Position</u> | <u>Fiscal</u> | | <u>Stock</u> | <u>Option</u> | <u>All Other</u> | <u>Total</u> |
|--|---------------|---------------|---------------|---------------|------------------|--------------|
| | <u>Year</u> | <u>Salary</u> | <u>Awards</u> | <u>Awards</u> | <u>Comp (7)</u> | |
| William A. Sawyer (1) President and Chief Executive Officer | 2011 | \$ 168,500 | \$ 60,770 | \$ 41,140 | \$ 11,000 | \$ 281,410 |
| | 2010 | 162,250 | 29,000 | - | 6,000 | 197,250 |
| K. Andrew Lai (2) Chief Financial Officer | 2011 | \$ 17,410 | \$ 5,000 | \$ 209,800 | \$ 2,270 | \$ 234,480 |
| John O'Keefe (3) Former Interim Chief Financial Officer | 2011 | \$ - | \$ - | \$ - | \$ 201,000 | \$ 201,000 |
| Donald L. Sytsma (4) Former Chief Financial Officer | 2011 | \$ 105,650 | \$ 83,090 | \$ - | \$ 7,070 | \$ 195,810 |
| | 2010 | 120,000 | 22,680 | - | 4,000 | 146,680 |
| James J. Cerna, Jr. (5) Former Chairman, President and Chief Executive Officer | 2011 | \$ - | \$ 167,750 | \$ - | \$ 64,730 | \$ 232,480 |
| | 2010 | - | - | - | 60,330 | 60,330 |
| Malek A. Bohsali (6) Former Chief Financial Officer | 2011 | \$ - | \$ - | \$ - | \$ - | \$ - |
| | 2010 | - | 25,000 | - | - | 25,000 |

(1) On October 7, 2010, the Board approved the issuance to Mr. Sawyer of 17,500 shares of common stock under the Company's 2010 Long Term Incentive Plan (the Plan) and an additional 17,500 shares of common stock under the Plan in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months. The fair value of the 17,500 shares approved on October 7, 2010, and subsequently issued, was \$2.07 per share for a total stock value of \$36,050. As of March 31, 2011, the performance criterion had not been met, and none of the additional 17,500 shares had vested. Mr. Sawyer also received 12,000 shares and a grant for options to purchase 24,000 shares of common stock in consideration for serving as a Director for the year ended March 31, 2010 and in consideration for services to be rendered for the year ended March 31, 2011, respectively. The fair value of the 12,000 shares approved on October 7, 2010, and subsequently issued, was \$2.07 per share for a total stock value of \$24,720. The options have an exercise price of \$2.07 per share and were fully vested at March 31, 2011. The options were valued using the Black Scholes model resulting in the fair value of \$41,140. During the fiscal year ended March 31, 2010, a stock award was granted to Mr. Sawyer of 50,000 shares of common stock for the Company's joint venture partner's commitment to and initial funding of their 70% working interest in the LEI 2009-III capital program. The fair value of shares on the date earned was \$0.58 per share for a total stock award of \$29,000.

(2) Effective February 18, 2011, the Company appointed K. Andrew Lai, as Chief Financial Officer, Treasurer and Secretary of the Company. On February 18, 2011, Mr. Lai received a grant of options to purchase 160,000 shares of common stock as part of his employment arrangement with the Company. The

options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share. The options were valued using the Black Scholes model resulting in the fair value of \$209,800 of which \$10,920 was recognized as compensation expense during the year ended March 31, 2011. Also recognized in the current year was \$5,000 of Mr. Lai's \$10,000 quarterly stock award under his employment agreement.

(3) On October 7, 2010, John O'Keefe was appointed as the interim Chief Financial Officer, Treasurer and Secretary of the Company. On February 18, 2011, the Company accepted the resignation of John O'Keefe from his positions as interim Chief Financial Officer, Treasurer and Secretary of the Company. The Company employed Mr. O'Keefe under a service agreement with Tatum LLC.

(4) Mr. Sytsma was appointed Chief Financial Officer and Treasurer of the Company effective April 14, 2009 and resigned effective October 7, 2010. In addition to monthly cash compensation, Mr. Sytsma's employment arrangement with the Company included a non-cash compensation component of 2,000 shares of common stock per month. The Company's closing share price on the date Mr. Sytsma was appointed Chief Financial Officer was \$0.56 per share. The fair value of shares earned is determined based on the closing share price on the last trading day of each month during the term of Mr. Sytsma's employment. As severance pay in connection with Mr. Sytsma's resignation, the Company agreed to pay Mr. Sytsma three months of salary and to issue Mr. Sytsma 30,000 restricted shares of common stock valued at \$61,800.

(5) Mr. Cerna, who resigned as an officer of the Company on September 2, 2008 and as a Director of the Company on May 5, 2009, was issued 86,027 shares of common stock in November 2010 as a final part of his employment contract. The shares were issued at a fair value of \$167,750.

(6) Mr. Bohsali served as Chief Financial Officer of the Company from April 10, 2007 through April 14, 2009. In July 2009, the Company issued 25,000 shares of common stock to Mr. Bohsali as part of his compensation package. The shares were issued at a fair value of \$25,000.

(7) All Other Compensation for the year ended March 31, 2011 consists of the payment of \$11,000 to Mr. Sawyer as Director for attendance at four Board of Directors meetings and \$2,000 paid to Mr. Sytsma as the then Chief Financial Officer, Treasurer and Secretary of the Company for the attendance at one Board meeting. Also included was \$201,000 attributable to Mr. O'Keefe representing amounts paid to Tatum LLC and \$54,690 attributable to Mr. Cerna representing amounts relating to his employment arrangement. Finally, All Other Compensation for the year ended March 31, 2011 includes medical reimbursement payments to Mr. Lai of \$2,270, Mr. Sytsma of \$5,070 and Mr. Cerna of \$10,040.

Compensation of Named Executive Officers

William A. Sawyer

Mr. Sawyer co-founded the Company and was originally appointed to a position with the Company on June 13, 2006. Mr. Sawyer has served as a Director and as its Chief Operating Officer, until his appointment to President and Chief Executive Officer on January 22, 2009. On March 20, 2007, the Company entered into an employment agreement with Mr. Sawyer (filed as exhibit 10.6 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2007). Mr. Sawyer's agreement was for a period of three (3) years and provided for payment of \$150,000 annually. Additionally, Mr. Sawyer's employment agreement provided for certain payments in the event of termination of employment. Effective October 1, 2009, the Compensation Committee approved an increase to Mr. Sawyer's base compensation to \$162,000 per annum. Mr. Sawyer's employment agreement terminated on March 20, 2010 and a new agreement was subsequently entered into effective as of April 1, 2011, as described below.

Notwithstanding the fact that Mr. Sawyer's employment agreement terminated pursuant to its terms on March 20, 2009, Mr. Sawyer continued to serve as Chief Executive Officer of the Company, and on October 7, 2010, the Compensation Committee approved an increase in Mr. Sawyer's annual salary to \$175,000 per year (effective as of October 1, 2010), the Board approved the immediate issuance to Mr. Sawyer of 17,500 shares of common stock under the Company's 2010 Long Term Incentive Plan (the Plan), and an additional 17,500 shares of common stock under the Plan in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months. As of March 31, 2011, the performance criterion had not been met, and none of the additional 17,500 shares was vested. Mr. Sawyer also received 12,000 shares and options to purchase 24,000 shares of common stock in consideration for serving as a Director of the Company for the year ended March 31, 2010 and in consideration for services for the year ended March 31, 2011, respectively, as described in greater detail below under "Related Party Transactions."

Effective as of April 1, 2011, the Company entered into an employment agreement (the Agreement) with Mr. Sawyer (filed as exhibit 10.22 to this Annual Report on Form 10-K). The Agreement will terminate on April 1, 2014, unless extended or earlier terminated pursuant to the terms of such Agreement. Pursuant to the Agreement, Mr. Sawyer's base salary is \$250,000 per year, of which \$175,000 will be payable in cash and \$75,000 in shares of the Company's common stock on a pro-rata, quarterly basis. He may also receive discretionary bonuses in an amount up to 50% of his base salary. In conjunction with his appointment as Chief Executive Officer, Mr. Sawyer also received options to purchase up to 200,000 shares of the Company's common stock. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share. If Mr. Sawyer's employment is terminated without Cause (as defined in the Agreement) or for Good Reason (as defined in the Agreement), he will receive a severance payment of 100% of his annual base salary; provided that if Mr. Sawyer's employment is terminated 6 months before or within 24 months of a Change in Control (as defined in the Agreement), he will receive a severance payment of 200% of his annual base salary. If Mr. Sawyer's employment is terminated as a result of death or Disability (as defined in the Agreement), the Company will pay his base salary which would have been payable to Mr. Sawyer through the date his employment is terminated and all amounts actually earned, accrued or owing as of the date of termination. If Mr. Sawyer's employment is terminated for Cause or Mr. Sawyer voluntarily terminates his employment, the Company will pay his base salary and all amounts actually earned, accrued or owing as of the date of termination and he will be entitled for a period of three months after termination to exercise all options granted to him under his employment agreement or otherwise to the extent vested and exercisable on the date of termination. Mr. Sawyer's employment agreement contains no covenant-not-to-compete or similar restrictions after termination.

K. Andrew Lai

Mr. Lai was appointed Chief Financial Officer, Treasurer and Secretary of the Company on February 18, 2011. Effective as of that date, the Company entered into an employment agreement (the Agreement) with Mr. Lai (filed as exhibit 10.23 to this Annual Report on Form 10-K). The Agreement will terminate on February 18, 2014, unless extended or earlier terminated. Pursuant to the Agreement, Mr. Lai's base salary is \$190,000 per year, of which \$150,000 will be payable in cash and \$40,000 in shares of the Company's common stock on a pro-rata, quarterly basis. He may also receive discretionary bonuses in an amount up to 50% of his base salary. In conjunction with his appointment as Chief Financial Officer, Mr. Lai also received options to purchase up to 160,000 shares of the Company's common stock. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share. If Mr. Lai's employment is terminated without Cause (as defined in the Agreement) or for Good Reason (as defined in the Agreement), he will receive a severance payment of 100% of his annual base salary; provided that if Mr. Lai's employment is terminated 6 months before or within 24 months of a Change in Control (as defined in the Agreement), he will receive a severance payment of 200% of his annual base salary. If Mr. Lai's employment is terminated as a result of death or Disability (as defined in the Agreement), the Company will pay his base salary which would have been payable to Mr. Lai through the date his

employment is terminated and all amounts actually earned, accrued or owing as of the date of termination. If Mr. Lai's employment is terminated for Cause or Mr. Lai voluntarily terminates his employment, the Company will pay his base salary and all amounts actually earned, accrued or owing as of the date of termination and he will be entitled for a period of three months after termination to exercise all options granted to him under his employment agreement or otherwise to the extent vested and exercisable on the date of termination. Mr. Lai's employment agreement contains no covenant-not-to-compete or similar restrictions after termination.

John O'Keefe

Mr. O'Keefe was appointed as the interim Chief Financial Officer, Treasurer and Secretary of the Company on October 7, 2010, and he served as the interim principal accounting and financial officer for the Company until his resignation on February 18, 2011. The Company employed Mr. O'Keefe under a service agreement with Tatum LLC.

Donald L. Sytsma

Mr. Sytsma was appointed Chief Financial Officer and Treasurer of the Company on April 14, 2009 and Secretary on or around September 30, 2009, and he served as the principal accounting and financial officer for the Company until his resignation as Chief Financial Officer, Treasurer and Secretary on October 7, 2010. Mr. Sytsma's prior compensation arrangement with the Company provided for a salary of \$11,000 per month for services as required by the Company, plus 2,000 shares of Company common stock per month. As severance pay in connection with Mr. Sytsma's resignation on October 7, 2010, the Company agreed to pay Mr. Sytsma three months of salary and to issue Mr. Sytsma 30,000 restricted shares of common stock.

James J. Cerna, Jr.

Mr. Cerna co-founded the Company and was originally appointed a Director and Chief Executive Officer on May 19, 2006, and he was appointed as president on June 12, 2006. On September 2, 2008, Mr. Cerna transferred his duties as president and Chief Executive Officer to Mr. Sikora and continued his role as Chairman of the Board. On May 5, 2009, Mr. Cerna's resigned as Chairman and Director. On March 20, 2007, the Company entered into an employment agreement with Mr. Cerna (filed as exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 2007). Mr. Cerna's agreement was for a period of 3 years and provided for payment of \$175,000 annually in exchange for services to the Company. The agreement also provided for certain payments in the event of termination of employment. In connection with Company initiatives to scale back costs in response to low oil prices during our 4th fiscal quarter of 2009, Mr. Cerna agreed to suspend payment of his compensation under his employment agreement. Pursuant to an agreement, effective August 1, 2009, the Company commenced remitting \$7,292 per month until the remaining amount due under his employment agreement was paid. The Company agreed to issue 86,027 shares of stock to Mr. Cerna on November 24, 2010 to terminate all liabilities and payment obligations to Mr. Cerna under this agreement.

Malek A. Bohsali

Mr. Bohsali served as Chief Financial Officer of the Company from April 10, 2007 through April 14, 2009, and served as corporate secretary until his resignation effective September 30, 2009. Mr. Bohsali received compensation listed in the above compensation table.

Other resources utilized in the Company's operations are typically contractors or sub-contractors of vendors and service providers that are not owned directly or indirectly by the Company or any officer, Director or

shareholder owning greater than five percent (5%) of our outstanding shares, nor are they members of the referenced individual's immediate family. Such sub-contracting engagement and per job payments are commonplace in the Company's business. The Company expects to continue to utilize and pay such service providers and third party contractors as necessary to operate its day-to-day field operations.

Lucas 2010 Incentive Compensation Plan

The Company shareholders approved the Lucas Energy, Inc. 2010 Long Term Incentive Plan (Incentive_Plan or Plan) at the annual shareholder meeting held on March 30, 2010. The Incentive Plan provides the Company with the ability to offer stock options and restricted stock to employees, consultants and contractors as performance incentives. Shares issuable under the Incentive Plan were registered on Form S-8 registration statement that was filed with the SEC on April 23, 2010. The NYSE Amex approved this listing application for the shares issuable under the Incentive Plan on May 6, 2010.

Under the Incentive Plan, 900,000 shares of the Company's common stock are authorized for initial issuance. As of June 15, 2011, an aggregate of 86,473 shares of common stock and options were available under the Incentive Plan for future grants. The number of shares available under the Plan is reduced one for one for each share delivered pursuant to an award under the Plan. Any issued shares that become available due to expiration, forfeiture, surrender, cancellation, termination or settlement in cash of an award under the Incentive Plan may be requested and used as part of a new award under the Plan.

The Plan is administered by the Compensation Committee and/or the Board in its discretion (the Committee). The Committee interprets the Plan and has broad discretion to select the eligible persons to whom awards will be granted, as well as the type, size and terms and conditions of each award, including the exercise price of stock options, the number of shares subject to awards, the expiration date of awards, and the vesting schedule or other restrictions applicable to awards. The Plan allows the Company to grant the following types of awards: (1) incentive stock options, (2) non-qualified stock options, and (3) restricted shares (i.e., shares subject to such restrictions, if any, as determined by the Compensation Committee or the Board).

Outstanding Equity Awards at March 31, 2011

The following table summarizes certain information regarding unexercised stock options outstanding as of March 31, 2011 for each of the Named Officers.

| Name | Number of | Number of | Stock | Stock |
|-------------------|---------------------|-----------------------|----------|------------|
| | Securities | Securities | | |
| | Underlying | Underlying | Option | Option |
| | Unexercised Stock | Unexercised Stock | Exercise | Expiration |
| | Options Exercisable | Options Unexercisable | Price | Date |
| William A. Sawyer | 24,000 | - | \$2.07 | 1/10/2016 |
| K. Andrew Lai | - | 160,000 | \$1.94 | 2/18/2016 |

The Company does not currently have in place or provide retirement, disability or other benefits to its employees.

DIRECTOR COMPENSATION

The following table sets forth compensation information with respect to our Directors during our fiscal year ended March 31, 2011.

| <u>Name</u> | Director Compensation | | | |
|--------------------|---------------------------------------|------------------------|-------------------------|--------------|
| | Fees earned or <u>paid in cash</u> | Stock <u>awards</u> | Option <u>awards</u> | <u>Total</u> |
| Peter K. Grunebaum | \$ 14,500 | \$ 24,720 | \$ 41,140 | \$ 80,360 |
| J. Fred Hofheinz | 14,250 | 24,720 | 41,140 | 80,110 |
| W. Andrew Krusen | 14,750 | 24,720 | 41,140 | 80,610 |

Beginning with the October 7, 2010 meeting of the Board of Directors, the compensation due to each member of the Board of Directors was increased from \$2,000 to \$3,000 per meeting. Additionally beginning with the October 2010 meeting, the chairpersons of the various committees are paid \$750 per each committee meeting and the non-chairpersons are paid \$500 for each committee meeting. Non-employee directors have historically been granted shares of common stock for services provided to the Company as a director.

The Board of Directors of the Company at a meeting held October 7, 2010 (the Grant Date), approved the issuance of 12,000 shares of common stock to each Director for services rendered during the April 1, 2009 to March 31, 2010 fiscal year (the Shares) and the grant of options to purchase 24,000 shares of common stock to each Director for services to be rendered during the April 1, 2010 to March 31, 2011 fiscal year (the Options) pursuant to the Company's 2010 Long Term Incentive Plan (the Plan). The Options have an exercise price of \$2.07 per share, the mean of the highest and lowest trading prices of the Company's common stock on the Grant Date, consistent with the terms of the Plan and vest to the Directors in tranches of 1/4th of such options per quarter (starting effective on April 1, 2010, the start of the 2011 fiscal year), with options to purchase 12,000 shares vesting as of the Grant Date, and options to purchase 6,000 shares of common stock vesting on December 31, 2010 and March 31, 2011, as long as such individuals remain as Directors. The fair value of the Shares was \$24,720. The Options were fully vested at March 31, 2011 and were valued using the Black Scholes model resulting in the fair value of \$41,140.

Compensation for serving as a director for an individual that is a named executive officer is reflected in the above table on Executive Compensation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth the record beneficial ownership of common stock of the Company as of June 15, 2011 for the following: (i) each person or entity who is known to the Company to beneficially own more than 5% of the outstanding shares of the Company's common stock; (ii) each of the Company's Directors; (iii) the Company's Chief Executive Officer and each of the officers of the Company; and (iv) all Directors and executive officers of the Company as a group.

The number and percentage of shares beneficially owned is determined under Rule 13d-3 as promulgated under the Securities Exchange Act of 1934, as amended, by the Securities and Exchange Commission (SEC), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or dispositive power and also any shares that the individual has the right to acquire within sixty days of June 15, 2011 through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes,

each person has sole voting and dispositive power (or shares such power) with respect to the shares shown as beneficially owned.

| <u>Title of Class</u> | <u>Name and Address of Beneficial Owner</u> | <u>Amount and Nature of Beneficial Ownership</u> | <u>Percent of Class (a)</u> |
|-----------------------|--|--|-----------------------------|
| Common | J. Fred Hofheinz Chairman 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 911,354 (1)(2)(4) | 5.38% |
| Common | William A. Sawyer Chief Executive Officer and Director 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 386,974 (4)(5) | 2.30% |
| Common | W. Andrew Krusen, Jr. Director 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 501,000 (1)(3)(4) | 2.94% |
| Common | Peter K. Grunebaum Director 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 136,229 (4) | * % |
| Common | K. Andrew Lai CFO, Treasurer & Secretary 3555 Timmons Lane, Suite 1550 Houston, Texas 77027 | 3,861 (6) | * % |
| Common | ALL EXECUTIVE OFFICERS AND DIRECTORS AS A GROUP (5 Persons) | 1,929,418 | 11.19% |

Beneficial ownership of the common stock is determined in accordance with the rules of the Securities and Exchange Commission and includes any shares of common stock over which a person exercises sole or shared voting or investment powers, or of which a person has a right to acquire ownership at any time within 60 days of June 15, 2011. Except as otherwise indicated, and subject to applicable community property laws, the persons named in this table have sole voting and investment power with respect to all shares of common stock held by them.

(a) Calculated based on 16,835,813 shares outstanding as of June 15, 2011.

* Less than one percent.

(1) Excludes 501,659 shares of common stock owned by El Tex Petroleum LLC, of which Mr. Hofheinz owns approximately 25.2% and of which Mr. Krusen owns approximately 18.8%, of which shares Mr. Hofheinz and Mr. Krusen disclaim beneficial ownership. Both Mr. Hofheinz and Mr. Krusen resigned as Managers of El Tex Petroleum LLC in February 2011.

(2) Includes warrants to purchase 83,334 shares of common stock which have an exercise price of \$1.00 per share.

- (3) Includes beneficial ownership of 240,000 shares of common stock and warrants to purchase 200,000 shares of common stock owned by Gulf Standard Energy Company LLC which have an exercise price of \$1.00 per share.
- (4) Includes options to purchase 24,000 shares of common stock which have an exercise price of \$2.07 per share.
- (5) Does not include options to purchase 200,000 shares of the Company's common stock which were granted to Mr. Sawyer, on April 1, 2011, which vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share, as no options have vested to date. Does not include common stock valued at \$18,750 which the Company agreed to issue to Mr. Sawyer pursuant to the terms of his employment agreement, described above under "Compensation of Named Executive Officers", quarterly during the term of the agreement, which shares are due to Mr. Sawyer on July 1, 2011, as the total number of such shares due to Mr. Sawyer have not been determined to date.
- (6) Does not include options to purchase 160,000 shares of the Company's common stock which were granted to K. Andrew Lai, on February 18, 2011, which vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share, as no options have granted vested to date. Includes 3,861 shares of common stock agreed to be issued to Mr. Lai on May 18, 2011, but not physically issued to date, representing shares valued at \$10,000 which are due to Mr. Lai pursuant to the terms of his employment agreement with the Company, as described in greater detail above. Does not include common stock valued at \$10,000 which the Company agreed to issue to Mr. Lai pursuant to the terms of his employment agreement, described above under "Compensation of Named Executive Officers", quarterly during the term of the agreement, which shares are due to Mr. Lai on August 18, 2011, as the total number of such shares due to Mr. Lai have not been determined to date. The 3,861 shares of common stock are not included in any outstanding number of shares of the common stock presented in this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

During the past two fiscal years there have been no transactions between us and any officer, Director, or any shareholder owning greater than five percent (5%) of our outstanding shares, nor any member of the above referenced individual's immediate family, except as set forth below or otherwise disclosed above under "Executive Compensation".

Related Party Transactions

The Company acquired approximately 2,771 gross oil and gas lease acreage (approx. 2,078 acres net to the Company's interest) located in Wilson County, Texas from El Tex Petroleum, LLC (El Tex), which acquisition was approved by the Board in September 2009. The leases have eight shut-in or plugged wellbores that the Company believes are good candidates for restoration and revitalization procedures. The leasehold, wellbore and surface equipment acquisition price totaled approximately \$1.0 million comprised of 637,887 shares of the Company's common stock valued at \$0.77 per share, or approximately \$490,000, the Company's assumption of \$500,000 in debt plus accrued interest; and the remittance of \$68,000 in cash.

One Director of the Company (J. Fred Hofheinz) holds an approximate 25.2% interest in El Tex while a second Lucas Board member (W. Andrew Krusen, Jr.) holds an indirect beneficial ownership interest in El Tex of approximately 18.8%. Pursuant to NYSE Amex exchange rules, Company shareholders were required to approve the issuance of shares of common stock to El Tex due to the Directors holding in the

aggregate more than a five percent (5%) indirect interest in the assets being acquired by the Company from El Tex. Additionally, the note holder of the debt assumed by the Company, J. Fred Hofheinz, is a Director of the Company. In connection with the Company's acquisition, the note holder agreed to convert the debt plus accrued interest due to him into shares of the Company's common stock. Pursuant to NYSE Amex exchange rules, Company shareholders were required to approve the issuance of the shares of common stock to the Director.

At the Company's shareholder meeting held on March 30, 2010, the shareholders approved the issuance of the shares of common stock to El Tex and the issuance of shares of common stock to the Director for the conversion of debt plus accrued interest assumed by the Company. NYSE Amex approved the listing application for the shares to be issued and on May 25, 2010 the Company issued 637,887 shares of common stock to El Tex and 683,686 shares of common stock to the Director that held the debt assumed by the Company. The shares of common stock were issued at \$0.77 per share which was the fair value of the shares at the time the acquisition was agreed and effected in September 2009.

Three wells acquired by Lucas from El Tex are part of the LEI 2009-III capital program, while one well is part of the LEI 2009-II six well program.

In addition, on February 23, 2010, Lucas paid \$250,000 to El Tex to acquire leases on additional properties.

In or around May 2010, the Company issued William A. Sawyer, the Company's President and Chief Executive Officer, 50,000 shares of common stock in connection with the Company's joint venture partner's commitment to and initial funding of their 70% working interest in the LEI 2009-III capital program.

The Board at a meeting held October 7, 2010 (the Grant Date), approved the issuance of 12,000 shares of common stock to each Director for services rendered during the April 1, 2009 to March 31, 2010 fiscal year (the Shares) and the grant of options to purchase 24,000 shares of common stock to each Director for services to be rendered during the April 1, 2010 to March 31, 2011 fiscal year (the Options) pursuant to the Company's 2010 Long Term Incentive Plan (the Plan). The Options have an exercise price of \$2.07 per share, the mean of the highest and lowest trading prices of the Company's common stock on the Grant Date, consistent with the terms of the Plan and vest to the Directors in tranches of 1/4th of such options per quarter (starting effective on April 1, 2010, the start of the 2011 fiscal year), with options to purchase 12,000 shares vesting as of the Grant Date, and options to purchase 6,000 shares of common stock vesting on December 31, 2010 and March 31, 2011, as long as such individuals remain as Directors of the Company, which options have fully vested to date.

On October 7, 2010, the Compensation Committee approved an increase in Mr. Sawyer's annual salary to \$175,000 per year (effective as of October 1, 2010, the Board approved the immediate issuance to Mr. Sawyer of 17,500 shares of common stock under the Company's 2010 Long Term Incentive Plan (the "Plan"), and an additional 17,500 shares of common stock under the Plan in the event the net production of the Company averages over 10,000 barrels of oil per month for a period of six months. As of March 31, 2011, the Company's net production has not yet averaged over 10,000 barrels of oil per month for a period of six months and as such, Mr. Sawyer has not earned or been issued the additional 17,500 shares discussed above.

Donald L. Sytsma was appointed Chief Financial Officer and Treasurer of the Company on April 14, 2009 and Secretary on or around September 30, 2009, and he served as the principal accounting and financial officer for the Company until his resignation on October 7, 2010. Mr. Sytsma's compensation arrangement provided for a salary of \$11,000 per month for services as required by the Company, plus 2,000 shares of Company common stock per month. As severance pay in connection with Mr. Sytsma's resignation on

October 7, 2010, the Company agreed to pay Mr. Sytsma three months of salary and to issue Mr. Sytsma 30,000 restricted shares of common stock.

On October 7, 2010, John O'Keefe was appointed as the Chief Financial Officer, Treasurer and Secretary of the Company.

In December 2010, the Company sold an aggregate of 2,510,506 units to certain institutional investors, each consisting of (a) one share of our common stock; (b) one Series B Warrant to purchase one share of our common stock at an exercise price of \$2.86 per share; and (c) one Series C Warrant to purchase one share of our common stock at an exercise price of \$2.62 per share for a purchase price of \$2.38 per unit. An investor in the offering included Hall Phoenix Energy, LLC, who is a joint venture partner with Lucas in the Eagle Ford trend in South Texas.

On February 18, 2011, the Company accepted the resignation of John O'Keefe from his positions as Chief Financial Officer, Treasurer and Secretary of the Company. As a result of his resignation, Mr. O'Keefe no longer held any officer position with the Company.

Also effective February 18, 2011, the Company appointed K. Andrew Lai, as Chief Financial Officer, Treasurer and Secretary of the Company.

On February 18, 2011, the Company granted options to purchase 160,000 shares of the Company's common stock to K. Andrew Lai, who on the same date was appointed as the Company's Chief Financial Officer. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$1.94 per share.

On April 1, 2011, the Company granted options to purchase 200,000 shares of the Company's common stock to William A. Sawyer. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share.

It is our policy that any future material transactions between us and members of management or their affiliates shall be on terms no less favorable than those available from unaffiliated third parties.

DIRECTOR INDEPENDENCE

During the year ended March 31, 2011, the Board determined that a majority of the Board is independent under the definition of independence and in compliance with the listing standards of the NYSE Amex listing requirements. Based upon these standards, the Board has determined that all of the Directors are independent, with the exception of Mr. Sawyer, our President and Chief Executive Officer. See "Meetings and Committees of the Board of Directors" in Item 10.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

Our Audit Committee of the Board of Directors approves in advance the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services.

Audit Fees

The aggregate fees billed by our independent auditors, GBH CPAs, for professional services rendered for the audit of our annual financial statements included in our Annual Reports on Form 10-K for the years ended March 31, 2011 and 2010, and for the review of quarterly financial statements included in

our Quarterly Reports on Form 10-Q for the quarters ending June 30, September 30, and December 31, 2010 and 2009, were:

| | 2011 | 2010 |
|--------------|-------------|-------------|
| GBH CPAs, PC | \$ 130,000 | \$ 102,500 |

Audit fees incurred by the Company were pre-approved by the Audit Committee.

Audit Related Fees: None.

Tax Fees: None.

All Other *Fees:* None.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (a)(2) Financial Statements and Financial Statement Schedule

See “Index to Financial Statements” set forth on page F-1.

(a)(3), (b) Exhibits

See pages E-1 through E-3 for a listing of the exhibits.

LUCAS ENERGY, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Lucas Energy, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Lucas Energy, Inc. as of March 31, 2011 and 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Lucas Energy, Inc.'s management. Our responsibility is to express an opinion on these consolidated 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Lucas Energy, Inc. as of March 31, 2011 and 2010 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/GBH CPAs, PC

GBH CPAs, PC
www.gbhcpas.com
Houston, Texas

June 28, 2011

LUCAS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

| At March 31 | 2011 | 2010 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 2,471,108 | \$ 1,822,780 |
| Marketable Securities | - | 21,450 |
| Accounts Receivable | 806,098 | 244,164 |
| Deferred Financing Costs | - | 250,921 |
| Deferred Offering Costs | - | 119,912 |
| Other Current Assets | 152,793 | 43,769 |
| Total | <u>3,429,999</u> | <u>2,502,996</u> |
| Property, Plant and Equipment | | |
| Oil and Gas Properties (Full Cost Method) | 24,650,840 | 24,699,722 |
| Other Property, Plant and Equipment | 93,199 | 35,969 |
| Total Property, Plant and Equipment | <u>24,744,039</u> | <u>24,735,691</u> |
| Accumulated Depletion, Depreciation and Amortization | <u>(3,753,275)</u> | <u>(2,497,495)</u> |
| Total Property, Plant and Equipment, Net | 20,990,764 | 22,238,196 |
| Deposit for Acquisition of Oil and Gas Properties | 500,000 | - |
| Other Assets | <u>57,112</u> | <u>57,515</u> |
| Total Assets | <u>\$ 24,977,875</u> | <u>\$ 24,798,707</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | \$ 2,236,917 | \$ 1,391,446 |
| Common Stock Payable | 503,750 | - |
| Accrued Expenses | 255,239 | 65,541 |
| Advances From Working Interest Owners | 357,399 | 3,045,292 |
| Borrowings on Credit Facility | - | 2,150,000 |
| Current Portion of Long-Term Debt | 30,727 | - |
| Total | <u>3,384,032</u> | <u>6,652,279</u> |
| Asset Retirement Obligation | 409,112 | 327,412 |
| Note Payable | 60,114 | - |
| Commitments and Contingencies (see Note 7) | | |
| Stockholders' Equity | | |
| Preferred Stock, 10,000,000 Shares Authorized of \$0.001 Par, No Shares Issued and Outstanding | - | - |
| Common Stock, 100,000,000 Shares Authorized of \$0.001 Par, 16,727,713 Shares Issued and 16,690,813 Outstanding Shares at March 31, 2011 and 12,837,220 Issued and 12,800,320 Outstanding Shares at March 31, 2010, respectively | 16,728 | 12,837 |
| Additional Paid in Capital | 28,461,239 | 20,639,247 |
| Accumulated Deficit | (7,304,191) | (2,783,909) |
| Common Stock Held in Treasury, 36,900 Shares | (49,159) | (49,159) |
| Total Stockholders' Equity | <u>21,124,617</u> | <u>17,819,016</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 24,977,875</u> | <u>\$ 24,798,707</u> |

The accompanying notes are an integral part of these consolidated financial statements.

LUCAS ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| Year Ended March 31 | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Net Operating Revenues | | |
| Crude Oil | \$ 2,984,504 | \$ 1,761,782 |
| Natural Gas | 37,581 | 15,954 |
| Total | <u>3,022,085</u> | <u>1,777,736</u> |
| Operating Expenses | | |
| Lease Operating Expenses | 1,700,576 | 1,048,333 |
| Severance and Property Taxes | 202,709 | 129,432 |
| Depreciation, Depletion, Amortization and Accretion | 1,291,581 | 787,340 |
| General and Administrative (including Share-Based Compensation of \$1,130,070 and \$128,472, respectively) | 4,064,001 | 1,690,170 |
| Total | <u>7,258,867</u> | <u>3,655,275</u> |
| Operating Loss | <u>(4,236,782)</u> | <u>(1,877,539)</u> |
| Other Expense, Net | (21,356) | (141,391) |
| Interest Expense | <u>(262,144)</u> | <u>(301,787)</u> |
| Loss Before Income Taxes | <u>(4,520,282)</u> | <u>(2,320,717)</u> |
| Income Tax Provision | - | - |
| Net Loss | <u>\$ (4,520,282)</u> | <u>\$ (2,320,717)</u> |
| Net Loss Per Share | | |
| Basic and Diluted | <u>\$ (0.31)</u> | <u>\$ (0.21)</u> |
| Weighted Average Number of Common Shares Outstanding | | |
| Basic and Diluted | <u>14,378,705</u> | <u>10,812,810</u> |

The accompanying notes are an integral part of these consolidated financial statements.

LUCAS ENERGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | <u>Common Stock</u> | | <u>Additional</u> | | <u>Common</u> | <u>Total</u> |
|-------------------------------|---------------------|------------------|----------------------|----------------------|-------------------|----------------------|
| | <u>Number</u> | <u>Common</u> | <u>Paid In</u> | <u>Accumulated</u> | <u>Stock</u> | <u>Stockholders'</u> |
| | <u>Of Shares</u> | <u>Stock</u> | <u>Capital</u> | <u>Deficit</u> | <u>Held in</u> | <u>Equity</u> |
| | | | | | <u>Treasury</u> | |
| Balance at March 31, 2009 | 10,383,388 | \$10,383 | \$ 18,864,225 | \$ (463,192) | \$(49,159) | \$ 18,362,257 |
| Common shares issued for: | | | | | | |
| Equity Offering | 462,501 | 463 | 277,037 | - | - | 277,500 |
| Property Acquisitions | 943,330 | 943 | 724,880 | - | - | 725,823 |
| Property Sale Commission | 185,174 | 185 | 119,058 | - | - | 119,243 |
| Conversion of Debt | 683,686 | 684 | 525,754 | - | - | 526,438 |
| Share-Based Compensation | 179,141 | 179 | 128,293 | - | - | 128,472 |
| Net loss | - | - | - | (2,320,717) | - | (2,320,717) |
| Balance at March 31, 2010 | 12,837,220 | 12,837 | 20,639,247 | (2,783,909) | (49,159) | 17,819,016 |
| Common shares issued for: | | | | | | |
| Unit Offering | 2,510,506 | 2,511 | 5,400,789 | - | - | 5,403,300 |
| At-The-Market Offering | 778,170 | 778 | 1,208,523 | - | - | 1,209,301 |
| Warrants Exercised | 45,000 | 45 | 44,955 | - | - | 45,000 |
| Property Acquisitions | 284,788 | 285 | 502,920 | - | - | 503,205 |
| Property Sale Commission | 39,502 | 40 | 38,717 | - | - | 38,757 |
| Share-Based Compensation | 232,527 | 232 | 450,591 | - | - | 450,823 |
| Amortization of stock options | - | - | 175,497 | - | - | 175,497 |
| Net loss | - | - | - | (4,520,282) | - | (4,520,282) |
| Balance at March 31, 2011 | <u>16,727,713</u> | <u>\$ 16,728</u> | <u>\$ 28,461,239</u> | <u>\$(7,304,191)</u> | <u>\$(49,159)</u> | <u>\$ 21,124,617</u> |

The accompanying notes are an integral part of these consolidated financial statements.

LUCAS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| Year Ended March 31 | 2011 | 2010 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Reconciliation of Net Loss to | | |
| Net Cash Provided by Operating Activities: | | |
| Net Loss | \$(4,520,282) | \$(2,320,717) |
| Items Not Requiring Cash | | |
| Depreciation, Depletion, Amortization and Accretion | 1,291,581 | 787,340 |
| Share-Based Compensation | 1,130,070 | 128,472 |
| Amortization of Deferred Financing Costs | 250,921 | 121,607 |
| Unrealized Loss on Marketable Securities | 21,450 | 110,606 |
| Other | 1,210 | 68,785 |
| Changes in Components of Working Capital and Other Assets | | |
| Accounts Receivable | (590,085) | (123,287) |
| Other Current Assets | (109,024) | 38,504 |
| Accounts Payable and Accrued Expenses | 1,035,169 | 495,918 |
| Advances from Working Interest Owners | (2,687,893) | 2,305,292 |
| Other Assets | 403 | (25,195) |
| Changes in Components of Working Capital | | |
| Associated with Investing and Financing Activities | (668,328) | (341,153) |
| Net Cash Provided by (Used in) Operating Activities | (4,844,808) | 1,246,172 |
| Investing Cash Flows | | |
| Additions of Oil and Gas Properties | (12,943,151) | (1,980,479) |
| Additions of Other Property, Plant and Equipment | (57,230) | (6,198) |
| Proceeds from Sale of Oil and Gas Properties | 13,726,688 | 1,595,208 |
| Deposit for Acquisition of Oil and Gas Properties | (500,000) | - |
| Proceeds from Sale of Marketable Securities | - | 92,495 |
| Changes in Components of Working Capital Associated with | | |
| Investing Activities | 623,328 | 341,153 |
| Other, Net | (29,012) | - |
| Net Cash Provided by Investing Activities | 820,623 | 42,179 |
| Financing Cash Flows | | |
| Net Proceeds from the Sale of Common Stock | 6,777,513 | 277,500 |
| Repayment of Borrowings on Credit Facility | (2,150,000) | (500,000) |
| Short-Term Borrowings | - | 740,000 |
| Cash Paid for Deferred Offering Costs | - | (119,912) |
| Changes in Components of Working Capital Associated with | | |
| Financing Activities | 45,000 | - |
| Net Cash Provided by Financing Activities | 4,672,513 | 397,588 |
| Increase in Cash and Cash Equivalents | 648,328 | 1,685,939 |
| Cash and Cash Equivalents at Beginning of the Year | 1,822,780 | 136,841 |
| Cash and Cash Equivalents at End of the Year | <u>\$ 2,471,108</u> | <u>\$ 1,822,780</u> |

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND HISTORY

The Company was incorporated on December 16, 2003 in the State of Nevada as Panorama Investments, Corp. On June 16, 2006, the Company consummated a share exchange with Lucas Energy Resources, Inc. (Lucas Resources), a privately held oil and gas company which held oil and gas lease acreage and producing reserves in the State of Texas. The share exchange was made pursuant to a May 19, 2006 Acquisition and Exchange Agreement whereby the prior shareholders of Lucas Resources assumed control of and responsibilities for the Company's activities. In conjunction with the share exchange, the Company was renamed Lucas Energy, Inc. (Lucas, Lucas Energy or the Company).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Reclassification

The consolidated financial statements of Lucas Energy include the accounts of its wholly-owned subsidiary, Lucas Energy Resources, Inc. All intercompany accounts and transactions have been eliminated.

Certain reclassifications have been made to prior period financial statements to conform with the current presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Lucas's consolidated financial statements are based on a number of significant estimates, including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties, and timing and costs associated with its retirement obligations, as well as those related to the fair value of stock options, stock warrants and stock issued for services.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and financial instruments which mature within three months of the date of purchase.

Concentration of Credit Risk

Financial instruments that potentially subject Lucas to concentration of cash and credit risk consist of accounts receivable. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2011 through December 31, 2012, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. At March 31, 2011, cash balances in interest-bearing accounts totaled \$4,800.

Accounts receivable are recorded at invoiced amount and generally do not bear interest. Any allowance for doubtful accounts is based on management's estimate of the amount of probable losses due to the inability to collect from customers. As of March 31, 2011, no allowance for doubtful accounts has been recorded.

Sales to one customer comprised 91% and 88% of Lucas's total oil and gas revenues for the fiscal years ended March 31, 2011 and 2010, respectively. At March 31, 2011, Lucas Energy's accounts receivable balance included one receivable balance which constituted 65% of the total balance. This receivable was due from a company which purchased Lucas's crude oil. The related amounts were collected in April 2011. At March 31, 2010, Lucas Energy's accounts receivable balance included one receivable balance which constituted 75% of the total balance. This receivable was due from a company which purchased Lucas's crude oil. The related amounts were collected in April 2010. Lucas believes that, in the event that its primary customer is unable or unwilling to continue to purchase Lucas's production, there are a substantial number of alternative buyers for its production at comparable prices.

Marketable Securities

Lucas reports its short-term investments and other marketable securities at fair value in accordance with Accounting Standards Codification (ASC) Topic 825 "Financial Instruments."

Fair Value of Financial Instruments

As of March 31, 2011 and 2010, the fair value of Lucas's cash, accounts receivable, accounts payable, note receivable and note payable approximate carrying values because of the short-term maturity of these instruments.

Oil and Gas Properties, Full Cost Method

Lucas uses the full cost method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells used to find proved reserves, and to drill and equip development wells including directly related overhead costs and related asset retirement costs are capitalized.

Under this method, all costs, including internal costs directly related to acquisition, exploration and development activities, are capitalized as oil and gas property costs on a country-by-country basis. Properties not subject to amortization consist of exploration and development costs, which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired. Lucas assesses overall values of unproved properties, if any, on at least an annual basis or when there has been an indication that impairment in value may have occurred. Impairment of unproved properties is assessed based on management's intention with regard to future development of individually significant properties and the ability of Lucas to obtain funds to finance their programs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves. If it is determined that the relationship is significantly altered, the corresponding gain or loss will be recognized in the consolidated statements of operations.

Costs of oil and gas properties are amortized using the units of production method. Amortization expense calculated per equivalent physical unit of production amounted to \$31.35 and \$26.28 per barrel of oil equivalent for the years ended March 31, 2011 and 2010, respectively.

Ceiling Test

In applying the full cost method, Lucas performs an impairment test (ceiling test) at each reporting date, whereby the carrying value of property and equipment is compared to the "estimated present value" of its proved reserves discounted at a 10-percent interest rate of future net revenues, based on current economic and operating conditions at the end of the period, plus the cost of properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties. If capitalized costs exceed this limit, the excess is charged as an impairment expense. During the years ended March 31, 2011 and 2010, no impairment of oil and gas properties was recorded.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and consist primarily of furniture and computer equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of three years.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and accrued tax liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Lucas has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements as of March 31, 2011 and 2010. The Company's policy is to classify assessments, if any, for tax related interest as interest expense and penalties as interest expenses.

Earnings per Share of Common Stock

Basic and diluted net income per share calculations are calculated on the basis of the weighted average number of shares of the Company's common stock (Common Shares) outstanding during the year. Purchases of treasury stock reduce the outstanding shares commencing on the date that the stock is purchased. Common stock equivalents are excluded from the calculation when a loss is incurred as their effect would be anti-dilutive.

Stock options to purchase 256,000 Common Shares at an average exercise price of \$1.99 and warrants to purchase 5,476,642 Common Shares at an average exercise price of \$2.65 were outstanding at March 31, 2011. Using the treasury stock method, had we had net income, approximately 114,000 Common Shares attributable to our outstanding stock options and 1,434,000 Common Shares attributable to our outstanding warrants would have been included in the fully diluted earnings per share calculation for the year ended March 31, 2011.

At March 31, 2010, all options and warrants outstanding were "out of the money" and therefore, did not have any dilutive effect under the treasury stock method to the net income (loss) earnings per share calculation for the annual period then ended.

Share-Based Compensation

In accordance with the provisions of the Stock Compensation Topic of the ASC (ASC Topic 718), Lucas measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

Revenue and Cost Recognition

Lucas recognizes oil and natural gas revenue under the sales method of accounting for its interests in producing wells as crude oil and natural gas is produced and sold from those wells. Under the sales method, Lucas does not recognize the value of its crude oil inventory in the financial statements. Costs associated with production are expensed in the period incurred.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, "Improving Disclosures About Fair Value Measurements" (ASU 2010-06), which amends the Fair Value Measurements and Disclosures Topic of the ASC (ASC Topic 820). Among other provisions, ASC Topic 820 establishes a fair value hierarchy that prioritizes the relative reliability of inputs used in fair value measurements. The hierarchy gives highest priority to Level 1 inputs that represent unadjusted quoted market prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are directly or indirectly observable inputs other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs and have the lowest priority in the hierarchy. This amendment requires new disclosures on the value of, and the reason for, transfers in and out of Levels 1 and 2 of the fair value hierarchy and additional disclosures about purchases, sales, issuances and settlements within Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosure requirements on levels of disaggregation and about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to provide additional disclosures regarding Level 3 measurements which is effective for interim and annual reporting periods beginning after December 15, 2010.

In January 2010, the FASB issued ASU 2010-03, "Oil and Gas Reserve Estimations and Disclosures" (ASU 2010-03). This update aligns the current oil and gas reserve estimation and disclosure requirements of ASC Topic 932 with the changes required by the United States Securities and Exchange Commission (SEC) final rule, "Modernization of Oil and Gas Reporting," as discussed below. ASU 2010-03 expands the disclosures required for equity method investments, revises the definition of oil- and gas-producing activities to include nontraditional resources in reserves unless not intended to be upgraded into synthetic oil or gas, amends the definition of proved oil and gas reserves to require 12-month average pricing in estimating reserves, amends and adds definitions in the Master Glossary that is used in estimating proved oil and gas quantities and provides guidance on geographic area with respect to disclosure of information about significant reserves. ASU 2010-03 must be applied prospectively as a change in accounting principle that is inseparable from a change in accounting estimate and is effective for entities with annual reporting periods ending on or after December 31, 2009. Lucas adopted ASU 2010-03 (see Supplemental Information to Consolidated Financial Statements) effective March 31, 2010.

Subsequent Events

Lucas evaluated all transactions from March 31, 2011 through the financial statement issuance date for subsequent event disclosure.

NOTE 3 - MARKETABLE SECURITIES

At March 31, 2011, Lucas held 3,300,000 shares of Bonanza Oil and Gas Inc. (Bonanza) common stock recorded at zero value based upon the closing price of Bonanza's common stock on that date. During the years ended March 31, 2011 and 2010, pursuant to mark-to-market accounting, Lucas reported non-cash unrealized losses on Bonanza common shares of \$21,450 and \$110,606, respectively, due to the determination by the Company that the decline in price was other than temporary.

At March 31, 2009, Lucas held 7,332,000 shares (3,666,000 pre-split shares) of Bonanza common stock. On January 20, 2010, Bonanza affected a two for one forward stock split. All shares are reflected on a post-split basis. During the year ended March 31, 2010, Lucas sold 3,032,000 shares (1,516,000 shares pre-split) of Bonanza common stock, and transferred 1,000,000 shares (500,000 pre-split shares) to an investor relations consultant for services valued at \$38,000, with a realized loss of \$30,785, net of commissions.

NOTE 4 - OIL AND GAS PROPERTIES

All of Lucas's oil and gas properties are located in the United States. Costs being amortized at March 31, 2011 and 2010 are as follows:

| | At March 31, | |
|---|----------------------|----------------------|
| | 2011 | 2010 |
| Proved leasehold costs | \$ 6,043,061 | \$ 11,196,467 |
| Costs of wells and development | 17,504,183 | 13,243,507 |
| Capitalized asset retirement costs | 305,646 | 259,748 |
| Oil & gas properties not subject to amortization | 797,950 | - |
| Total oil & gas properties | 24,650,840 | 24,699,722 |
| Accumulated depreciation and depletion | (3,709,719) | (2,482,433) |
| Net Capitalized Costs | <u>\$ 20,941,121</u> | <u>\$ 22,217,289</u> |

The following table sets forth the changes in the total cost of oil and gas properties at March 31, for each of the two years in the period ended March 31, 2011:

| | 2011 | 2010 |
|--------------------------------|----------------------|----------------------|
| Balance at beginning of period | \$ 24,699,722 | \$ 22,794,893 |
| Acquisitions using cash | 8,311,739 | 1,059,596 |
| Other capitalized costs | 4,631,412 | 920,883 |
| Sale proceeds | (13,726,688) | (1,595,208) |
| Assumption of note | 90,841 | 500,000 |
| Acquisitions using shares | 503,205 | 725,800 |
| Sale commission using shares | 38,757 | 119,059 |
| Other non-cash transactions | 101,852 | 174,699 |
| Balance at end of period | <u>\$ 24,650,840</u> | <u>\$ 24,699,722</u> |

Other capitalized costs include title related expenses and tangible and intangible drilling costs.

Acquisition of Oil and Gas Properties

Fiscal Year 2011. During the year ended March 31, 2011, Lucas purchased various oil and gas properties and equipment at an aggregate net cost of \$13,631,073 for \$12,943,151 cash, 284,788 shares of Lucas's common stock valued at \$503,205 (\$1.77 per share based upon the closing price of the Company's common stock on the date of agreement) and related assumptions of working capital of \$184,717. In connection with the purchase and sale of oil and gas properties, Lucas acquired a note receivable and assumed a note payable the balances of which at March 31, 2011 were approximately \$27,800 and \$90,800, respectively.

In December 2010, Lucas entered into an agreement for the right to purchase, over time as financing becomes available, up to an aggregate 77.5% interest in certain oil and gas properties and leases located in McKinley County, New Mexico for an aggregate price of \$20.5 million, which included a deposit of \$0.5 million towards the possible purchase of the interests. The deposit is reflected in the Balance Sheet at March 31, 2011. In January 2011 as part of the agreement, Lucas purchased an undivided 7.56% interest in the New Mexico properties for \$2.0 million and paid the deposit of \$0.5 million. Lucas did not purchase any additional interests and allowed the right to purchase additional interests to expire in April 2011 without exercising it. Lucas has requested the seller to return the deposit.

Fiscal Year 2010. During the year ended March 31, 2010, Lucas acquired approximately 2,078 net acres located in Wilson County, Texas from El Tex Petroleum, LLC (El Tex). The leasehold, wellbore and surface equipment acquisition cost totaled approximately \$1 million comprised of 637,887 shares of Lucas common stock valued at \$490,000 (\$0.77 per share based upon the closing price of the Company's common stock on the date of agreement), the assumption of \$500,000 in debt plus accrued interest and the payment of \$68,000 in cash. Lucas received shareholder and NYSE Amex (Amex) approval under Amex rules since two of Lucas's directors owned 25.2% and 18.8% interests in El Tex, respectively, and one of them was the holder of the debt assumed. In May 2010, Lucas issued 683,686 shares of common stock for the note conversion. The stock was issued at \$0.77 per share which was the fair value of the shares at the effective date of the original transaction. During the year ended March 31, 2010, Lucas paid \$250,000 to El Tex for lease acquisition in certain properties.

Sale of Oil and Gas Properties

In connection with Lucas's development strategy, Lucas completed farm-out arrangements with Hilcorp Energy I, LP, an affiliate of Hilcorp Energy Company; and Marathon Oil (East Texas) LP, a subsidiary of Marathon Oil Corporation, to develop leases held by Lucas in the Eagle Ford shale formation. Those transactions, which are described below, resulted in sales proceeds to Lucas while maintaining a carried interest at various working interest percentages in such leases.

During the year ended March 31, 2011, Lucas sold various oil and gas properties and equipment for an aggregate gross proceeds of approximately \$13,773,411, paid sales commissions with 39,502 shares of Lucas's common stock valued at approximately \$38,800 and released a receivable amount of \$7,966 for net proceeds of \$13,726,688, all of which was treated as a reduction in the full cost pool with no gain or loss recorded on the sales. Such sales included the transactions discussed below.

During the year ended March 31, 2011, Lucas entered into certain separate purchase and sale agreements with three different companies for cash consideration to convey portions of its leasehold interest in the rights below the base of the Austin Chalk formation, or the top of the Eagle Ford formation, and deeper rights (Deep Rights) for the development of the Eagle Ford formation. In all agreements, 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.

Under the terms of the first agreement entered into in April 2010, the buyer acquired 85% of the Deep Rights to our leases only in Gonzales County, Texas for cash consideration plus carrying Lucas for 15% to the tanks for the first two Eagle Ford wells drilled by the buyer. The buyer drilled and completed the two horizontal wells in the fourth quarter of the fiscal year. The first agreement was amended subsequently without modification to the primary terms to include additional properties and resulted in additional closings. A second agreement was entered into in November 2010 with another buyer which essentially resulted in a transfer of the interests of one of Lucas's joint venture partners to the buyer. A third agreement was entered into in March 2011 whereby the buyer acquired 50% of the Deep Rights to Lucas's leases only in Wilson County, Texas.

During the year ended March 31, 2010, Lucas began two capital programs which included farm-ins by a participant for wells located in Gonzales, Wilson and Karnes Counties, Texas. The participant agreed to pay 80% of the capital costs to earn a 70% working interest in the wells. The participant paid Lucas a total of approximately \$1,554,500 for the interests during the year ended March 31, 2010 and a total of approximately \$783,200 for interests in wells added to the program during the year ended March 31, 2011. Lucas retained a 20% working interest in the programs prior to payout, and will have an additional 10% "back in" after payout to the 80% working interest participant (or a total 30% working interest, after payout). Lucas is the operator of all wells in the programs. The amounts paid to Lucas for the interests acquired have been reflected as a reduction to the full cost pool with no gain recorded on the sales. Funds received by Lucas pursuant to cash calls to the working interest participant in excess of funds expended in the programs are reflected in the Balance Sheets as Advances from Working Interest Owners. During the year ended March 31, 2011, Lucas assisted the participant in the sale of a portion of the participant's interests in the two programs to another working interest owner by repurchasing and selling the interests to the other working interest owner. The re-sale price was greater than the repurchase price by approximately \$261,100 and was recorded in the full cost pool.

NOTE 5 - REVOLVING LINE OF CREDIT AND LETTER OF CREDIT FACILITY

In October 2008, Lucas entered into a three-year Revolving Line of Credit and Letter of Credit Facility with Amegy Bank (the Credit Facility). At the closing of the Credit Facility in October 2008, Lucas had a lending commitment and borrowing capacity of \$3 million. The outstanding balance under the Credit Facility at March 31, 2010 was \$2,150,000; and no borrowing capacity was available to Lucas under the Credit Facility. For the year ended March 31, 2010, Lucas incurred \$122,970 of interest, \$55,163 of bank and bank advisor's fees, and \$123,654 for amortization of deferred financing costs on the Credit Facility for total interest and associated costs of the Credit Facility of \$301,787.

In May 2010, Lucas terminated the Credit Facility and paid off the outstanding balance. As a result, Amegy released all liens and security interests securing Lucas's obligations under the Credit Facility. For the year ended March 31, 2011, Lucas incurred \$10,014 of interest and expensed the remaining unamortized deferred financing costs totaling \$250,921 as interest expense.

NOTE 6 – ASSET RETIREMENT OBLIGATIONS

Lucas records the fair value of a liability for asset retirement obligations (ARO) in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset and is depreciated over the useful life of the asset. Lucas accrues an abandonment liability associated with its oil and gas wells when those assets are placed in service. The ARO is recorded at its estimated fair value and accretion is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is determined by using the expected future cash outflows discounted at Lucas's credit-adjusted risk-free interest rate. No market risk premium has been included in Lucas's calculation of the ARO balance.

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of long-term legal obligations associated with the future retirement of oil and gas properties for the years ended March 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Carrying amount at beginning of year | \$ 327,412 | \$ 181,599 |
| Liabilities incurred | 42,955 | 139,739 |
| Liabilities settled | - | - |
| Accretion | 35,801 | 15,164 |
| Revisions | 2,944 | - |
| Reduction for sale of oil and gas property | - | (9,090) |
| Carrying amount at end of year | <u>\$ 409,112</u> | <u>\$ 327,412</u> |

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Minimum Commitments

At March 31, 2011, total minimum commitments were as follows:

| | |
|-------------------------------------|---------------------|
| | <u>Total</u> |
| Current and Long-Term Debt | \$ 90,841 |
| Non-Cancelable Operating Leases | 92,348 |
| Interest Payments on Long-Term Debt | <u>15,757</u> |
| Total | <u>\$ 198,946</u> |

Contingencies

December 2010 Offering. Effective December 30, 2010 (the Closing Date), the Company sold an aggregate of 2,510,506 units pursuant to a Securities Purchase Agreement (the Purchase Agreement) to certain institutional investors (the Investors), each consisting of (a) one share of our common stock; (b) one Series B Warrant to purchase one share of our common stock at an exercise price of \$2.86 per share (the Series B Warrants); and (c) one Series C Warrant to purchase one share of our common stock at an exercise price of \$2.62 per share (the Series C Warrants and together with the Series B Warrants, the Warrants, and collectively with the shares of common stock, the Units). The Offering grossed almost \$6 million in cash and netted \$5.5 million after expenses.

The Units were offered through a Prospectus Supplement (Supplement No. 2) filed with the Securities and Exchange Commission on December 30, 2010 and accompanying base prospectus (the Prospectus Supplement) filed in connection with the Company's Form S-3 shelf registration statement previously filed with the Securities and Exchange Commission on December 31, 2009, which registered an aggregate of \$10,000,000 in securities (the Shelf Registration). The Company originally believed on the Closing Date and at the time of the filing of the Prospectus Supplement, that the Shelf Registration had sufficient capacity to cover and register all of the shares of common stock sold in connection with the Units, all of the Series B Warrants, all of the Series C Warrants, and warrants to purchase 150,630 shares of our common stock granted to the placement agent (the Agent Warrants), and all of the shares of common stock issuable upon the exercise of such warrants in the Prospectus Supplement. However, the Company subsequently determined that this was not the case. Specifically, the Company later determined that the Shelf Registration only had sufficient capacity to cover and register the 2,510,506 shares of common stock included in the Units and 941,053 shares out of the 2,510,506 shares of common stock issuable under the Series C Warrants and such warrants on the Prospectus Supplement (the Shelf Registered_Warrants). The Company subsequently filed a Form S-3 resale Registration Statement to register the shares of common stock underlying the Class B Warrants and those Class C Warrants not registered in the Shelf Registration. The Form S-3 Registration Statement was subsequently declared effective by the SEC; however, as a result of the fact that the Shelf Registration did not have sufficient capacity to cover and register the entire amount of shares of common stock issuable in connection with the Units sold in the Offering (i.e., only the shares of common stock sold in connection with the Units and a portion of the shares of common stock issuable upon exercise of the Warrants were registered under the Shelf Registration, as described above), we may face damages in the future pursuant to the terms of the Purchase Agreement and the Investors may seek damages in the future against us for damages they may have suffered as a result of the above. We are unable to estimate the damages, if any.

Legal Proceedings. There are currently various suits and claims pending against Lucas that have arisen in the ordinary course of Lucas's business, including contract disputes and title disputes. While the ultimate outcome and impact on Lucas cannot be predicted with certainty, management believes that the resolution of these suits and claims will not, individually or in the aggregate, have a material adverse effect on Lucas's consolidated financial position, results of operations or cash flow. Lucas records reserves for contingencies when information available indicates that a loss is probable and the amount of the loss can be reasonably estimated.

NOTE 8 – INCOME TAXES

The Company did not record any provision for income taxes for the two years ended March 31, 2011.

Reconciliation between actual tax expense (benefit) and income taxes computed by applying the U.S. federal income tax rate and state income tax rate to income from continuing operations before income taxes are as follows for the two years ended March 31, 2011:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|----------------|--------------|
| Computed at expected tax rates (34%) | \$ (1,536,896) | \$ (789,044) |
| Meals and entertainment | 3,450 | 1,872 |
| Percentage depletion | (36,840) | |
| Return to accrual true-up | (252,944) | - |
| Change in valuation allowance | 1,823,230 | 787,172 |
| Total | <u>\$ -</u> | <u>\$ -</u> |

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred liabilities are presented below:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|--------------------|
| Deferred tax assets: | | |
| Net operating tax loss carryforwards | \$ 2,895,365 | \$ 4,222,046 |
| Gain on sale of oil and gas properties | 4,079,822 | - |
| Depletion | 672,929 | 532,112 |
| Unrealized net loss on available-for-sale securities | 123,954 | 97,896 |
| Share-based compensation | - | 109,116 |
| Other | - | 2,396 |
| Total deferred tax assets | <u>7,772,070</u> | <u>4,963,566</u> |
| Deferred tax liabilities: | | |
| Intangible drilling costs | (3,953,052) | (3,066,667) |
| Depreciation | (1,045,692) | (607,217) |
| Loss on sale of oil and gas properties | - | (341,652) |
| Other | (2,066) | - |
| Total deferred tax liabilities | <u>(5,000,810)</u> | <u>(4,015,536)</u> |
| Subtotal | 2,771,260 | 948,030 |
| Less: Valuation allowance | (2,771,260) | (948,030) |
| Total | <u>\$ -</u> | <u>\$ -</u> |

At March 31, 2011, Lucas had estimated net operating loss carryforwards for federal and state income tax purposes of approximately \$8.5 million which will begin to expire, if not previously used, beginning in the year 2028.

The above estimates are based upon management's decisions concerning certain elections which could change the relationship between net income and taxable income. Management decisions are made annually and could cause the estimates to vary significantly.

NOTE 9 – STOCKHOLDERS' EQUITY

Common Stock

The following summarizes Lucas's common stock activity for each of the two years ended March 31, 2011:

| | Amount (a) | Common Shares | | | |
|---------------------------|------------|---------------|------------|----------|-------------|
| | | Per Share | Shares | Treasury | Outstanding |
| Balance at March 31, 2009 | | | 10,383,388 | (36,900) | 10,346,488 |
| Unit Offering | \$ 277,500 | (b) \$0.60 | 462,501 | - | 462,501 |
| Property Acquisitions | 725,823 | 0.77 | 943,330 | - | 943,330 |
| Property Sale Commission | 119,243 | 0.64 | 185,174 | - | 185,174 |
| Conversion of Debt | 526,438 | 0.77 | 683,686 | - | 683,686 |
| Share-Based Compensation | 128,472 | 0.72 | 179,141 | - | 179,141 |
| Balance at March 31, 2010 | | | 12,837,220 | (36,900) | 12,800,320 |
| Unit Offering | 5,403,300 | (b) 2.38 | 2,510,506 | - | 2,510,506 |
| At-The-Market Offering | 1,209,301 | 1.55 | 778,170 | - | 778,170 |
| Warrants Exercised | 45,000 | 1.00 | 45,000 | - | 45,000 |
| Property Acquisitions | 503,205 | 1.77 | 284,788 | - | 284,788 |
| Property Sale Commission | 38,757 | 0.98 | 39,502 | - | 39,502 |
| Share-Based Compensation | 450,823 | 1.94 | 232,527 | - | 232,527 |
| Balance at March 31, 2011 | | | 16,727,713 | (36,900) | 16,690,813 |

(a) Net proceeds or fair market value on grant date, as applicable.

(b) Purchase price for each Unit. See below.

See Footnote 10 – Share-Based Compensation for information on common stock activity related to Share-Based Compensation, including shares granted to the board of directors, officers, employees and consultants.

Fiscal Year 2011. On December 30, 2010, Lucas sold an aggregate of 2,510,506 units pursuant to a Securities Purchase Agreement to institutional investors, each consisting of (a) one share of common stock, (b) one Series B Warrant to purchase one share of common stock at an exercise price of \$2.86 per share, and (c) one Series C Warrant to purchase one share of common stock at an exercise price of \$2.62 per share (each a Unit). The Warrants have cashless exercise rights if the registration statement pursuant to which the Warrants were issued is not effective and available for use at the time of any proposed exercise. The Warrants also include a provision whereby the investors are not eligible to exercise any portion of the Warrants that would result in them becoming a beneficial owner of more than 9.99% of Lucas's common stock. Each Unit had a purchase price of \$2.38, and Lucas received net proceeds of approximately \$5,403,300 (net of offering costs of approximately \$517,700). The placement agent received 150,630 warrants to purchase one share of common stock with an exercise price of \$2.98 and a three year exercise period.

The 2,510,506 Series B Warrants and the 2,510,506 Series C Warrants had relative fair values of \$2,016,430 and \$1,847,219, respectively. The relative fair value of the 2,510,506 shares of common stock issued in the transaction was \$1,586,352, based upon the market price on the transaction date. The fair value of the warrants was determined using the Black-Scholes option pricing model. The 150,630 placement agent warrants had a fair value of \$126,062. The Series B, Series C and placement agent warrants were valued using the Black Scholes model with the following weighted average assumptions used for grants; dividend yield of 0.00%; expected volatilities from 101% to 113%; risk-free interest rates from 0.20% to 1.14% and expected terms ranging from 0.3 to 2.0 years. See "Warrant" below for additional information.

On March 26, 2010, Lucas entered into a Placement Agent Agreement with a brokerage firm, under which Lucas could issue and sell up to 4 million shares of common stock from time to time in an at-the-market (ATM) public equity offering program. Under the ATM offering, Lucas sold a total of 778,170 newly issued shares during the period April 12, 2010 through May 6, 2010 with gross proceeds of approximately \$1,381,100 (net proceeds of \$1,209,300). The ATM program was terminated in September 2010.

During the year ended March 31, 2011, the Company issued a total of 284,788 shares of common stock in connection with certain purchases of various oil and gas properties. Based on the stock price on the date of the agreements, the shares issued had a grant date fair value of approximately \$503,200. In connection with certain sales of oil and gas properties, the Company issued a total of 39,502 shares of common stock as commission and based on the stock price on the date of agreement, the shares issued had a grant date fair value of approximately \$39,500.

Fiscal Year 2010. During the Company's fiscal year ended March 31, 2010, Lucas issued through private equity placement, 350,000 units at a purchase price of \$0.60 per unit (Unit) for net proceeds to the Company of \$210,000. Each Unit was comprised of one share of common stock and an attached three-year warrant for one share of common stock at \$1.00 per share.

Also during the same year, two company directors purchased a total of 112,501 shares of common stock at \$0.60 per share for net proceeds to the Company of \$67,500. The directors did not receive any warrants in connection with the purchase of shares.

In addition, the Company issued 943,330 shares of common stock in connection with the purchase of certain oil and gas properties with a fair value of approximately \$725,800 based on the stock price on the date of the agreement.

In connection with certain sales of oil and gas properties, the Company issued a total of 185,174 shares of common stock as commission and based on the stock price on the date of agreement, the shares issued had a grant date fair value of approximately \$119,200.

During May 2010, Lucas issued 683,686 shares of common stock to the Lucas director that held the debt assumed by Lucas in connection with the El Tex acquisition. The shares of common stock were issued at \$0.77 per share, the fair value of the shares at the time the acquisition, was effected in September 2009. See Note 4 – Oil and Gas Properties.

Preferred Stock

At Lucas's 2011 Annual Meeting held on January 10, 2011, the shareholders of Lucas approved the filing of a Certificate of Amendment to Lucas's Articles of Incorporation with the Secretary of State of Nevada, to provide for 10,000,000 shares of preferred stock, \$0.001 par value per share and provide Lucas's Board of Directors the authority in their sole discretion, to designate such series of preferred stock with such powers, preferences, rights, privileges, terms and conditions as they may determine in the future. No shares were outstanding as of March 31, 2011 and 2010.

Treasury Stock

Lucas did not repurchase any shares of its common stock during the two years ended March 31, 2011. The shares previously purchased are held by Lucas's transfer agent as Treasury Stock, and the shares are treated as issued, but not outstanding, at March 31, 2011 and 2010. The shares are recorded at a cost of \$49,159.

Warrants

The following summarizes Lucas's warrant activity for each of the two years ended March 31, 2011:

| | 2011 | | 2010 | |
|------------------------------------|------------------|----------|------------------|----------|
| | Number of | Weighted | Number of | Weighted |
| | Warrants | Average | Warrants | Average |
| | | Exercise | | Exercise |
| | | Price | | Price |
| Outstanding at Beginning of Period | 3,360,549 | \$ 7.27 | 3,010,549 | \$ 8.00 |
| Issued | 5,171,642 | 2.75 | 350,000 | 1.00 |
| Expired | (3,010,549) | 8.00 | - | - |
| Exercised | (45,000) | 1.00 | - | - |
| Outstanding at End of Period | <u>5,476,642</u> | \$ 2.65 | <u>3,360,549</u> | \$ 7.27 |

During the year ended March 31, 2011, warrant holders exercised warrants to purchase 45,000 shares of common stock at \$1.00 per share. The warrants were originally issued to the warrant holders in connection with the purchase of units in a private equity placement in September 2009. These warrants have an expiration date of August 31, 2012. The number of outstanding September 2009 warrants was 305,000 at March 31, 2011.

The rest of the outstanding warrants are comprised of the 2,510,506 Series B Warrants, 2,510,506 Series C Warrants and 150,630 placement agent warrants in the aforementioned Unit offering in December 2010. The Series B Warrants have an exercise price of \$2.86 and are not exercisable until July 4, 2011 and will remain exercisable until, and including, July 3, 2016. The Series C Warrants have an exercise price of \$2.62 and are not exercisable until July 21, 2011 and will remain exercisable until, and including, August 3, 2011. Pursuant to the Securities Purchase Agreement, the Company can force the warrant holders to exercise the Series C Warrants under certain conditions. The placement agent warrants have an exercise price of \$2.98 and are not exercisable until July 4, 2011 and will remain exercisable until, and including, July 3, 2014.

At March 31, 2011, the outstanding warrants had an intrinsic value of approximately \$5,148,000.

NOTE 10 – SHARE-BASED COMPENSATION

Common Stock

During the annual shareholder meeting held on March 30, 2010, Company shareholders approved the Lucas Energy, Inc. Long Term Incentive Plan (Incentive Plan) providing for the Company to issue up to 900,000 shares of common stock to officers, directors, employees, contractors and consultants for services provided to the Company. The Company registered shares to be issued under the Incentive Plan in a Form S-8 filed with the SEC in April 2010. At March 31, 2011, 411,473 shares remained available for issuance under the Incentive Plan.

For the year ended March 31, 2011, the Company issued as compensation to its directors, officers and employees 197,527 shares of the Company's common stock, which included 86,027 shares issued to a previous officer pursuant to a separation arrangement. The Company also issued 35,000 shares for consultant services. The share-based compensation expenses totaled \$450,823, which was recorded as General and Administrative expense in the Consolidated Statements of Operations. During the year ended March 31, 2011, the Company granted to the Chief Executive Officer 17,500 shares that will vest under the stock compensation plan if net production is over an average of 10,000 barrels of oil per month for a period of six months. As of March 31, 2011, the performance criteria had not been met and were not probable of being met. Therefore, none of the 17,500 shares had vested, and no compensation expense was recorded in the financial statements.

The Company accrued 1,931 shares of common stock, which were valued at \$5,000, or \$2.59 per share based upon the grant date pursuant to an officer's employment agreement. The Company also accrued 125,000 shares, which were valued at \$498,750, or \$3.99 per share based on the share price on the grant date, to a contractor as a bonus for various services performed for the Company during the year ended March 31, 2011. The accrual amounts were recorded as Common Stock Payable in the Balance Sheet and General and Administrative expense in the Statement of Operations.

For the year ended March 31, 2010, the Company issued to the officers and a new director as compensation 99,000 shares of the Company's common stock and 25,000 shares to a previous officer pursuant to a separation arrangement. The Company also issued 55,141 shares for consultant services. The share-based compensation expenses totaled \$128,500, which was recorded as General and Administrative expense.

Stock Options

The following summarizes Lucas's stock option activity for each of the two years ended March 31, 2011:

| | 2011 | | 2010 | |
|------------------------------------|----------------------|--|----------------------|--|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding at Beginning of Period | 200,000 | \$ 2.60 | 200,000 | \$ 2.60 |
| Issued | 256,000 | 1.99 | - | - |
| Expired | (200,000) | 2.60 | - | - |
| Exercised | - | - | - | - |
| Outstanding at End of Period | 256,000 | 1.99 | 200,000 | 2.60 |

The stock options issued during the year ended March 31, 2011 were issued to directors and a newly appointed officer of Lucas and were valued using the Black Scholes model with the following weighted average assumptions used for grants; dividend yield of 0.00%; expected volatility of 113.49%; risk-free interest rate of 1.25% and expected term of 6.63 years. The fair value of the stock options was \$374,300. Share-based compensation relating to stock options for the years ended March 31, 2011 and 2010 was \$175,497 and zero, respectively.

Together with the valuation of the options granted in the period (described below), the total share-based compensation recorded in General and Administrative expense for the year ended March 31, 2011 was approximately \$1,130,100.

Options outstanding and exercisable as of March 31, 2011:

| <u>Exercise Price</u> | <u>Remaining Life (Yrs)</u> | <u>Options Outstanding</u> | <u>Options Exercisable</u> |
|-----------------------|-----------------------------|----------------------------|----------------------------|
| \$2.00 | 4.50 | 96,000 | 96,000 |
| \$1.94 | 4.90 | <u>160,000</u> | <u>-</u> |
| | Total: | <u>256,000</u> | <u>96,000</u> |

At March 31, 2011, the outstanding options had an intrinsic value of approximately \$410,000.

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Net cash paid for interest and income taxes was as follows for the years ended March 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--------------|-------------|-------------|
| Interest | \$ 11,223 | \$ 178,133 |
| Income taxes | - | - |

Non-cash investing and financing activities for the years ended March 31, 2011 and 2010 included the following:

| | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| Issuance of common stock for the purchase of certain oil and gas properties | \$ 503,205 | \$ 725,824 |
| Increase in asset retirement obligations | 45,899 | 130,649 |
| Issuance of common stock for conversion of debt | - | 526,438 |
| Issuance of common stock for sales commission | 38,757 | 119,242 |
| Deferred offering costs applied to sale of common stock | 119,912 | - |
| Accounts receivable extinguished for oil and gas properties | 55,953 | - |
| Net assumption of note payable in acquisition of oil and gas properties | 90,841 | - |

NOTE 12 – SUBSEQUENT EVENTS

As described in Note 10 – Share-Based Compensation, the Company accrued 125,000 shares at March 31, 2011, which were valued at \$498,750, or \$3.99 per share based on the share price on the grant date, to a contractor as a bonus for various corporate services performed for the Company during the year ended March 31, 2011. The shares were granted during April 2011.

On April 1, 2011, we granted to our Chief Executive Officer options to purchase up to 200,000 shares of the Company's common stock. The options vest 25% on each of the first four anniversary dates of the grant, have a term of five years and an exercise price of \$4.05 per share.

LUCAS ENERGY, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Oil and Gas Producing Activities

In December 2008, the United States Securities and Exchange Commission (SEC) released a final rule, "Modernization of Oil and Gas Reporting," which amended the oil and gas reporting requirements effective January 1, 2010. The key revisions include:

- using a 12-month average price to determine reserves;
- including nontraditional resources in reserves if they are intended to be upgraded to synthetic oil and gas;
- the ability to use reliable technologies to determine and estimate reserves;
- permitting the optional disclosure of probable and possible reserves;
- reporting the independence and qualifications of the reserve preparer or auditor and filing a report as an exhibit when a third party is relied upon to prepare reserve estimates or conduct reserve audits; and
- disclosing the development of any proved undeveloped reserves, including the total quantity of proved undeveloped reserves at year-end, material changes to proved undeveloped reserves during the year, investments and progress toward the development of proved undeveloped reserves and an explanation of the reasons why material concentrations of proved undeveloped reserves have remained undeveloped for five years or more after disclosure as proved undeveloped reserves

In January 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2010-03, "Oil and Gas Reserve Estimations and Disclosures" (ASU No. 2010-03). This update aligns the current oil and gas reserve estimation and disclosure requirements of the Extractive Industries - Oil and Gas topic of the FASB Accounting Standards Codification (ASC Topic 932) with the changes required by the SEC final rule, "Modernization of Oil and Gas Reporting." ASU No. 2010-03 must be applied prospectively as a change in accounting principle that is inseparable from a change in accounting estimate and is effective for entities with annual reporting periods ending on or after December 31, 2009.

Oil and Gas Reserves. Users of this information should be aware that the process of estimating quantities of "proved," "proved developed," "proved undeveloped" and "probable" crude oil, natural gas liquids and natural gas reserves is complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Consequently, material revisions (upward or downward) to existing reserve estimates may occur from time to time. Although reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the significance of the subjective decisions required and variances in available data for various reservoirs make these estimates generally less precise than other estimates presented in connection with financial statement disclosures. See ITEM 1A. Risk Factors.

LUCAS ENERGY, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Proved reserves represent estimated quantities of crude oil, natural gas liquids and natural gas that geoscience and engineering data can estimate, with reasonable certainty, to be economically producible from a given day forward from known reservoirs under economic conditions, operating methods and government regulation before 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.

Proved developed reserves are proved reserves expected to be recovered under operating methods being utilized at the time the estimates were made, through wells and equipment in place or if the cost of any required equipment is relatively minor compared to the cost of a new well.

Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required. Reserves on undrilled acreage are 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. 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. Estimates for proved undeveloped reserves are not attributed 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.

Probable undeveloped reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

No major acquisition or sale of oil and gas properties or other favorable or adverse event subsequent to March 31, 2011 is believed to have caused a material change in the estimates of proved developed or proved undeveloped or probable undeveloped reserves as of that date.

LUCAS ENERGY, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NET PROVED RESERVE SUMMARY

All of the Company's reserves are located in the United States. The following table sets forth Lucas's net proved reserves, including proved developed and proved undeveloped reserves, at March 31 for each of the three years in the period ended March 31, 2011, and the changes in the net proved reserves for each of the two years in the period ended March 31, 2011, as estimated by the international petroleum consulting firm Forrest A. Garb & Associates, Inc.:

NET PROVED RESERVES

| | March 31, | |
|---|------------------|-------------|
| | 2011 | 2010 |
| Crude Oil (Bbls) | | |
| Net proved reserves at beginning of year | 1,970,230 | 2,238,860 |
| Revisions of previous estimates | (499,873) | (389,520) |
| Purchases in place | 208,040 | 694,610 |
| Extensions, discoveries and other additions | 1,464,040 | 47,510 |
| Sales in place | (336,550) | (595,630) |
| Production | (37,687) | (25,600) |
| Net proved reserves at end of year | 2,768,200 | 1,970,230 |
| Natural Gas (Mcf) | | |
| Net proved reserves at beginning of year | 31,170 | 67,510 |
| Revisions of previous estimates | 37,187 | (30,490) |
| Purchases in place | 126,200 | - |
| Extensions, discoveries and other additions | 657,430 | - |
| Sales in place | - | - |
| Production | (8,737) | (5,850) |
| Net proved reserves at end of year | 843,250 | 31,170 |
| Oil Equivalents (Boe) | | |
| Net proved reserves at beginning of year | 1,975,425 | 2,250,112 |
| Revisions of previous estimates | (493,675) | (394,602) |
| Purchases in place | 229,073 | 694,610 |
| Extensions, discoveries and other additions | 1,573,612 | 47,510 |
| Sales in place | (336,550) | (595,630) |
| Production | (39,143) | (26,575) |
| Net proved reserves at end of year | 2,908,742 | 1,975,425 |

During the year ended March 31, 2011, Lucas added 1,573,612 Boe of proved reserves primarily in the Eagle Ford and Austin Chalk formations. Approximately 93% of the reserve additions were crude oil. Sales in place of 336,550 Boe were primarily related to farmouts of the Eagle Ford formation. See Note 4.

LUCAS ENERGY, INC.

**SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

During the year ended March 2010, Lucas added 47,510 Boe of proved reserves primarily in the Austin Chalk formation. All of the reserve additions were crude oil. Sales in place of 595,630 Boe were primarily related to the 2009 II and 2009 III joint ventures. See Note 4.

The following table sets forth Lucas's net proved developed, net proved undeveloped and net probable undeveloped reserves at March 31, 2011 and 2010:

| | At March 31, | |
|--|---------------------|-------------|
| | 2011 | 2010 |
| Net Proved Developed Reserves | | |
| Crude Oil (Bbls) | 106,960 | 73,010 |
| Natural Gas (Mcf) | 73,820 | 11,760 |
| Oil Equivalents (Boe) | 119,263 | 74,970 |
| Net Proved Undeveloped Non-Producing Reserves | | |
| Crude Oil (Bbls) | - | 63,540 |
| Natural Gas (Mcf) | - | 19,410 |
| Oil Equivalents (Boe) | - | 66,775 |
| Net Proved Undeveloped Reserves | | |
| Crude Oil (Bbls) | 2,661,240 | 1,833,680 |
| Natural Gas (Mcf) | 769,430 | - |
| Oil Equivalents (Boe) | 2,789,478 | 1,833,680 |
| Net Proved Reserves | | |
| Crude Oil (Bbls) | 2,768,200 | 1,970,230 |
| Natural Gas (Mcf) | 843,250 | 31,170 |
| Oil Equivalents (Boe) | 2,908,742 | 1,975,425 |
| Net Probable Undeveloped Reserves | | |
| Crude Oil (Bbls) | 1,334,800 | 680,770 |
| Natural Gas (Mcf) | 809,630 | - |
| Oil Equivalents (Boe) | 1,469,738 | 680,770 |
| Net Proved and Probable Reserves | | |
| Crude Oil (Bbls) | 4,103,000 | 2,651,000 |
| Natural Gas (Mcf) | 1,652,880 | 31,170 |
| Oil Equivalents (Boe) | 4,378,480 | 2,656,195 |

For the year ended March 31, 2011, total proved undeveloped reserves (PUDs) increased by 955,798 Boe to 2,789,478 Boe. The proved undeveloped reserve additions were primarily in the Eagle Ford and approximately 87% of the additions were crude oil. During the year ended March 31, 2011, Lucas drilled

LUCAS ENERGY, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and transferred 144,530 Boe of PUDs and 40,590 Boe of proved developed non-producing reserves at March 31, 2010 to proved developed reserves at a total capital cost of \$1.8 million.

Lucas does not have a material amount of reserves that have remained undeveloped for five years or more.

Our reserves concentrate mainly in the Austin Chalk and Eagle Ford Formations. At March 31, 2011, Lucas's net proved reserves at the Austin Chalk and Eagle Ford Formations were 1.45 million Boe, or 49.7%, and 1.42 million Boe, or 49.0%, out of the total net proved developed and undeveloped reserves of 2.91 million Boe. Lucas's net probable reserves comprised of probable reserves in the Eagle Ford Formation only.

The following table sets forth Lucas's net reserves in Boe by reserve category and by formation at March 31, 2011 and 2010:

| | Proved Developed | Proved Developed Non-Producing | Proved Undeveloped | Total Proved | Probable Undeveloped | Total Proved & Probable |
|---------------------|---------------------|--------------------------------------|-----------------------|------------------|-------------------------|-------------------------------|
| Austin Chalk | | | | | | |
| At March 31, 2011 | 51,725 | - | 1,394,110 | 1,445,835 | - | 1,445,835 |
| At March 31, 2010 | 50,980 | 66,385 | 844,390 | 961,755 | 443,260 | 1,405,015 |
| Eagle Ford | | | | | | |
| At March 31, 2011 | 29,012 | - | 1,395,368 | 1,424,380 | 1,469,738 | 2,894,118 |
| At March 31, 2010 | - | - | 409,710 | 409,710 | 237,510 | 647,220 |
| Buda | | | | | | |
| At March 31, 2011 | 2,120 | - | - | 2,120 | - | 2,120 |
| At March 31, 2010 | 4,740 | - | 579,580 | 584,320 | - | 584,320 |
| Other | | | | | | |
| At March 31, 2011 | 36,407 | - | - | 36,407 | - | 36,407 |
| At March 31, 2010 | 19,250 | 390 | - | 19,640 | - | 19,640 |
| Total | | | | | | |
| At March 31, 2011 | <u>119,263</u> | <u>-</u> | <u>2,789,478</u> | <u>2,908,742</u> | <u>1,469,738</u> | <u>4,378,480</u> |
| At March 31, 2010 | <u>74,970</u> | <u>66,775</u> | <u>1,833,680</u> | <u>1,975,425</u> | <u>680,770</u> | <u>2,656,195</u> |

LUCAS ENERGY, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized Costs Relating to Oil and Gas Producing Activities. The following table sets forth the capitalized costs relating to Lucas's crude oil and natural gas producing activities at March 31, 2011 and 2010:

| | At March 31, | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Proved leasehold costs | \$ 6,043,061 | \$ 11,196,467 |
| Costs of wells and development | 17,504,183 | 13,243,507 |
| Capitalized asset retirement costs | 305,646 | 259,748 |
| Total cost of oil and gas properties | 23,852,890 | 24,699,722 |
| Oil and gas properties not subject to amortization | 797,950 | - |
| Accumulated depreciation and depletion | (3,709,719) | (2,482,433) |
| Net Capitalized Costs | \$ 20,941,121 | \$ 22,217,289 |

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities. The following table sets forth the costs incurred in Lucas's oil and gas property acquisition, exploration and development activities for the years ended March 31, 2011 and 2010:

| | 2011 | 2010 |
|---------------------------|--------------|--------------|
| Acquisition of properties | | |
| Proved | \$ 8,201,711 | \$ 2,459,895 |
| Unproved | 797,950 | - |
| Exploration costs | - | - |
| Development costs | 4,631,412 | 920,883 |
| Total | \$13,631,073 | \$ 3,380,778 |

Results of Operations for Oil and Gas Producing Activities. The following table sets forth the results of operations for oil and gas producing activities for the years ended March 31, 2011 and 2010:

| | 2011 | 2010 |
|--|--------------|--------------|
| Crude oil and natural gas revenues | \$ 3,022,085 | \$ 1,777,736 |
| Production costs | (1,903,285) | (1,177,765) |
| Depreciation and depletion | (1,227,286) | (760,853) |
| Results of operations for producing activities, excluding corporate overhead and interest costs | \$ (108,486) | \$ (160,882) |

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves. The following information has been developed utilizing procedures prescribed by ASC Topic 932 and based on crude oil and natural gas reserves and production volumes estimated by the independent petroleum consultants of Lucas. The estimates were based on a 12-month average for commodity prices for the years ended March 31, 2011 and 2010. The following information may be useful for certain comparison purposes,

LUCAS ENERGY, INC.

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

but should not be solely relied upon in evaluating Lucas or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flows be viewed as representative of the current value of Lucas.

The future cash flows presented below are based on sales prices, cost rates and statutory income tax rates in existence as of the date of the projections. It is expected that material revisions to some estimates of crude oil and natural gas reserves may occur in the future, development and production of the reserves may occur in periods other than those assumed, and actual prices realized and costs incurred may vary significantly from those used.

Management does not rely upon the following information in making investment and operating decisions. Such decisions are based upon a wide range of factors, including estimates of probable and possible as well as proved reserves, and varying price and cost assumptions considered more representative of a range of possible economic conditions that may be anticipated.

The following table sets forth the standardized measure of discounted future net cash flows from projected production of Lucas's oil and gas reserves as of March 31, 2011 and 2010:

| | At March 31, | |
|--|----------------------|----------------------|
| | 2011 | 2010 |
| Future cash inflows | \$ 218,750,890 | \$ 133,979,890 |
| Future production costs | (39,353,540) | (20,249,210) |
| Future development costs | (67,955,000) | (31,999,050) |
| Future income taxes | (27,246,082) | (11,211,606) |
| Future net cash flows | 84,196,268 | 70,520,024 |
| Discount to present value at 10% annual rate | (41,471,451) | (31,313,531) |
| Standardized measure of discounted future net cash flows relating to proved oil and gas reserves | <u>\$ 42,724,817</u> | <u>\$ 39,206,493</u> |

LUCAS ENERGY, INC.

**SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

Changes in Standardized Measure of Discounted Future Net Cash Flows. The following table sets forth the changes in the standardized measure of discounted future net cash flows at March 31, for each of the two years in the period ended March 31, 2011:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Standardized measure, beginning of year | \$ 39,206,493 | \$ 23,987,135 |
| Crude oil and natural gas sales, net of production costs | (1,118,800) | (599,971) |
| Net changes in prices and production costs | (2,458,269) | 18,942,910 |
| Extensions, discoveries, additions and improved recovery | 21,585,840 | 1,065,740 |
| Changes in estimated future development costs | (690,440) | 4,733,700 |
| Development costs incurred | 1,535,000 | 865,320 |
| Revisions of previous quantity estimates | (11,875,235) | (11,127,350) |
| Accretion of discount | 4,751,838 | 583,780 |
| Net change in income taxes | (5,451,156) | (4,500,813) |
| Purchases of reserves in place | 2,606,360 | 24,767,887 |
| Sales of reserves in place | (4,221,993) | (18,398,099) |
| Change in timing of estimated future production | (1,144,821) | (1,113,746) |
| Standardized measure, end of year | <u>\$ 42,724,817</u> | <u>\$ 39,206,493</u> |

EXHIBITS

| <u>Exhibit Number</u> | <u>Description</u> |
|----------------------------------|---|
| 3.1 | Articles of Incorporation (Incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 3.1). |
| 3.2 | Certificate of Amendment to Articles of Incorporation of Lucas Energy, Inc. (Incorporated by reference to Exhibit B to the Information Statement on Schedule 14C filed with the SEC on February 16, 2007). |
| 3.3 | Certificate of Amendment to Articles of Incorporation of Lucas Energy, Inc. (Incorporated by reference to Exhibit B to the Proxy Statement on Schedule 14A filed with the SEC on March 31, 2010). |
| 3.4 | Certificate of Amendment to Articles of Incorporation of Lucas Energy, Inc. (Incorporated by reference to the Form 8-K dated January 10, 2011, filed with the SEC on January 10, 2011). |
| 3.5 | Bylaws (Incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 3.2). |
| 10.1 | Contract with SMC (Incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 10.1). |
| 10.2 | Consignment Agreement (Incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 10.2). |
| 10.3 | Stock Purchase Agreement between Lucas Energy, Inc. and The Delphic Oil Co., LLC, dated December 20, 2006 (Incorporated by reference to the Form 8-K dated December 20, 2006 filed with the SEC on December 21, 2009 as Exhibit 10.1). |
| 10.4 | Oil, Gas and Mineral Lease between Lucas Energy, Inc. and Griffin, filed of record on February 23, 2007 (Incorporated by reference to the Form 8-K dated February 24, 2007 filed with the SEC on March 1, 2007 as Exhibit 10.4). |
| 10.5 | Employment Agreement between Lucas Energy, Inc. and James J. Cerna, dated March 20, 2007 (Incorporated by reference to the Company Annual Report on Form 10-KSB for the fiscal year ended March 31, 2007 filed with the SEC on June 29, 2007, Exhibit 10.5). |
| 10.6 | Employment Agreement between Lucas Energy, Inc. and William A. Sawyer, dated March 20, 2007 (Incorporated by reference to the Company Annual Report on Form 10-KSB for the fiscal year ended March 31, 2007 filed with the SEC on June 29, 2007, Exhibit 10.6). |
| 10.7 | Credit Agreement between Lucas Energy, Inc. and Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC |

October 14, 2008).

- 10.8 Secured Promissory Note between Lucas Energy, Inc. and Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008).
- 10.9 Deed of Trust, Security Agreement, Financing Statement and Assignment of Production from Lucas Energy to Kenneth R. Batson, Trustee, for the benefit of Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008).
- 10.10 Security Agreement by Lucas Energy, Inc. in favor of Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008).
- 10.11 Termination of Credit Agreement with Amegy Bank and Release of all Liens and Security Interests held dated May 5, 2010 (Incorporated by reference to the Form 8-K dated May 5, 2010 filed with the SEC May 6, 2010).
- 10.12 Unregistered Sale of Equity Securities and Departure of Director and Appointment of Director (Incorporated by reference to the Form 8-K dated October 8, 2009 filed with the SEC October 13, 2009).
- 10.13 Placement Agent Agreement with WR Hambrecht & Co (Incorporated by reference to the Form 8-K dated March 26, 2009 filed with the SEC March 26, 2010).
- 10.14 Lucas Energy, Inc. 2010 Long Term Incentive Plan (Incorporated by reference to the Form S-8 filed with the SEC on April 23, 2010).
- 10.15 Purchase and Sale Agreement Between Lucas Energy, Inc. and HilCorp Energy I, L.P. dated April 1, 2010 (Incorporated by reference to the Form 10-K filed with the Commission on July 14, 2010).
- 10.16 Securities Purchase Agreement (Incorporated by reference to the Form 8-K dated December 26, 2010, filed with the SEC on December 27, 2010).
- 10.17 Form of Series B and C Warrant (Incorporated by reference to the Form 8-K dated December 26, 2010, filed with the SEC on December 27, 2010).
- 10.18 Letter of Intent with Nacogdoches Oil & Gas, Inc. (Incorporated by reference to the Form 8-K dated January 20, 2011, filed with the SEC on January 25, 2011).
- 10.19 Letter Agreement with Nacogdoches Oil & Gas, Inc. (Incorporated by reference to the Form 8-K dated January 20, 2011, filed with the SEC on January 25, 2011).
- 10.20* Employment Agreement between Lucas Energy, Inc. and William A. Sawyer, dated April 1, 2011.
- 10.21* Employment Agreement between Lucas Energy, Inc. and K. Andrew Lai, dated February 18, 2011.

- 10.22* Form of Officer Stock Option Agreement.
- 10.23* Form of Director Stock Option Agreement.
- 14.1 Code of Ethics (Incorporated by reference to the Company Annual Report on Form 10-K/A, Amendment No. 1, for the fiscal year ended March 31, 2009 filed with the SEC on July 29, 2009).
- 21.1* Subsidiaries
- 23.1* Consent of GBH CPAs, PC
- 23.2* Consent of Forrest A. Garb & Associates, Inc.
- 31.1* Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1).
- 32.1* Certification of CEO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1* Report of Forrest A. Garb & Associates, Inc.

* Filed herewith.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LUCAS ENERGY, INC.

BY: /s/ K. ANDREW LAI
K. Andrew Lai
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

Dated: June 28, 2011

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|---------------|
| <u>/s/ J. FRED HOFHEINZ</u> J. Fred Hofheinz | Chairman | June 28, 2011 |
| <u>/s/ WILLIAM SAWYER</u> William A. Sawyer | President, CEO, and Director (Principal Executive Officer) | June 28, 2011 |
| <u>/s/ K. ANDREW LAI</u> K. Andrew Lai | Chief Financial Officer (Principal Financial Officer and Accounting Officer) | June 28, 2011 |
| <u>/s/ W. ANDREW KRUSEN</u> W. Andrew Krusen | Director | June 28, 2011 |
| <u>/s/ PETER K. GRUNEBAUM</u> Peter K. Grunebaum | Director | June 28, 2011 |

