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MICRO-CAP REVIEW

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MICRO-CAP REVIEW

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EDITORIAL

Micro-cap companies in the natural resources and oil and gas industries and TSX junior mining often go unnoticed or are under-owned by U.S. investors. Why are U.S. investors missing one of the most value-laden opportunities currently available? Most U.S. investors have their own ideas and practices about investing, yet many bypass companies in this sector for the following reasons.

- They do not know enough about the sector or have a low risk-tolerance for investing in companies in unfamiliar sectors,
- They do not know how to buy companies listed on foreign exchanges,
- They are scared by negative media propaganda, inauspicious reputations of past wildcatters, appearances of sketchy characters depicted in old stories and in the movies, and past frauds, including the Bre-X scandal.

North America is rich in oil and gas reserves, minerals and other natural resources, but only our Canadian cousins appear to have been successful with their investments in oil & gas, junior platinum, gold, silver, copper, uranium, and rare earth metals companies. Many experts see that the underlying rise in commodity prices as an indication of prices going even higher. Of course, there are interested U.S. investors, but the junior mining and micro-cap companies are just beginning to get the widespread attention that they deserve. There are more than 1,700 junior mining companies that explore, develop, or produce metals in Canada and the United States. The TSX and the TSX.V exchanges in Canada have hundreds of listed mining stocks and hundreds more of oil and gas companies of all sizes, which make up the majority of their listings. The U.S. market has a much smaller cadre of micro-cap companies, mostly listed on the OTCQX and OTCQB exchanges.

One of Canada's most overlooked exports is its geologists. It sounds funny but a Canadian geologist is usually found somewhere in the middle of a major discovery wherever it may happen in the world. Because of this, it is not a small coincidence that Canadian geologists are highly sought after in the natural resources market.

In response to readership requests, we have made an effort to focus this issue on North American resource micro-cap companies. We hope that we have provided our readers with information and a sampling of micro-cap companies for review.

Sheldon "Shelly" Kraft

PROFILED COMPANIES

Lucas Energy's Rapid Growth Attracts JV Partners in Restarting Shut-in Texas Oil Wells

Company solidifies position on Austin Chalk trend, looks for next big oil play

BY MICHAEL BRETTE AND TAMMY BILLINGTON

With control of 17,000 acres of oil and gas leases, 47 producing wells, and an average daily production of more than 300 barrels of oil in a part of Texas many thought was well past its production prime, Lucas Energy, Inc. (NYSEAmex: LEI) has both surprised and gained the attention of the energy industry.

Now the company's race to consolidate its position on the Austin Chalk trend is attracting joint venture partners, enabling the company to devote more of its resources to finding other undeveloped but proven areas that have strong underlying production potential.

"Our business plan is very simple," says Lucas Energy president and CEO Bill Sawyer. "We are not explorers or on the hunt for massive acquisitions. We just do what we do best – put oil wells back into production."

In 2004 Lucas Energy began identifying, evaluating, and acquiring leasehold property interests in the Austin Chalk formation along the mid-Texas Gulf Coast, an area of the United States that remains one of the world's richest oil plays with an estimated six billion barrels of oil reserves.

Lucas Energy focused on building its initial properties within Gonzales, Wilson, Atascosa, and Karnes Counties, Texas in the middle of the oil-rich Eagle Ford Shale and Buda formations.

From the beginning, the company's strategy called for avoiding the energy industry's high exploration risks by acquiring properties in proven oil and gas areas where the company's management team had prior experience, particularly those areas where management was confident it could extract significant amounts of oil and gas from refurbished wells that previously were under-performing, shut-in or plugged, and abandoned due to low commodity prices in the early 1990s.

JOINT VENTURES BOOST LUCAS ENERGY'S FINANCIAL STRENGTH, FLEXIBILITY

In May 2010 Lucas Energy closed the first part of a joint venture on its Eagle Ford Shale properties 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.

The move initially garnered Lucas $7.5 million, which enabled the company to pay off $2.2 million in outstanding loans.

To date, Hilcorp has invested $10.2 million in Lucas Energy to acquire some 85 percent of the company's rights below the Austin Chalk trend. Lucas retains a 15 percent undivided working interest in the "deep rights" sold. Additional joint venture closings may take place in the future, according to Sawyer. Lucas has additional acreage in Gonzales County that is not yet a part of the Hilcorp joint venture, and Lucas Energy is continuing to acquire additional acreage in Gonzales County.

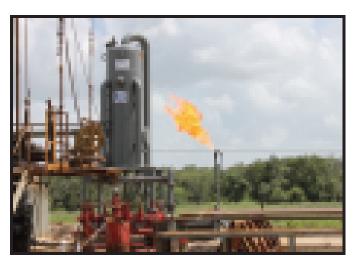
"Lucas Energy has paid down its bank debt and is now on the way to developing its Eagle Ford assets. We now have more flexibility for future transactions such as joint ventures," says Sawyer.

For Lucas, securing leased properties through joint ventures makes a lot of financial sense. By taking on a deep-pocketed partner, the company can devote more of its capital to acquiring and quickly developing oil and gas leases, increasing cash flow without diluting shareholder value.

LUCAS ENERGY MANAGEMENT TEAM

William A. Sawyer – President and CEO

Mr. Sawyer is co-founder with 30+ years of experience in oil and gas operations. He



is a highly experienced field operator and petroleum engineer who has worked with notable firms, including ARCO, Houston Oil & Minerals, and The Superior Oil Company.

John O'Keefe – Treasurer and CFO

Mr. O'Keefe is currently a partner with Tatum LLC in Houston, TX.

For the past two years, John was president and CEO of Blast Energy Services, a public company in the specialty drilling and communications sector. For the prior three years, John served as co-CEO and CFO of Blast where he successfully raised $60 million in new funding and turned around the company. From 2000 to 2003, John served as CFO of Ivanhoe Energy, a dual-listed public company with projects worldwide where he raised $80 million. Prior to 2000, he was vice-president of investor relations and corporate communications with Santa Fe Snyder and Oryx Energy Companies, both Texas-based NYSE companies. At Oryx, John participated in raising more than $3 billion in debt and $4 billion in equity. John had a 22-year career with Sun Oil, which spun off Oryx Energy in 1988, and for five years was CFO of Puerto Rico Sun Oil – a $1 billion per year refining and marketing company. In 1985, Sun Company sponsored him to attend the Program for Management Development (PMD) at Harvard Business School, an intensive executive education program for senior management. John began his career with British Petroleum.

INVESTMENT CONSIDERATIONS

Lucas Energy's annual production has grown exponentially since 2005, as the company continues to increase its reserves, production, and cash flow.

The company's most recently announced quarterly financials show a 31 percent jump in net revenues over the same quarter for 2009-2010, as well as a 60 percent improvement in the adjusted EBITDA for the first quarter of 2010-2011 over the last quarter of 2009-2010. Net revenues also increased 33 percent from May 2010 to June 2010, largely as a result of a 39 percent increase in net oil sales for the same period. Oil sales and revenue increased 30 percent in the first quarter of 2010-2011, as compared to the last quarter of 2009-2010.

"Lucas has increased oil sales and production, as predicted, in the first quarter of this fiscal year," says William A. Sawyer, Lucas Energy president and CEO. "We will continue to strive for an additional increase in our second quarter."

Lucas Energy Business Strategy:

- Build a different kind of public oil and gas company.
- Avoid typical exploration risk by acquiring properties in proven areas where management has prior experience.
- Acquire prior producing wells which had been abandoned or shut in due to low commodity prices in the early 1990s and which were put back into production.
- Seek producing property acquisitions that will significantly increase the size of the company by growing reserves, production, and cash flow accretive to shareholders.

Lucas Energy Highlights:

- Operates/owns 100 percent working interest in all but four wells.
- Controls approximately 17,000 acres under lease, most of which is held by production from wells in the Austin Chalk Formation.
- Has significant property holdings in the middle of the new Eagle Ford trend with undeveloped lateral potential from existing wells in both the Buda and Eagle Ford formations.
- Has a strong joint venture partner in Hilcorp Energy I, L.P., an affiliate of Hilcorp Energy Company, which has invested more than $10 million on Lucas Energy projects on the Austin Chalk trend.
- Is debt free, and recently reported a 31 percent jump in net revenues over the same period last year.

Lucas Energy, Inc. is an independent oil and gas company based in Houston, Texas. The company is building a diversified portfolio of oil and gas assets in the United States. The company is focused on identifying under performing and shut-in oil and gas assets in Gonzales County, Texas, primarily in the Austin Chalk formation, one of the world's richest oil deposits with an estimated six billion barrels of oil reserves. Lucas Energy revitalizes these assets through a carefully designed process of evaluation, application of production enhancement technologies, and stringent management controls. This process allows Lucas Energy to increase its reserve base, production, and cash flow, while significantly reducing the risk of traditional exploration projects. Lucas Energy's financial structure allows the company to minimize the high overhead costs of conventional exploration and production companies.

LUCAS ENERGY, INC.

NYSEAmex: LEI

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52 Week Trading Range: $0.44 to $3.39