



# Lucas Energy Merits Closer Look Amid Market Volatility

## *Solid Financials and Growing Oil Production Trigger Market Attention*

In just a few years, Lucas Energy, Inc. (NYSEAmex: LEI) has achieved a major foothold in the fastest growing oil trend in the U.S. – the Eagle Ford formation in south central Texas. The company has 4,400 net Eagle Ford acres. And if that were not enough to interest investors, the company also holds significant interests in the Austin Chalk Trend, which is above Eagle Ford formation. The company has 14,800 net acres from surface to the bottom of the Austin Chalk Formation. The bottom line is this is a solid company with producing oil wells, no debt and a growing market value.

The secret to Lucas Energy's success is a unique business plan in which the company does not involve itself in exploration deals that, per se, are risky and require raising massive amounts of money. Instead, Lucas Energy is focused on acquiring production-ready projects that can enhance immediate cash flow.

It doesn't hurt that Lucas Energy operates domestically instead of internationally to avoid the risks associated with operating in foreign lands. Lucas Energy focuses its efforts in one of America's original oil patches – an area of Texas where oil and gas has been produced for nearly 100 years. The 50-mile wide Eagle Ford Shale trend stretches for about 400 miles across South Texas from the Mexican border into East Texas. The Cretaceous era shale is both a reservoir and a source rock for a number of productive formations, including the Austin Chalk.

### **Plans for the 4,400 Net Eagle Ford Acres**

The company has been meeting with

investment banking groups to discuss various possible future plans concerning its 4,400 net Eagle Ford acres. With a correlative value of \$95 million, based on the Marathon Oil Corporation (NYSE:MRO - News) acquisition of the Hilcorp Eagle Ford acreage in June 2011, Lucas is considering the different alternatives, including but not limited to converting the position to cash and focusing on the development of the Austin Chalk reserves.

Latest valuation on the Eagle Ford can be estimated from a transaction entered into by Carrizo Oil & Gas and the Gas Authority of India Limited (GAIL). On September 28, 2011, GAIL announced a joint venture agreement

with Carrizo on a portion of the company's Eagle Ford Shale assets. With consideration for production, the acreage traded for somewhere between \$13,000 and \$14,000 per acre.

"Since our 4,400 acres of Eagle Ford are situated in the oil fairway of the trend and are the exact same properties that Marathon purchased from Hilcorp, the valuation on our properties should be higher than that indicated in the GAIL-Carrizo transaction," Mr. Sawyer commented.

### **Plan for New Mexico Properties**

On September 1, 2011, Lucas executed a non-binding letter of intent



Lucas Energy is building a diversified portfolio of valuable oil and gas assets by focusing on under performing and shut-in oil and gas assets along the Austin Chalk Trend in Texas. By revitalizing the wells through a carefully controlled process of evaluation, application of production enhancement technology, and stringent management controls, Lucas Energy has significantly increased its reserve base, production and cash flow.

to divest its oil and gas properties located in New Mexico to Nordic Oil USA 2 LLP (“Nordic 2”). In accordance with the terms of the letter of intent, Nordic 2 will pay Lucas US\$4 million in cash for all of Lucas’s leasehold interests (working interests) in the wells and leases located in McKinley County, New Mexico and associated improvements and equipment on the leases. The Company anticipates the total fees and expenses associated with the transaction will be approximately US\$0.45 million. Lucas paid US\$2.5 million for the properties in early 2011.

### Property Acquisition

On September 2, 2011 Lucas announced its intent to buy Texas oil and gas assets from Nordic Oil USA I LLP, in Gonzales, Karnes and Wilson counties. Lucas will purchase the assets for \$22 million, payable as a senior promissory note, secured by the properties involved in the transaction. Terms include a 12-month period at a 6 percent annual interest rate, pending necessary approval by shareholders and regulators. The definitive agreement is expected before Jan. 1, 2012.

### Joint Ventures Key to Sound Finances and Production Growth

Lucas Energy aims to grow organically by employing a strategy that is twofold: first, acquire low-cost shut in or plugged wells with huge underlying potential, re-establish production and generate positive cash flows in a short period of time; and second, form



The Hagen EF No.2H well was drilled and cased and in December 2010 by an affiliate of Hilcorp Energy Corporation. The well is approximately 1000 feet parallel to the Hagen EF No.1H well. Lucas has 11% net revenue interest in each of the two wells. The wells exhibited initial production of approximately 1,000 gross BOPD in total and are expected to average approximately 400 gross BOPD, or 44 net BOPD to Lucas, for the rest of the calendar year.

joint ventures through farm-outs to maximize producing reserves. The most recent joint venture was announced this spring with Marathon Oil, a subsidiary of Marathon Oil Corporation, currently ranking fourth in U.S. oil production and owner of the country’s fifth largest oil refinery. Marathon will hold 50% of Lucas Energy’s working interests on the Eagle Ford and Buda trends in Wilson County where it will drill and operate new wells. Lucas will continue to own an interest in and operate wells in the Austin Chalk formation. Current well bores and equipment, and the current production from the Austin Chalk and above are not included in the Marathon transaction.

By joining forces with Marathon, Lucas Energy has acquired a partner

armed with the latest technologies and staffed with experienced engineers and geologists skilled in maximizing oil production.

A year ago, Lucas Energy closed a joint venture on its Eagle Ford Shale properties with an affiliate of Hilcorp Energy Company, also one of the largest private U.S. oil and gas companies. Hilcorp acquired some 85% of Lucas Energy’s rights below the base of the Austin Chalk formation with Lucas retaining a 15% undivided working interest in the “deep rights”.

### Project-Level Transactions

As Lucas focuses its efforts on increasing production, it continues to evaluate different possible project-level transactions. As an example, in the second calendar quarter, 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. Lucas intends to continue to enter into similar project-level transactions to exploit its oil and gas assets with varying degrees of potential.

### Recent Operation Highlights

In mid-September 2011, Lucas completed the Milton Hines No.1ST new lateral in Gonzales County, Texas as a pumping oil well in the Austin Chalk formation. The well tested 80 barrels of oil per day (BOPD) and 100



The Austin Chalk Trend is concentrated on the Texas Gulf Coast and is one of the world’s richest oil plays with an estimated 6 billion barrels of oil reserves.

barrels of water per day (BWPD) (load water or drilling water not formation water) pumping. Lucas has a 100% working interest in this well.

William A. Sawyer said, "The Milton Hines No.1ST horizontal Austin Chalk well should significantly add to our net production for the month of October 2011."

Also in mid-September 2011, Lucas completed the Rainey Unit No.1H well in Gonzales County, Texas as a pumping horizontal oil well in the Austin Chalk formation. The well tested 107 BOPD and 36 BWPD (load water or drilling water, not formation water) pumping. Lucas has approximately a 25% working interest in this well.

William A. Sawyer said, "The Rainey Unit No.1H horizontal Austin Chalk well completion provides growth to the production and revenues of the Company."

### Lucas Has a Simple Plan: Focus on Where the Oil Is

Beginning in 2004, Lucas Energy began identifying, evaluating and acquiring leasehold property interests in the Austin Chalk formation along the Texas Gulf Coast – an area of the U.S. that remains one of the world's richest oil plays, with an estimated 6 billion barrels of oil reserves. This region of Texas currently produces 3% of the world's oil and produced 100 million barrels of oil in 2010.

Lucas Energy quick-



William A. Sawyer  
President and CEO,  
Lucas Energy

**"We can sell as much oil as we want at world market prices."**



ly focused building a property portfolio in Gonzales, Wilson, Atascosa and Karnes Counties, Texas, in the sweet spot of the oil-rich Austin Chalk, Eagle Ford Shale, and Buda formations.

### Investment Considerations

"We are in a good position because we have no debt and we have enough production income to carry us for the rest of the year," says Sawyer.

Management is uncertain about why the company's stock has fluctuated by as much as 70 percent in recent days. William Sawyer responded in a statement on October 7, 2011 to inquiries about recent stock activity. In recent days, the stock has traded

as low as \$1.04 and as high as \$1.80 per share. On the same day, the stock was trading at \$1.42.

"I am hard-pressed to understand the current market prices that place our market cap so low. This has not happened since early 2009 when the overall market was bad and we were not known to the public," Sawyer said.

Since December 2010, Lucas Energy has raised approximately \$12 million with a select group of institutional investors and Hall Phoenix Inwood Ltd., an affiliate of Hall Phoenix Energy, LLC, a joint venture partner with Lucas in the Eagle Ford trend.

When Sawyer took over management of Lucas Energy in 2009, the company's shares were selling at about 44 cents a share. Today, the company's shares spiked to over \$5 a share in March 2011 and is now trading at around \$1.45 per share.

"We are excited to have our 2011 capital program funded," says Sawyer, "and the potential for receiving additional major cash infusions if the rest of the warrants granted in association with the December raise are exercised."



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# Lucas Energy Inc.



## LUCAS ENERGY, INC.

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Shares Outstanding:  
16.6 million

52 Week Trading Range:  
U.S.: Hi: \$5.23 • Low: \$1.04



## Quick **FACTS**

### Lucas Energy Business Strategy / Highlights:

- A different kind of public oil and gas company that avoids most of exploration risk by acquiring properties in proven areas where management has prior experience.
- Acquiring and putting back into production wells abandoned or shut in due to low commodity prices in the early 1990s.
- Lucas Energy holds 14,800 net acres from surface to the bottom of the Austin Chalk Formation and 4,600 net acres below the Austin Chalk Formation in Gonzales, Wilson, Karnes, Atascosa, Jasper and Sabine counties in South Texas.
- Significant holdings in the middle of the new Eagle Ford Trend (4,400 net acres) with undeveloped lateral potential from existing wells in both the Buda and Eagle Ford formations.
- Respected joint venture partners include Marathon Oil, an affiliate of Marathon Oil Corporation, and Hilcorp Energy I, L.P., an affiliate of Hilcorp Energy Company.
- Lucas Energy is debt free, and has raised approximately \$8 million since December 2010 with overall transaction potential of over \$20 million.
- Undervalued based on proven reserves of \$56.5 million (as of March 31, 2011), net Eagle Ford acreage of 4,400 acres and comparative peer performance.

Lucas Energy, Inc. is an independent upstream oil and gas company based in Houston, Texas. The company is focused on identifying under performing and shut-in oil and gas assets, primarily in the Austin Chalk formation in South Central Texas. The area is one of the world's richest oil plays, with an estimated 6 billion barrels of oil reserves. Lucas Energy revitalizes its oil 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 it to minimize the high overhead of conventional E&P companies.