

THE COMPANY

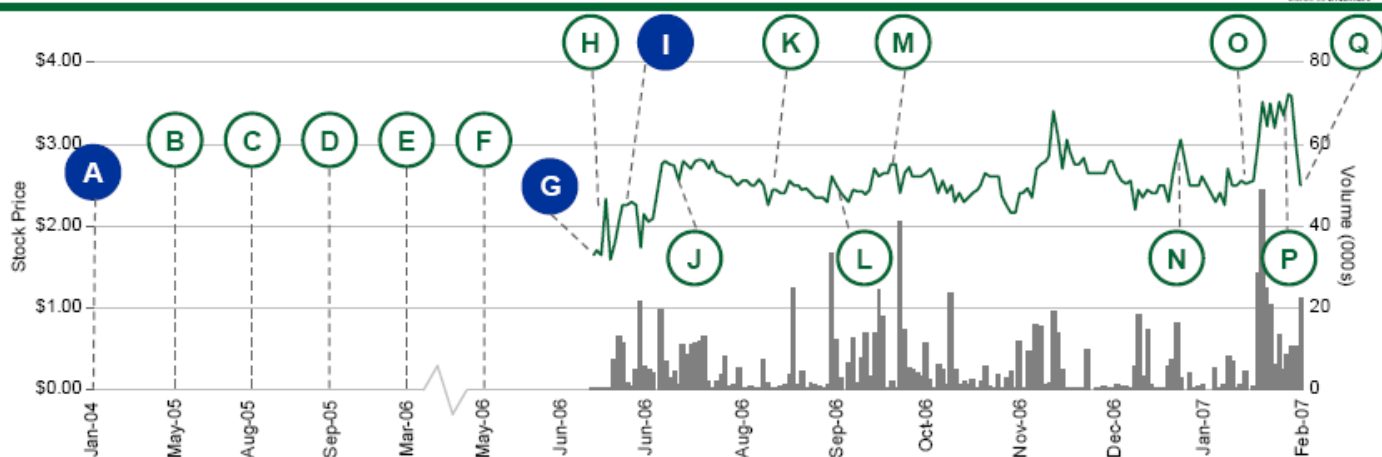
Lucas Energy, Inc. (OTC BB:LUCE) is an independent onshore oil and gas company building a diversified portfolio of valuable oil and gas assets in the United States. The company is focused on **identifying under performing or orphan oil and gas wells and properties domestically**, which are **revitalized** through a **meticulous process of evaluation**, application of **modern well technology**, and **stringent management controls**. This process allows the Company to increase its asset base 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 traditional E&P companies**.

Lucas Energy, Inc. was **originally incorporated in the State of Nevada on April 6, 2005** for the purpose of acquiring and operating certain oil and gas leases in the state of Texas. On May 19, 2006, Lucas Energy, Inc., formerly known as, Panorama Investments, Corp. entered into an Acquisition and Share Exchange Agreement pursuant to which the Company all of the issued and outstanding capital stock of privately held, Lucas Energy Resources, Inc., formerly known as Lucas Energy, Inc., from Lucas Energy Resources' shareholders. The transaction was contingent upon the satisfaction of certain circumstances, including the issuance and transfer of certain Lucas Energy shares to the former Lucas Energy Resources shareholders and completion of certain corporate actions by both companies and their shareholders. The terms of the Acquisition Agreement were satisfied and the transaction was completed on June 16, 2006. In conjunction with the transaction, Lucas Energy, Inc., has Amended its Articles of Incorporation to **change** the Company's **name**, and engaged in a **forward split** of its common stock on a **2.4 for 1** basis, and thirdly changed its trading symbol on the on the NASD Electronic OTC Bulletin Board to **LUCE**.

The terms of the Acquisition Agreement required that all of the Lucas Energy Resources shareholders agreed to exchange their shares, including preferred and common classes, for an aggregate of 21,800,011 (forward split adjusted) Lucas Energy common shares, which occurred June 13, 2006. The transaction required transfer of 2,640,000 outstanding "control" shares to Lucas Energy Resources' private shareholders and required the issuance of an additional 19,160,011 shares to Lucas Energy Resources' private shareholders, for a total new issuance relating to the transaction of 21,800,011 common shares.

Since its inception has **acquired 21 oil and gas properties in four counties of Texas**. The **net mineral acreage portfolio** consists of **over 6600 acres** and since May 2005, LUCE has strategically assembled a portfolio of **34 oil wells**.

Company History



- | | |
|---|---|
| A. Lucas Energy Resources Founded | K. Acquired, Revitalized 1 Well in Gonzales County |
| B. Acquired 2 Unit Wells in Gonzales County | L. Acquired 9 Producing Wells in Gonzales and Karnes Counties; Financed with \$2.2 Million Debt and Restricted Shares |
| C. Acquired 2 Producing Wells in Baylor County | M. Acquired 2 leases and 2 shut in wells in Gonzales County |
| D. Acquired 5 Wells in Zavala County | N. Acquired 6 Oil Wells in Gonzales County; Financed with Restricted Shares |
| E. Acquired, Improved 1 Well in Gonzales County | O. Acquired 1 Well in Gonzales County |
| F. Sold Interest in Zavala County for Profit | P. Acquired 1 Producing Well in Austin Chalk Region |
| G. Reverse Merger Completed; Began Trading OTC | Q. Acquired 2 Shut-In Wells in Gonzales County |
| H. Acquired 7 leases, 3 Wells in Fort Bend County | |
| I. Announced \$1.0 Million Equity Private Placement | |
| J. Acquired, Revitalized 1 Well in Gonzales County | |

Note: Period before May 2006 not to scale

See Appendix A-1 for Analyst Certification and Important Disclosures.



The Company **employs a low risk strategy of buying mature, underutilized wells that can be revitalized with minimal capex** and a “**proprietary**” recovery process.

The company is focused on identifying under performing oil and gas assets, as management believes energy prices will continue to increase over time and that there is a definitive limit to world petroleum reserves.

Lucas Energy intends to take advantage of the current industry conditions that present remarkable opportunities in the energy sector. The ongoing **divestiture of large integrated oil companies’ smaller assets** has created an opportunity to acquire undervalued properties with significant upside potential. While these integrated companies focus largely on major reserve additions, **Lucas Energy focuses on the development of the industry’s non-core assets, which are often poorly exploited.** This strategy will offer both significant returns and decreased risk, as the company intends to steer clear of uncertain exploration activities.

The company began business in 2004 by identifying underdeveloped oil and gas operations that had significant upside. In May 2005, Lucas Energy completed its due diligence and acquired a **100% working interest in two unit wells located in the Pilgrim Field, Gonzales County, Texas.** In August 2005, the company acquired a 100 percent working interest in the **Green Field lease in Baylor County, Texas** that consists of 880 acres and has **two producing wells.** In September 2005, the company purchased a 100 percent working interest in the 1,100-acre Bracero Field in Zavala, Texas.

There are currently 3 producing wells and 3 shut in wells in the Bracero Field. In February 2006, the company entered into an agreement to acquire seven leases on the Big Creek Salt Dome in Fort Bend County, Texas. In August 2006, Lucas Energy acquired 9 properties covering 3,400 acres in Texas.

Lucas recently reported its seventh consecutive profitable quarter for period ended December 31, 2006 (Q3 FY2007). The company's **gross margins are in the 80%+ range and its cash flow (EBITDA) is in the 70%+ range.** Lucas Energy's fiscal strength is extremely favorable compared to the industry with typical payback periods of less than 12 months. The combination of **low overhead** and **strict management controls** allows the Company to **deploy most of the capital raised directly into cash flowing assets.**

The Company's principal offices are in Houston, Texas.

Vision:

Oil and gas industry experts founded the Company in 2004, with a vision to **exploit undervalued oil and gas fields** in the **domestic** market.

Proprietary Advantages:

- **Agile** enough to acquire reserves that are overlooked by larger companies.
- **Intimate knowledge** of the **Gonzales County / Austin Chalk geology.**
- **Sterling reputation** with Gonzales County landowners.
- **Access to capital** from equity markets and **cash flow.**
- Particular **expertise in laterals.**



LUCAS ENERGY

TECHNOLOGY

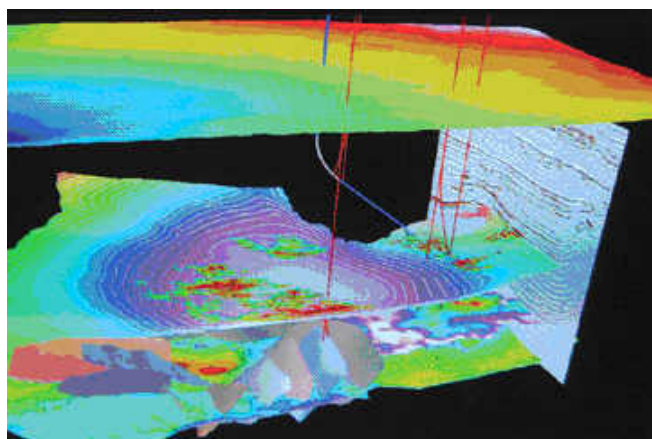
Technology in the oil and gas business is now widespread allowing access to even the newest innovations by the smallest of companies willing to invest in development of natural resources. In exploration, it may be 3-D seismic. In drilling, it may be the horizontal lateral. In production, it may be something else. But almost all of the new technology is now available to the small independent producer.

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Lucas Energy, Inc. is particularly interested in, and has **personnel experienced in, the drilling, completion, and production technology**. Company personnel have contributed to such areas of the industry technology as sand control, well completions and stimulation, and production technology.

The Company has embarked on its strategy to implement its field-tested process to “revitalize” under performing assets. At the core of Lucas Energy’s strategy is to **minimize revitalization capex (typically < \$250,000)** to enhance or restart production at these acquired wells, which suit its investment criteria.

The focus is exclusively on **deep wells, with pressure, in areas with long life reserves**.



New equipment is used to avoid costly downtime and maintenance. Its Test and production improvement process has proven effective (19 wells revitalized to date). The direct benefit of these strategic guidelines which it implements to shareholders is evident as with low overhead and strict management controls, capital goes directly into cash flowing assets. Using modern well technology on **mature oil fields with proven un-recovered reserves of 30% – 50% of the recoverable original oil in place** the Company has **shortened the payback timeline** in most cases to **less than 12 months**.

INDUSTRY

Brent and WTI futures rose back above \$60/bbl, on OPEC cuts, the coldest February in 30 years in the US and refinery outages, after slumping more than 20% from their historic peaks just below \$80 in mid-July 2006. **Falling US product stocks were offset partially by unusually warm weather in Europe and Northeast Asia, but further OPEC cuts in February prevented normal seasonal crude stock build in the OECD**. Since 2004, the emerging China market kept stimulating the growth of crude oil demand and was affected by the production cut in OPEC’s oil supply. As such, the price of crude oil kept rising. In mid 2005, some large cities in China were forced to reduce or cease the use of gasoline due to a national oil supply shortage. Therefore, the market demand is expected to remain strong and the supply situation is anticipated remain tight for the foreseeable future. China has been instrumental in pushing up demand for oil and hence aiding price rises in oil, given its change in status from net exporter of oil in 2002 to net importer of oil by 2004.

The International Energy Agency, in its most recent monthly report released on April 12, **calculated 2006 total world oil demand at 84.5 million barrels per day** revised down by 200,000 barrels from the prior month’s publicized figure. **For 2007 the Agency has lifted its expectation of year-on-year demand growth by 1.3 mbpd to 85.8 million**, which is 200,000 barrels lighter than their 2007 estimate published in March 2007. **World oil supply fell in March by 100,000 bpd from supply in prior month to 85.4 mbpd, which is now almost 2 mbpd behind the IEA’s Q4 2007 daily world demand forecast of 87.6 mbpd**. With effective OPEC spare capacity measured at **2.8 mbpd effective and OPEC cuts since September amount to 1 mbpd**, any supply disruption or strong unforeseen added pressure from the demand side of the equation can tilt the scales to such a degree that again fuel an upward price squeeze in crude oil prices could resume. The current price behavior and fundamental supply demand dynamics suggest to us that the slide to near \$50 per barrel for NYMEX light sweet crude that occurred in January/February 2007, was most likely a correction in an ongoing bull market for energy prices. Note from the current indicated figures on the demand and supply charts that are included from the IEA, the possibility exists that supply and demand could intersect in 2007 (if the global economy keeps growing at a healthy clip) and **demand is likely to even outstrip supply at certain times of the coming year, which is enough to make most observers concerned about a future supply/demand imbalance developing**. The reader should however note that our view is more bullish than market consensus, with many analysts and market participants calling for lower prices and a deflation of the so-called risk and speculative premiums they argue that has been factored into energy prices.

For readers interested in more detail on oil market conditions are directed to the following link, <http://omrpublic.iea.org/>, where a comprehensive monthly Oil Market Report (OMR) is available, that is provided by the Paris based International Energy Agency (IEA). Iran is the world’s fourth leading net exporter of oil at approximately 2.5-3.0 mbpd. **If Iran were to cease exporting, the world would find itself running a deficit of oil**. This would inevitably drive prices up until other producers could make up the difference. Nigeria ranks tenth in the world in proven reserves. The Nigerian rebels recently forced the shutdown of several offshore platforms there belonging to Shell, causing oil shipments to decline by several hundred thousand barrels of oil per day.

A conservative estimate of a 3% to 5% annual decline in global oil production would mean 2-4 mbpd less production going forward. That lost production would not only have to be replaced, but significantly increased to meet the estimated global growth in demand. There isn’t much breathing room if there is another spike in world demand or a large-scale disruption. World population was at approximately 6.5 billion people at the end of 2005 and growing by some 80 million annually. China’s economic growth rate was expected to slow only slightly or remain unchanged in 2007 compared to 2006.

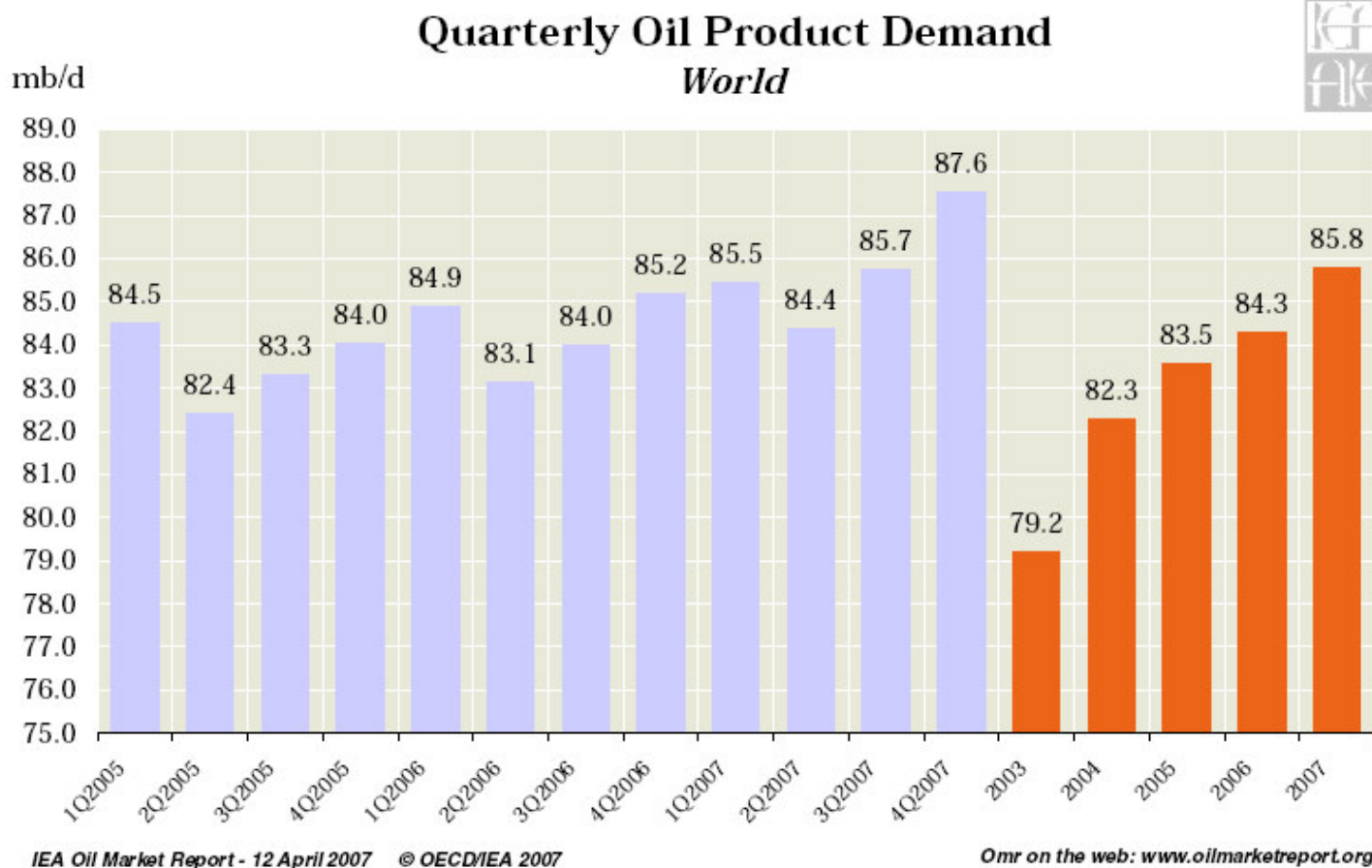
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India's full year growth was expected continue at a similar pace. Between them, roughly one-third of the world's population is engaged in rapid economic growth. Such growth can only increase energy consumption and raise demand. Global spare capacity is still critically low, the ability to increase production significantly is still questionable, and world demand will steadily increase. In addition, any number of geopolitical factors could surface which could disrupt supply channels and put still more upward pressure on energy prices. **Oil and gas reserves are diminishing assets. More will be found, but likely not in large enough quantities or fast enough to keep up for long with the rate of depletion.** Therefore, the value of proven reserves is highly likely to continue to rise.

In summary, our assessment is that **the macro-level outlook for oil, which is based on thin cushions of spare capacity, rather than actual or forecast inventory changes, remains bullish** and is unlikely to change, unless global economic growth begins to wane meaningfully or if economic growth reverses course drastically.

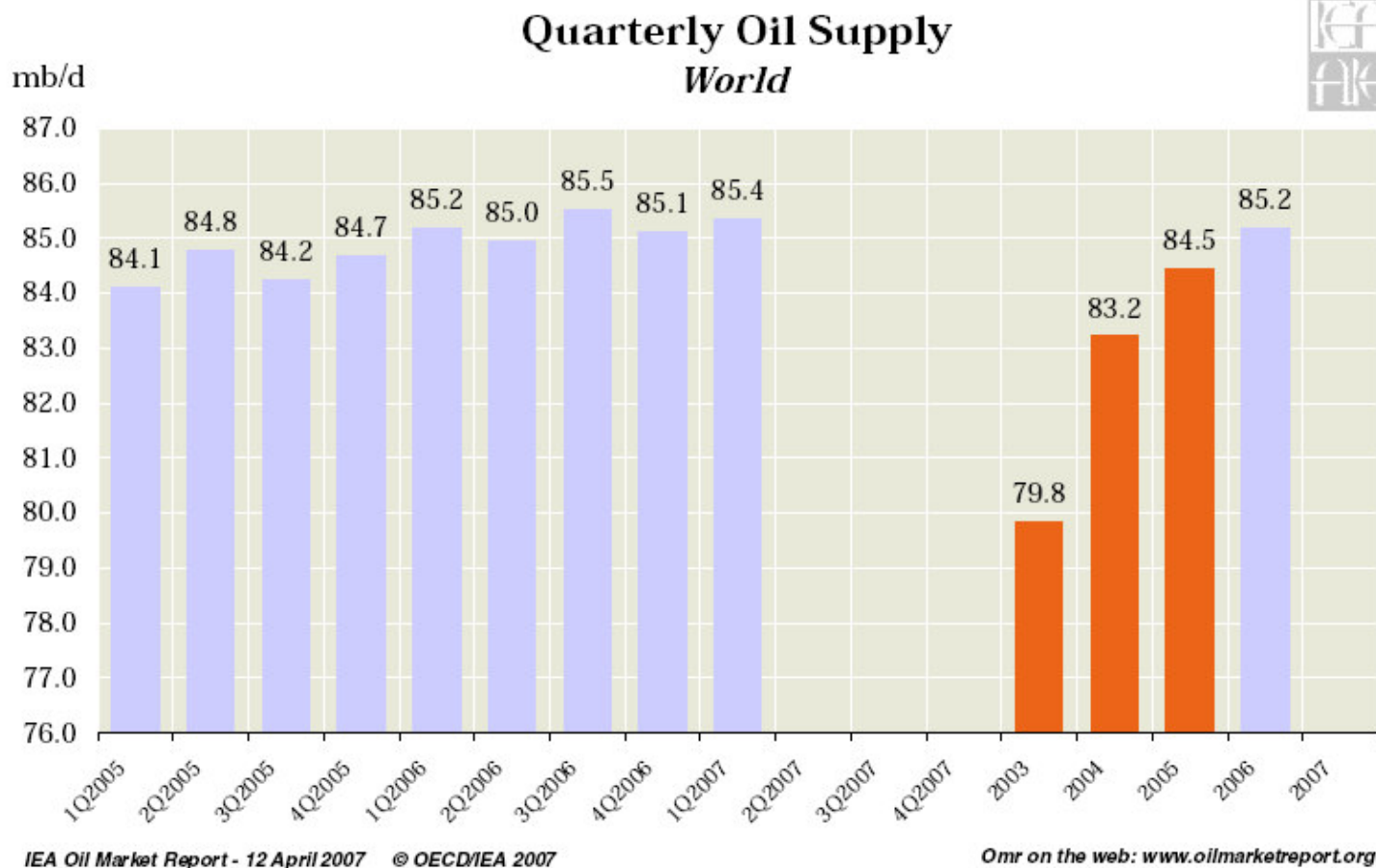
COMPETITION

Oil is America's and the world's number one energy source. Population and consumption trends dictate that substantial increases in current levels of production will be required to meet the expected growth in demand in coming years. Lucas Energy is positioning itself to play a vital role in meeting this demand. Based on the robust demand for oil products in the United States, Lucas Energy can exploit its competitive advantages due to its experienced management team, underdeveloped and unexploited oil assets in the Continental US that could harbour many millions of barrels of oil, access to modern cutting edge well technology and relatively low projected revitalization costs, since it has a strict policy not to partake in any greenfield exploration or wildcatting activity.



There are some other large integrated oil and independent E&P companies in the regions that LUCE has active or prospective operations, however, the demand for crude oil has been rising since 2004 and many economic experts and financial analysts in the oil industry predict and believe that even if global demand growth slows in 2007, and that energy prices may have peaked for the time being, oil and gasoline prices can remain at levels above the long term averages. **We see only a prolonged and sharp U.S. and or global recession as catalyst that could drive oil prices meaningfully lower back to levels below \$50 per barrel for a considerable period.** Therefore, the relative impact of domestic E&P competition in the on-shore U.S. oil and gas industry is considered minor and will not have strong effects on the company's operations at this point in its production and company life cycle.

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COMPETITIVE ADVANTAGES:

In the current oil and gas market where prices of commodities has risen dramatically within the past two years, the expression that a rising tide lifts all boats is as relevant as ever for the industry. But for longer-term investors other definitive competitive advantages are clearly important, as prices cannot rise indefinitely. Lucas Energy, Inc. has **several distinct competitive advantages in the industry**. These areas are **size, experience, and contacts**. These competitive advantages are brought to the company in the form of its technical and management personnel, and the short-term focus established by management at this point in time.

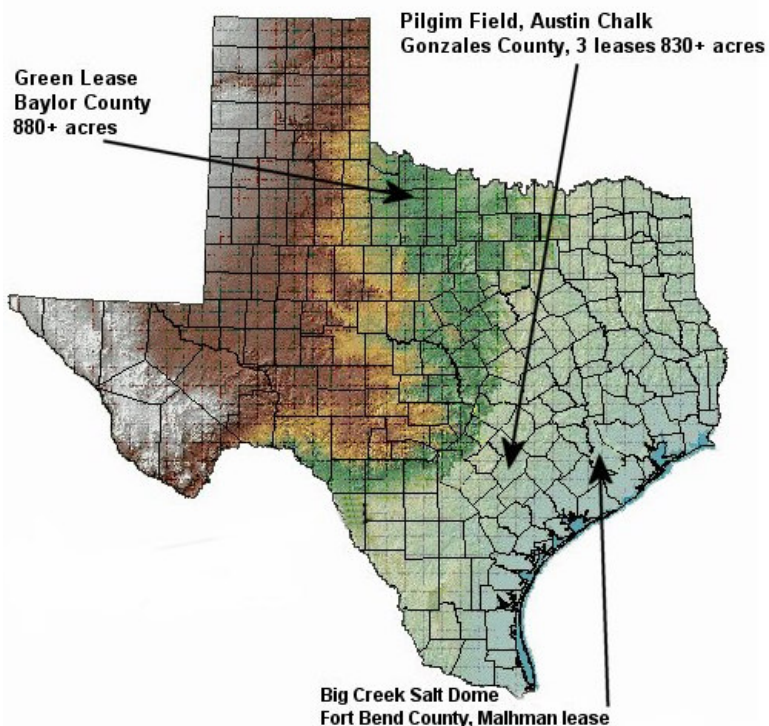
As to size, it forms two important guidelines for the company. First, being a **small company looking for small acquisitions** is a decided advantage in the oil and gas industries today. Larger companies, and most mid-size companies, are searching for large acquisitions to make a successful and meaningful contribution towards increasing the size of company. However, large acquisitions go for a premium; and are difficult to locate. Even smaller acquisitions are expensive; but a fine deal on a smaller acquisition is easier to find than one on a larger acquisition.

Experience is the most important factor in the location of acquisitions, evaluating the acquisitions, and in the clean up and improvement of the acquisitions. High returns in the oil and gas industry is realized in the current environment by finding a high-quality asset to acquire, at a favorable price, with the potential for improvement. The improvement is made possible with **talent and expertise to evaluate** the improvement needed, to **know the method of improvement**, and to have the **ability to implement the workover programs**. Lucas Energy has this expertise available to it.

Management in the oil and gas industry is critical. The **most important management factor for a small company** is the **hands-on experience to manage wells at the field level**. The improvement and protection of assets for a small oil and gas company is essential. Breakdown of equipment, formation hydraulics, and oilfield theft are all part of the management day, and the Company has the management experience to make this work.

LUCAS PROJECTS

To date Lucas Energy has acquired working interests in leases covering over 6000 net acres and currently operates 23 producing wells in four counties of Texas. The projects typically have payback periods of under 12 months. The map shows the areas of operation prior to the company's most recent acquisition activities. To date the Company has completed 14 acquisitions all of which have been done at low cost.



ACQUISITION CRITERIA & STRATEGY

- Mature oil fields with **proven un-recovered reserves of 30% – 50%** of the recoverable original oil in place (**OOIP**).
- Focus on **deep wells**, with **pressure**, in areas with **long life reserves**.
- Wells that can be **improved with up to \$250,000** in revitalization capex.
- Avoid Auctions; but instead **originate directly through local land owners** and **small operators**.
- Avoid debt, **use landowner royalties** and **restricted Lucas Energy shares** as acquisition currency.

Typical lease acquisition and revitalization cost amounts to \$250,000 consisting of:

- \$60,000 for pumping unit.
- \$90,000 in-ground well development.
- \$100,000 intangible drilling costs.

Current Portfolio of Wells

County	Total Number of Wells	Total Producing Wells	Awaiting Revitalization Process
Gonzales	31	20	11
Baylor	2	2	0
Karnes	1	1	0
	34	23	11



- Approximately 12,000 viable shut in wells in state of Texas
- 100 – 150 viable shut in wells in Gonzales County
- Gonzales County wells produce from the Austin Chalk formation, known for its deep, long-life (25 – 35 years) reserves

Note: Information as of February 2007

The Company's current asset portfolio reflects the successful ongoing execution of the Lucas Energy strategy in the United States.

□ **Gonzales/Wilson County, Texas – United States**

In May 2005, Lucas Energy acquired from Perimeter Resource Company a **100% working interest** in **2 unit wells Kuntschik Wells** (670.43 acres) located in the **Pilgrim Field**, Gonzales County, Texas. The wells are in two pooled units consisting of several leases. Ultimately, the net revenue interest to be acquired should be better than 80%. The Gonzales County wells produce from the Austin Chalk formation. Both wells have lateral extensions penetrating the Austin Chalk formation in a horizontal manner.

The **Kuntschik No.1 well** was drilled in 1990 to a depth of 8091 feet where the 7" casing was set and cemented. A horizontal lateral was then drilled from 8091 feet to 10892 feet, leaving the bottom hole location a distance of approximately 2200 feet from the surface location. The lateral was cased with a 3 ½ inch perforated liner. Public records indicate that the well was initially tested at a rate of 587 BOPD. The **Kuntschik No.2 well** was drilled in 1990 to a depth of 8396 feet where the 7" casing was set and cemented. A horizontal lateral was then drilled from 8048 feet to 10682 feet, leaving the bottom hole location a distance of approximately 2431 feet from the surface location. Public records indicate that the well was initially tested at a rate of 464 BOPD. The Kuntschik No. 2 well was **successfully revitalized** and since June 2006 it is **producing 58 barrels of oil per day. These wells have produced an average of 200,000 bbls of oil each, since they were drilled.**

In March of 2006, Lucas Energy completed an acquisition and improvement program of the **Wright #1, a 160-acre lease** in Gonzales, Texas. Lucas Energy acquired a **60% working interest** in the Wright #1 and performed all of the work to clean up the well and improve production. Rework included replacing the downhole pump, acidizing the well, and replacing the water pump on the natural gas engine. Additional immediate work on the well will include replacing the defective heater treater. Future work may include a rework of the well bore to improve production or the drilling of a new lateral in the Austin Chalk.

Lucas Energy, Inc. acquired the Wright #1 well effective January 1, 2006 and became operator of record. The well, at that time, was producing less than 1/2 BOPD. After the rework of the well, the production came back on at 14 BOPD but is now producing at a sustained rate of approximately 7 BOPD. Based on the latest production rate, it is estimated that the net present value of Lucas' interest in the well is approximately \$173,000 discounted at 10%. This represents a 500%+ return on investment for the company.

Lucas Energy, Inc. recently acquired the Jessie Perkins No.1 well from a local operator in the Gonzales County, Texas area in July 2006. Nucorp Energy, Inc. originally drilled the well in 1981 to a depth of 9060 feet. The Jessie Perkins No.1 well is a straight hole completion in the Austin Chalk formation. The well was shut down at the time of purchase. The Company **revitalized this well, which is now consistently producing 70 barrels of oil per day.**

Effective August 8, 2006, the company **acquired leases, wells and equipment on 9 oil properties in Gonzales & Karnes counties of Texas.** The oil leases were acquired from the **Wilson Oil & Gas Company for \$2.75 million.** Lucas Energy paid \$2.2 million in cash (*debt financing led by Phoenix Capital Opportunity Fund*) and 220,000 shares of the company's restricted common stock valued at \$2.50 a share. The properties are comprised of over 2,000 net producing acres, with **9 producing wells and several new well locations.** In September, the Company added **2 oil and gas properties** called the **Zadavil & the Canion Unit covering 127 acres to complement its existing producing assets** in the heart of its operations situated in Gonzales County.

On December 20, 2006, Lucas Energy, Inc. entered into a Stock Purchase Agreement with **The Delphic Oil Co., LLC**, a Florida Limited Liability Company. The Company agreed to purchase **6 oil wells located in Gonzales, Texas.** The Delphic Assets represent **4 properties with a total of 1172.29 acres.** The current purchase of the Delphic Assets represents a total of six wells, four of which are operating and two additional wells which are currently shut and awaiting workover. The properties also contain additional acreage with offset drilling locations. The terms of the transaction included all assets of Delphic in exchange for 1.6 million shares of the Company's restricted common stock, valued at \$2.65 per share.

On April 24, 2007, Lucas Energy announced it **has begun its workover program** of the wells acquired from the **Delphic Oil and Gas Company** in December of 2006. Testing on two of the wells has shown "virgin pressure" at depth. This is a good indication that production can be increased with further drilling and stimulation techniques. The company is also encouraged by recent engineering indicating future development locations. The company plans to include these proved undeveloped locations in its fiscal 2008-drilling program, which began April 1, 2007.

In January 2007 the Company made another 2 acquisitions within the Austin Chalk region, west of Gonzales, Texas. Lucas Energy acquired the **160 acre Henry E. Christian -A- lease** from an independent oil and gas operator. The Henry E. Christian lease includes an active producing well and to date the lease has produced almost 57,000 barrels of oil. The property represents a good fit to the growing portfolio because it will immediately contribute revenue as well as earnings to the company's growing bottom-line.

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Based upon Lucas Energy's management's assessment, it anticipates that with additional revitalization and reconditioning - this well could increase its present production significantly. Secondly, there is enough acreage to drill horizontally from the current well-bore location, further enhancing production capacity. Finally, based upon the due diligence performed, the average horizontal well in this area has average cumulative production of over 100,000 barrels of oil, with some wells actually producing in excess of over 200,000 barrels of oil per well. This lease acquisition holds tremendous upside potential. The Henry E. Christian lease acquisition follows the previously announced **630-acre tract** on January 10th, 2007, which included one open well bore and equipment, with additional capacity for three more wells or four lateral well bores.

Lucas Energy, Inc. completed its eighth acquisition in Gonzales County, Texas, with the lease of 411 acres of land in January 2007. The lease is for **two tracts of property** that have **two shut-in wells, No. 3 and No. 1**. The land is contiguous to the company's "RVS" property. These wells historically have produced 75,000 barrels of oil and 135,000 barrels of oil, respectively. The Company is targeting to have at least one of the wells back online and producing within 90 days of acquisition. The wells have been shut-in since 2001 with little attempt to recondition them. This acquisition provides Lucas Energy with two important tracts in an area, which has demonstrated great potential and access to untapped crude oil reserves. Lucas plans to boost production within the current well bores through drilling, redevelopment, stimulation and well bore optimization. Though the Company did not release an estimated value of the reserves for the properties, the historical data offers an optimistic horizon for potential production scales.

On March 1, 2007 the Company completed its 9th acquisition in 7 months with the lease of 498 acres of land in Gonzales County, Texas. Lucas Energy, Inc. has leased 498.27 acres of land in an oil, gas and mineral lease from the **Griffin Family Trust** and George G. Griffin, Jr. The acreage is in the **G. W. Barnett Survey, A-110**, Gonzales County, Texas. There are **three active, but shut in well bores**, and **two plugged wells** on the lease. The **lease had produced more than 300,000 bbls of oil until it was abandoned** in 1998. The size of the lease is significant in that **Lucas Energy, Inc. will be able to consider laterals on a lease that has only had production from straight hole wells**. The new Griffin lease is just north of the recently acquired Barnett lease in the same survey. Lucas Energy, Inc. also has two wells on another lease from the same family. Lucas plans to **boost production immediately by revitalizing the 3 current active wells**. The Company believes that there are significant proved undeveloped reserves in the upper cretaceous zones on this property. The addition of these proved reserves will be included in the annual report (10-K) for the fiscal year ended March 31, 2007.

On April 18, 2007, LUCE acquired the **Team Bank No.1-H well, Wilson County, Texas**. The well was drilled in 1992 and has cumulative production of 35,159 bbls of oil. The well is a horizontal that is currently producing from the Austin Chalk formation. The Team Bank property is a 240-acre lease in an area that has not been fully developed. Lucas Energy, Inc. plans to boost production by cleaning out the current lateral and drilling an additional lateral from the current well bore.

Further, Lucas Energy, Inc. plans to explore the potential for the Wilcox formation and the Poth formation on the lease. This acquisition follows a succession of new properties, which over the last seven months represents approximately 6,000-plus acres in leased assets in the Gonzales/Wilson County region.

□ **Baylor County, Texas – United States**

In August of 2005, Lucas Energy acquired a 100% working interest in the **Green Lease** in Baylor County, Texas, which consists of 880.7 acres and has **two producing wells**. The Green lease is located in the **Rendham Pool field, a Canyon or Palo Pinto formation**. The lease has produced more than 46,000 bbls of oil.

Lucas Energy Resources, Inc., acquired the Green lease, Baylor County, Texas **effective September 1, 2005** as a foothold for deeper exploration in the area. The lease has **two producing wells**. The wells are approximately 3000 feet in depth and produce from shallow intervals. The Company is considering a workover of one or both wells to increase production.

□ **Zavala County, Texas – United States**

In September 2005, Lucas Energy purchased a 100% working interest in the **1100+-acre Bracero field in Zavala, Texas**. Currently, the Bracero field in Zavala, Texas has **3 producing wells and 3 shut in wells**. Lucas Energy Resources, Inc., effective September 2005, acquired the Bracero Transportation Co. lease. The lease is approximately 640 acres plus some acreage in an adjoining section. There are 3 producing wells on the lease and one salt-water disposal well. Minor improvements were made to the property and the **property was subsequently sold at a profit in May of 2006**.

□ **Fort Bend County, Texas – United States**

In February of 2006 Lucas Energy entered into an agreement with Global Production of Houston, Texas to jointly acquire **7 leases on the Big Creek Salt Dome, Fort Bend County, Texas**. The properties have the **potential for more than 20 drilling and re-entry locations on the leases**. Expectations are that the project will be a joint venture with one or more oil companies with Lucas Energy as the operator. The recent re-development of the Brookshire Dome has stirred interest in Salt Dome redevelopment in Texas. Salt Dome geology is complicated and often contains prolific productive intervals. Spacing of wells on Salt Domes is less stringent than in other fields in Texas.

In June 2006, Lucas Energy, Inc. announced its acquisition of a 100.86-acre oil and gas property: the **Mahlmann Lease Prospect** (Big Creek Dome Area) also located in Fort Bend Country, Texas. The objective of the project is to re-enter the well and produce from the Vicksburg sand formations. The Mahlmann lease covers other producing horizons such as the Miocene (1,800+'), Frio (2000+'), Vicksburg (6,000+), Yegua (7,500+) and Wilcox (sub-salt 12,000-15,000) formations. These formations also are found in several fields around the Dome in Ft. Bend County. **It is estimated that the reentry well could produce 80,000 bbls of oil from each of the upper Vicksburg sands.**

The agreement also provides the potential to drill and produce additional new wells on the lease property that are on the same contour or horizon. This is permitted on the Salt Dome where there are no spacing limitations imposed by the State. The Big Creek Dome Field This field was discovered by Gulf Oil and The Texas Company (Texaco) in the late 30's and has produced over 7.9 million barrels of oil and more than 2 Bcf of gas from primarily wells at above 2,000 feet.

34 Wells in Current Portfolio



PRODUCING (23)

Lease	Status	Barrels of Oil per Day		
		Initial	Current 2-Wk Average	Production Increase
Griffin Oil Unit	pumping	0.0	49.4	Inf.
Barnett, W.L. et al	pumping	1.5	24.5	1533%
Copeland Karnes	pumping	2.4	21.2	800%
Kuntschik	pumping	3.0	15.4	413%
Zavadil, Louis	pumping	2.4	14.5	499%
Ruddock, Upton	pumping	10.8	11.9	10%
Perkins, Jessie	repair pending	0.0	8.1	0%
Perkins Oil Unit	pumping	1.7	7.2	311%
Griffin -Ruddock	pumping	5.2	6.1	17%
R.V.S.	pumping	3.9	5.5	40%
Kuntschik	pumping	12.7	4.5	-64%
Hagen Ranch	pumping	0.5	4.2	772%
Holub	pumping	0.0	4.0	Inf.
Barnett, W.L. et al	pumping	1.3	3.5	172%
Ervin, et al	pumping	0.0	3.5	Inf.
Green	pumping	2.0	2.0	0%
Green	pumping	2.0	2.0	0%
Merit-RVS Oil Unit	pumping	0.7	1.9	157%
Henry E. Christian -A	pumping	0.3	1.7	457%
Wright	pumping	0.2	1.0	343%
Barnett, W.L. et al	shut in	0.0	0.0	0%
Barnett, W.L. et al	shut in	0.0	0.0	0%
Hagen Ranch Unit	repair pending	0.0	0.0	0%
		192.1		

UNDEVELOPED WITH EXISTING WELL BORES (11)

Lease	Status
Boothe, F.W.	plugged & abandoned
Hagen Ranch	undeveloped
Hagen Ranch Unit	undeveloped
Hagen Ranch	undeveloped
Schauer, F.T.	shut in
Schauer, F.T.	undeveloped
Schauer, F.T.	undeveloped
Schauer, F.T.	undeveloped
Ervin	orphaned
Ruddock	shut in
Ruddock	shut in

LATERAL DRILLING PROGRAM

The Company's 2007 capex needs surrounds the **11 projects/wells awaiting revitalization** and **15 wells** that have been revitalized are **not yet at full capacity** (each targeting at least 25 barrels of oil per day). The Company thereafter envisages to drill additional laterals and new offset wells on proven undeveloped leases owned. Laterals are horizontally drilled well bores that extend out up to 2,500 feet from the bottom of the vertical hole. These are extremely valuable and productive wells. **Lucas has at least 6 leases on which it can drill laterals.** The range of initial production in those areas is 300 – 2,200 barrels per day. Lucas is currently completing the engineering and geology work on a three lateral program for 2007.

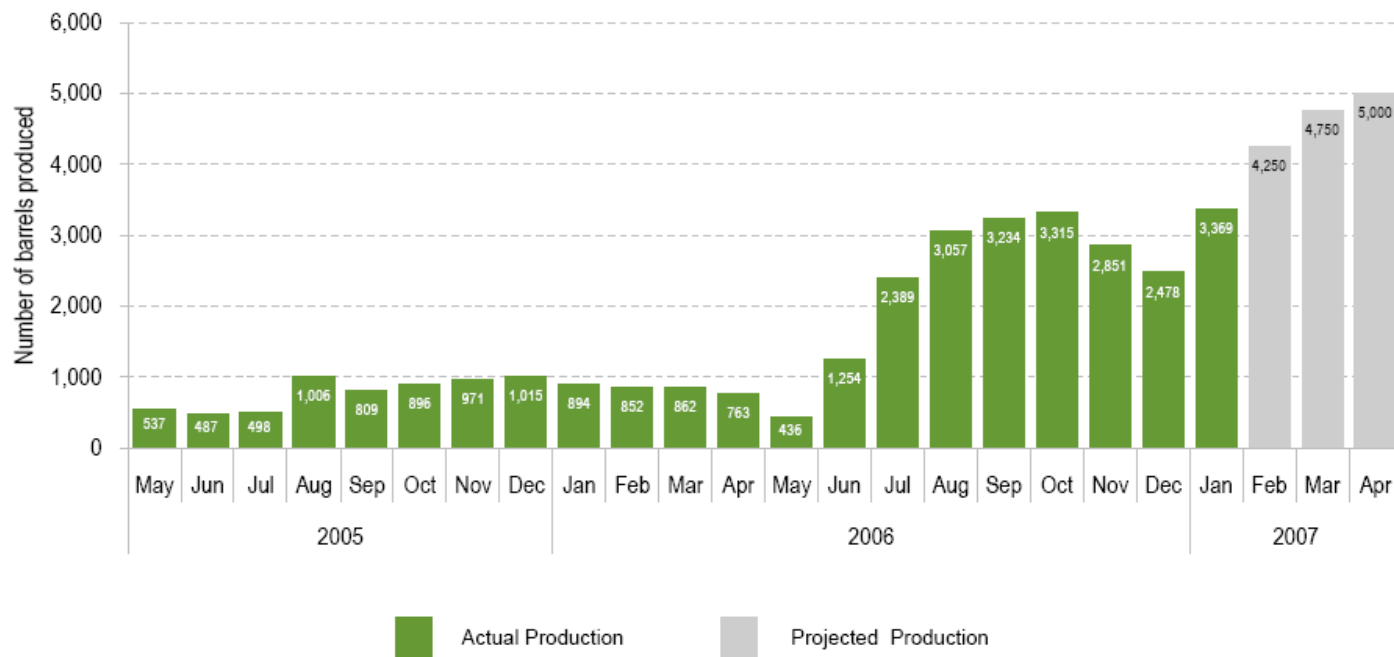
2007 Capex Priorities:

- Clean out laterals in current and acquired wells
- Drill new laterals in straight hole wells
- Drill new wells with laterals

The Lateral Drilling Program is expected to commence by the end of the 2nd fiscal quarter of FY2008.

See Appendix A-I for Analyst Certification and Important Disclosures.

Lucas Energy's Monthly Oil Production



RESERVES

Definition of oil reserves

Oil reserves are a primarily a measure of geological risk - the probability of oil existing and being producible under current economic conditions using current technology. The three categories of reserves generally used are proven, probable, and possible reserves.

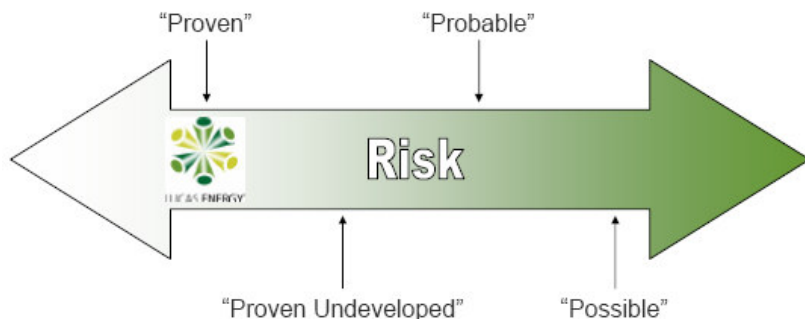
- **Proven reserves (1P or P90)** - defined as oil and gas "Reasonably certain" to be producible using current technology at current prices, with current commercial terms and government consent- also known in the industry as 1P. Some Industry specialists refer to this as P90 - i.e having a 90% certainty of being produced.
- **Probable reserves (2P or P50)** - defined as oil and gas "Reasonably Probable" of being produced using current or likely technology at current prices, with current commercial terms and government consent - Some Industry specialists refer to this as P50 - i.e having a 50% certainty of being produced. - This is also known in the industry as 2P or Proven plus Probable.
- **Possible reserves (3P or P10)** - i.e "having a chance of being developed under favorable circumstances" - Some industry specialists refer to this as P10 - i.e having a 10% certainty of being produced. - This is also known in the industry as 3P or Proven plus Probable plus Possible.

Reserve booking

Oil and gas reserves are the main asset of an oil company - booking is the process by which they are added to the Balance sheet. This is done according to a set of rules developed by the Society of Petroleum Engineers (SPE). The Reserves of any company listed on the New York Stock Exchange (NYSE), which in practice means virtually every commercial company in the world, have to be stated to the U.S. Securities and Exchange Commission. In many cases external geologists audit these reported reserves, although this is not a legal requirement. The U.S. Securities and Exchange Commission (SEC) rejects the probability concept and prohibits companies from mentioning probable and possible reserves in their filings.

Thus, official estimates of proven reserves will always be understated compared to what oil companies think actually exists. For practical purposes companies will use proven plus probable estimate (2P), and for long term planning they will be looking primarily at possible reserves. Other countries also have their national hydrocarbon reserves authorities - for example, the GKZ - State reserves commission of Russia is where companies operating in these countries have to report.

See Appendix A-1 for Analyst Certification and Important Disclosures.



At the end of 2006 the Company had **1 million barrels, \$22 million (PV10)**, in proven reserves.

Management anticipates **adding another \$52.5 million in additional reserves in calendar 2007** under this reserve category. In the medium term **Lucas Energy, Inc. is targeting \$300 million in reserves.**

Management plans to build its oil and gas reserves to a level where the company will be a good takeover candidate.

FINANCIAL STATEMENTS

The company filed Form 10-QSB with comprehensive financial information and operational discussion with the SEC with regards to financial performance and developments for the 3 months ended 31 December 2006 (Q3 FY2007) on February 12, 2007. Lucas Energy has its fiscal year-end on March 31. The results for the 3 months to December 31, 2006 and for the 9 months to 31 December 2005 were un-audited.

The results for the nine month period ended December 31, 2006 were as follows: The Company realized revenues of \$910,788 from the sale of oil and gas during the nine months ended December 31, 2006 compared to \$205,126 in the same period of 2005. Lucas started operations on April 6, 2005. Similarly, LUCE incurred lease-operating expenses of \$185,926 during the nine months ended December 31, 2006 compared to \$58,670 for the same period of 2005. In 2006, it recorded depreciation and depletion expense of \$111,820 for its oil production compared to \$27,795 in 2005. During the period LUCE also realized consulting income of \$34,000 while the Company had no consulting income in 2005. The Company expects its revenues and well operating expenses to continue to grow as Lucas Energy repairs and improves the wells it has purchased. Gross margins are improving and rose to 83.5% in the most recent reported quarter and for the first 9 months of FY2007 the gross margin was 68.5% compared to 57.8% realized in gross margins for the same comparable period in FY2006. The gross profit for the nine-month period under consideration in FY2007 was \$647,042, which represented an increase of 345% over the same figure (\$118,661) posted in 2005. Net income before income taxes in the first 9 months in FY2007 amounted to \$472,297 as opposed to \$77,396 in the first 9 months FY2006. The effective income tax rate for the two periods were 25.9% for first 9 months of FY2007 and 5.2% for first 9 months of FY2006 respectively.

Operating expenses increased to \$125,390 for the nine-month period ended December 31, 2006 compared to \$39,728 for the corresponding nine months of 2005. These expenses consisted of general operating expenses incurred in connection with the day-to-day operation of the oil production business and the preparation and filing of its periodic reports. The bulk of the increase is attributable to its acquisition of additional oil properties subsequent to December 31, 2005. Net income from operations for the nine months ended December 31, 2006 rose sharply to \$349,938 (or 1c diluted EPS on weighted average shares outstanding of 27.43 million) compared with income from operations for the nine months ended December 31, 2005, which was \$73,300 (1c undiluted EPS on weighted average shares outstanding of 8 million). The increase relates to the acquisition of additional oil properties subsequent to December 31, 2005. Net income was impacted by \$139,236 of interest expense on the \$2,300,000 of debt (Note Payable) that Lucas Energy incurred to purchase properties in 2006.

The Company also recorded a gain on the sale of oil properties of \$81,534 during the nine months ended December 31, 2006 as LUCE sold a property that did not suit its purposes. We had no such gain in the corresponding period of 2005. As at 31 December 2006, Oil & Gas Properties on a net basis were valued at \$8.67 million.

Noteworthy financial and per share statistics are listed in the table found on page 1 of this report.

Liquidity and Capital Resources

Management expects its current cash balance of \$1,010,969 at December 31, 2006 (up from only \$59,232 as at March 31, 2006) to satisfy its cash requirements for the next 12 months.

The Company expects to be able to satisfy its cash requirements for at least the next twelve months without having to raise additional funds or seek bank loans. However, if LUCE identifies additional oil and gas projects that it may want to purchase, its management may choose to raise additional monies through sales of equity securities or through loans from banks or third parties to make the acquisitions.

See Appendix A-I for Analyst Certification and Important Disclosures.

Lucas Energy produced positive operating cashflow of \$726,201 during the nine months ended December 31, 2006 compared to cash provided from operations of \$100,300 during the nine months ended December 31, 2005. The Company used \$3,624,297 of this cash to purchase oil properties during the nine months ended December 31, 2006 compared to \$531,485 for the same period in 2005. Cash provided from the sale of oil properties in 2006 was \$302,975 compared to \$-0- for the same period of 2005.

The Company received cash of \$1,441,500 from the sale of shares of its common stock during the nine months ended December 31, 2006 compared to \$280,030 in the same period of 2005. LUCE borrowed \$2,300,000 in 2006 compared to the \$285,000 borrowed in 2005. It used \$165,000 to repay notes payable during the nine months ended December 31, 2006.

In May 2006, the Company successfully completed a **\$1 million private placement of its common stock**. The Company sold 2,000,000 shares of its restricted common stock at a price of \$0.50 per share. Proceeds in the aggregate amount of \$1 million were paid in cash to the Company. The Company's officers and directors placed the Offering on a "best efforts basis" with no underwriters and there were no underwriting discounts, commissions, selling expenses or fees paid in connection with the sales.

The Company intends to use the proceeds from the transaction to fund development of its growing oil and gas portfolio properties, as well as provide working capital to support the next phase of the Company's growth. The Offering was made only to "Accredited Investors" as defined in Rule 501 of Regulation D. The shares were sold without registration, pursuant to an exemption from registration under Rule 505 of regulation D of the Securities Act of 1933, and are "Restricted Securities" as defined by Rule 144 of the Act.

In August 2006, the Company issued 220,000 shares of its common stock valued at \$2.50 per share for interests in 9 oil properties. In December 2006, the Company completed a private placement of 311,381 shares of its common stock at \$1.45 per share for gross cash proceeds of \$451,500. In December 2006, the Company issued 1,600,000 shares of its common stock valued at \$2.65 per share for interests in several oil properties.

RISK FACTORS / CONCERNS

The business model, and longer-term consistency of revenue and income potential, remain uncertain and is not fully proven. Lucas Energy is **substantially dependent on the expertise of its management team and directors**, the loss of which could materially adversely affect future anticipated results. The Company may not be able to generate sufficient funds to operate its business, which, could harm results and force the Company to curtail or cease plans for expanding operations. If the Company is unsuccessful in raising the necessary financing from capital markets needed to pursue its strategy of acquiring and developing the Gonzales/Wilson County properties and to develop this and the other Texas assets through revitalization, drilling and lateral production projects, the Company may be forced to curtail operations and abandon or postpone some of its planned strategies, all of which will have a negative impact on the financial position of the Company.

The **oil production and exploration industry is inherently subject to changing conditions** that can affect levels of production and production costs for varying lengths of time and can result in decreases in profitability. There is a direct risk due to exposure to commodity prices related to input prices such as that of *bentonite (volcanic ash used in drilling)*, rig and drilling equipment rates and exploration, maintenance and recovery costs associated with secondary and tertiary oil recovery; **most of which are not within control of the company**. In addition, adverse weather conditions, equipment replacement or repair costs, floods, variations in thickness of the drilling layer other geological conditions can be expected in the future to have, a significant impact on operating results. Prolonged disruption of production at any well would result in a decrease in revenues and profitability, which could be material.

The marketability of its oil production will depend in part upon the availability, proximity and capacity of pipelines, surface and processing facilities. Federal and state regulation of oil production and transportation, general economic conditions, changes in supply and changes in demand all could adversely affect the Company's ability to produce and market oil. If market factors were to change dramatically, the financial impact could be substantial because LUCE would incur expenses without receiving revenues from the sale of production. The availability of markets is beyond the control of Lucas energy. Also, the Company's ability to develop future revenues will depend on whether it can successfully implement its planned workover and recovery projects program. Lucas Energy's planned projects may not result in significant reserves or in the production levels the Company anticipates. All revenues are **subject to the prevailing worldwide price for crude oil and spot prices. Prices received for oil and gas production have been and remain volatile and unpredictable.**

If oil prices decline significantly, even if only for a short period of time, Lucas Energy's revenues and cash flows would be materially adversely affected. The company has not disclosed official proven and probable reserve information in its recent 10-QSB. These figures usually represent estimates prepared by internal engineers and examined by independent petroleum consultants. Readers should note that the estimation of reserves is not an exact science. Estimates of economically recoverable oil and natural gas reserves and of future net cash flows necessarily depend upon a number of variable factors and assumptions, any of which may cause these estimates to vary considerably from actual results.

Other factors affecting the production of oil that could result in decreases in profitability of Lucas Energy, include problems arising at production sites due to company delaying and deferring maintenance due to technological failures/reasons; changes in laws or regulations, including permitting requirements; litigation; work stoppages or other labor difficulties; any labor shortages; changes in the worldwide oil market and/or general economic conditions. **Financial performance relies substantially on Lucas Energy's ability to exploit oil reserves at competitive costs. Replacement reserves may not be available** when required or, if available, may not be capable of being drilled at costs comparable to those characteristics of the depleting oil field or recovery projects may not yield the same results as the well that once produced oil or gas. The Company may in the future acquire oil reserves from third parties and may not be able to accurately assess the geological characteristics of any reserves being acquired, which may adversely affect its profitability and financial condition. Lucas Energy is reliant on infrastructure of other industry participants in order to facilitate its activities. In some instances, Lucas Energy will depend on the work and expertise of other consultants to develop, provide financing, and operate its properties and projects. The prospects of Lucas Energy will be highly dependent upon the ability of such other parties that are more often than not local companies and contractors. As indicated by the nature of the partners, with which Lucas Energy is participating in current projects, management believes the risk in relying on such partners is reasonable.

The U.S. oil and gas and power generation industries are subject to substantial regulation with respect to the discharge of materials into the environment, pollution, siting of operations or other factors relating to the protection of the environment. The exploration, development and production of oil and gas are regulated by various governmental agencies with respect to the storage and transportation of the hydrocarbons, the use of facilities for processing, recovering and treating the hydrocarbons and the clean up of drilling sites. Many of these activities require governmental approvals before they can be undertaken. The costs associated with compliance with the applicable laws and regulations have increased the costs associated with the planning, designing, drilling, installing, operating and plugging or abandoning of wells. To the extent that LUCE owns an interest in a well it may be responsible for costs of environmental regulation compliance even after the plugging or abandonment of that well.

Lucas Energy's operations will be subject to those risks generally associated with the oil and gas and power generation industries. Such risks include exploration, development and production risks, title risks, and weather risks, shortages or delay in **delivery of equipment and the stability of operators** and contractor companies. Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices around \$2.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. The reverse is true if one or more large investors decide to acquire a block of LUCE shares that would result in demand outstripping supply and result in an upward squeeze in the price given the low liquidity and daily trading volume.

We caution that historical volume activity on LUCE has been relatively low, and we are unable to predict the direction of trading volumes over the coming months. Major dilution of common stock can occur if company issues large blocks of common stock or convertible debt is converted or warrants are exercised into common stock that can negatively impact on the value of its shares. NASD and SEC Regulations covering rules on Penny Stocks apply for LUCE, subjecting NASD broker-dealers to additional sales practice and disclosure requirements.

Further elaboration on these above-mentioned and other risk factors are contained in the company's **SEC filings in Form(s) 10-KSB or 10-QSB and readers are encouraged to consult these documents.**

MANAGEMENT TEAM & BOARD OF DIRECTORS

The management team of Lucas Energy, Inc. has been selected based on experience, successful endeavors, and technical ability. The composition of this team brings the ability to make things happen in the oil and gas industry, and enhance the value of the company assets. Enhancement of company assets is the key to today's small oil and gas profitability. Price increases are no longer the sole factor to profitability planning. It is enhancement of the base asset value. Included in the management team is technical expertise with over 30 years of combined experience in the oil and gas industry. This expertise includes management of oil and gas properties, reservoir engineering, production engineering, and experience managing field personnel. The quality of the technical expertise is above a level found in most companies, whether large or small. Whether it is finding an acquisition, evaluating the acquisition, the transition and closing, or the enhancement of the acquisition asset, the Company's technical expertise is superior to most small operators.

James J. Cerna, Jr. – Chief Executive Officer

Mr. Cerna is a successful company leader with experience in the energy industry and publicly traded companies. Prior to joining Lucas Energy Inc., Jim was the Chief Oil and Gas Analyst and CFO of Petroleum Partners, Inc., an energy development company operating a 2000 acre field in the Barnett Shale, Texas. Jim was the founder and CEO of NetCurrents, Inc., (NASDAQ: NTCS), an organization that focuses on Internet information monitoring and analysis, competitive intelligence, and strategic counsel in the business-to-business market sector. Jim was responsible for successfully growing the company from a start up with an initial valuation of \$500,000 to a Nasdaq Small Cap listed company with a market cap of \$330 million upon his retirement.

See Appendix A-1 for Analyst Certification and Important Disclosures.

Prior to NetCurrents, Jim was the manager of the GT Global/AIM Funds performance analysis group in San Francisco. Earlier, he was an international equity analyst with Bailard, Biehl, and Kaiser in San Mateo, California. Jim has received five certificates of achievement from the Institute of Chartered Financial Analysts. He is honored by Strathmore's Who's Who for leadership and achievement in the Finance Industry.

William A. Sawyer – Chief Operations Officer

Mr. Sawyer is proven hands-on energy executive with over 30 years of diversified experience in the energy industry with firms such as; ARCO, Houston Oil & Minerals, Superior Oil (Mobil), and ERCO. He founded the petroleum-consulting firm of Exploitation Engineers, Inc. The firm has served the oil and gas industry for more than eighteen years. Clients have included private investors, independent oil companies, banking institutions, major energy and chemical companies, and the US government. The firm has evaluated and managed large projects such as a private trust, which included interests in several hundred producing and non-producing oil and gas properties.

This background as a consultant has given Mr. Sawyer the superior technical and business skills necessary to evaluate mineral interests and to prepare fair market value appraisals of both minerals interests and sub-surface storage interests. Mr. Sawyer has been an expert witness in federal court, state court, and before several state agencies in Texas and Oklahoma. Mr. Sawyer has testified as to the fair market value of mineral interests and sub-surface storage interests on several occasions.

Malek A. Bohsali – Chief Financial Officer

Malek A. Bohsali has joined the Company as the new Chief Financial Officer on April 10, 2007. Mr. Bohsali brings over 15 years of experience in the energy sector, which includes a distinguished background in both engineering and fiscal governance.

Mr. Bohsali's experience in the energy industry includes positions in management and oversight of engineering and construction activities, negotiating major vendor contracts, and implementing financial controls. Mr. Bohsali also has strategic business development, competitive analysis and financial structuring experience. He has identified, analyzed and negotiated acquisition and development targets ranging in size from \$50 million to \$1.45 billion for Fortune 100 and Fortune 200 companies. Mr. Bohsali is also a member of the Board of Directors of Dynamic Health Strategies, Inc. a data-mining and reporting company, where he was responsible for the company's financing efforts. Mr. Bohsali received an MBA from The University of Houston, and a BS from in Civil Engineering from Texas A&M University.

His addition to the executive management team will bring a significant depth of knowledge to this fast-growing company, making him a perfect fit to oversee and monitor the quality of Lucas Energy's asset portfolio. He will also be responsible for corporate governance commensurate with listing protocols required for a national exchange.

**Eric Wold, CFA – Board member, Finance Committee / Managing Director, Equity Research
Merriman Curhan Ford & Co.**

Eric Wold is a Managing Director, Equity Research at Merriman Curhan Ford & Co., where he is responsible for covering the Restaurant and Specialty Consumer sectors. He joined the firm in March 2002. For 2004, Mr. Wold was ranked number two in the nation by both The Wall Street Journal's "Best on the Street" and the Forbes/StarMine surveys for the Restaurant industry.

Prior to joining Merriman Curhan Ford & Co., Mr. Wold served as Director of Corporate Finance with NightFire Software, a privately-held telecommunications software company based in Oakland, California. In this capacity, he oversaw the company's corporate finance activities, including a Series D equity financing and multiple debt restructurings. From 1997 through 2000, Mr. Wold served as Vice President and Senior Research Analyst at First Security Van Kasper, where he was responsible for the Restaurant and Branded Consumer sectors. Prior to Van Kasper, Mr. Wold began his career on the buy-side with Research Analyst positions with both Polynous Capital Management (a hedge fund that he co- founded in 1996) and GT Global Financial Services. Mr. Wold received his Chartered Financial Analyst (CFA) designation in 1997 and a BS in Finance from the University of California at Berkeley.

Rick Schmid – Director

A graduate of Colorado School of Mines, Rick Schmid has actively worked in many arenas in the Oil and Gas Industry. He has managed technical programming groups, geophysical processing companies, development groups and exploration and production companies for over 32 years. He brings with him technical expertise that can help guide and monitor the direction Lucas Energy will choose to take. Rick is a Certified Geophysicist in the State of Texas and a member of SEG, AAPG, HGS, & GSH.

Peter K. Grunebaum – Director

On January 29, 2007, the Board of Directors of Lucas Energy, Inc. appointed Peter Grunebaum to fill a vacancy on the Board of Directors. Mr. Grunebaum is an independent investment banker with over 40 years of experience in the energy sector with a specialty in Exploration & Production. He is a graduate of Lehigh University and for the past 10 years, Mr. Grunebaum has been an independent consultant. From 1980 to the present, Mr. Grunebaum has served as a director of Pre-Paid Legal Services, Inc. (NYSE:PPD) and, from 2005 to the present; he has also served on the Board of Directors of Stonemor Partners LP (NASDAQ:STON).

INVESTMENT THESIS AND RECOMMENDATION

Our analysis suggests that Lucas Energy Inc. is an interesting speculative play among micro-cap companies offering exposure to the investor on oil and gas exploration and unexploited projects on quality overlooked assets in the North America that holds great promise of sustained future revenue streams once it can be revitalized with low capex.

Lucas Energy, Inc. is an exciting independent oil and gas company that has already assembled a diversified portfolio of valuable oil and gas assets with current emphasis to 4 counties in the state of Texas. The company focuses on identifying under performing or orphan oil and gas wells and properties domestically, which are revitalized through a meticulous process of evaluation, application of modern well technology, and stringent management controls. This process allows the company to increase its asset base and cash flow, while significantly reducing the risk of traditional exploration projects. Lucas Energy's business model also allows it to minimize the high overhead of traditional E&P companies, providing it with sufficient assets and capital to acquire new properties as they fit into the profile of the company's criteria.

As global energy consumption continues to rise, and as oil prices are at or near all-time highs – with the contango in the crude oil futures market indicating that prices will remain high – market conditions provide a strong foundation for Lucas Energy to pursue opportunities in overlooked or under-developed and/or abandoned reserves throughout the US, where it can enjoy a competitive niche to derive economic benefit from its revitalization and workover strategy.

Lucas Energy is a relatively new participant in the oil and gas industry that appears well positioned and well equipped for success in its industry. This company is unique in several ways, which should attract attention of fund managers looking to acquire small cap oil and gas plays with great potential for above-average returns:

The Company has been profitable for seven consecutive quarters since inception on April 6, 2005 and is on its way to an eighth. Lucas Energy has a very low overhead compared to its competition, which allows for higher than normal growth rates when combined with assets that produce strong cash flows. Lucas Energy is small enough to focus on reserves that are low risk but are also overlooked by larger companies. Lucas Energy does not spend money on exploration or "wildcatting" for potential reserves. Since inception, it has avoided secondary or tertiary methods, which are expensive, to produce oil from its revitalized wells. Lucas Energy's projects typically have payback periods of less than 12 months, compared to 3 to 5 years for the industry, and have NPV's in the range of 40 to 60 percent. The company's strategy is to identify under producing wells or shut in wells by searching through production logs. Once identified, the wells are analyzed using management experience and technical data. Lucas Energy then determines what modern technology or equipment is necessary to workover the well correctly and to maximize the production from the well. So far, average production increase has ranged from 200 to 700%.

Regardless of the Company's conservative strategy, the operating and financial risks involved in investing in young oil E&P companies are typically high and should be considered by investors. In this case the operational risks associated with exploration and production include, risks associated with weather conditions, technical breakdowns, future reserve depletion, rising production, pipeline transportation, drilling and the various exploration costs and many others that can result in actual results differing from expectations that precede drilling or recovery and eventual commercial well production. There can be no assurance that the production rates and past financial/production results achieved at LUCE oil and gas prospect sites, will be sustained with the same quality and flow rates in future that meet or exceed the company's present expectations.

Furthermore our recommendation assumes that the Company can bring 15 wells to full production and revitalize 11 wells in the coming 12 months that will allow LUCE to significantly ramp its revenues in FY2007 and more evidently in FY2008. Most input and transportation costs are relatively fixed and cannot be influenced or determined by management, which can have an adverse effect on profitability. The company will leverage its balance sheet and incur interest expense on debt issued that will also reduce operating profit if its proposed financing deal is executed.

See Appendix A-I for Analyst Certification and Important Disclosures.

Readers should understand that there can be no assurance that the company will be able to fast-track its intended goal towards re-initiating production levels at its various properties through its revitalization projects, workovers and other methods to exploit remaining reserves in the reservoirs, that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record to enrich shareholder value. The future spot price of Crude oil and Natural gas (both traded on NYMEX) is one of the biggest unknowns and does and will play a material role in the financial performance of LUCE in the short, medium and long term.

We therefore only recommend investors that have a high tolerance for risk that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to LUCE should do so with absolute minimum 2 year investment horizon, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will allow the value behind additional production to follow from its current and future targeted recovery projects and the impact of new 'booked' reserves from its Texas properties to be unlocked and reflected in the stock price once a comprehensive reserve assessment has been performed. Short term we expect LUCE stock to remain volatile on the back of movements in crude oil prices.

Lucas Energy is building upon its solid base of reserves by actively pursuing additional opportunities to expand through revitalizing old wells, drilling new wells, and acquiring more properties. The company recently raised \$1 million of equity capital through a private offering and management expects to complete a \$10 million equity offering in FY2008. The funds from both of these efforts will be used to either revitalize wells or drill new wells.

Lucas Energy also recently acquired nine properties covering over 2,000 net acres. The wells are currently producing, but management wants to revitalize the wells to maximize their potential. The company expects to be able to raise the additional \$10 million in equity before the end of 2007, which will allow for a major investment in revitalization of 25 wells and its 2008 lateral well drilling program. Management estimates the investment will add almost 3 million barrels to its reserve base and add net asset value based on PV10 analysis of \$71 million. That implies a return of 700 percent on the initial investment, which is in line with the company's prior results. Management expects the \$10 million to fall to the bottom line within 12 to 16 months from implementation of the projects.

The most promising fact about Lucas Energy's expected results is that they are not speculating as to whether the oil is in place, because the exploration has already been completed. They are going after proven reserves that have been abandoned by other companies for one reason or another. Accordingly, we refer to Lucas Energy's operations as low risk. Lucas Energy management has a goal of being listed on the AMEX and with continued growth and investment; the company should quickly meet the qualitative requirements for listing. Another goal of management is to attain a level of reserves that will make the company a good takeover candidate. With the company's current plans that are being well execute and its strategy starting to pay off, this should not take long to achieve. Medium term management is targeting \$300 in reserves in the P10 reserve category.

Under the assumption that the Company can grow organically and raise and utilize new funding to acquire other viable shut-in wells and exploit the value of its assets, and that the recent weakness in energy prices has created a meaningful support around the \$60 level which will not be breached in the medium term, LUCE can start its ascent towards our 12-month price target of \$4.20 in the medium term as production adds revenue. The timing of an improvement in the price of LUCE shares will be spurred along in our view as operational progress is made and reporting to shareholders improves further as reserve details are disclosed. In the medium term a major risk factor may involve that additional capital raising or stock offering will be needed to fund growth and enable to company to embark on its full drilling & recovery program, geological studies and to acquire other properties.

One of the core reasons, which is pivotal to our bullish argument for upside in LUCE, follows from our interpretation of the quality of the assets acquired thusfar in the Lucas portfolio. Using the Net Oil reserves indicated in news releases indicated under the P20 Reserve Category (roughly 3.5 million barrels of oil) and assuming the Company can produce at a net realizeable rate of \$48.5 per barrel the current Gross Valuation Reserve in dollars amount to \$171 million.

Under a simplistic assumption that this amount is produced successfully and this full reserve depleted over a 20-year period yielding a fixed annual production income of \$8.5 million, we arrive at a Present Value of Reserves (@ 10% discount rate) of \$72.5 million. Assuming 29.5 million shares in issue we calculate an Adjusted Reserve based value per share of \$2.35 after stripping out cash and debt on the balance sheet. Depending on the flow rates and present daily production rates at past producing wells that can be realized, and the faster LUCE is able to commercialize revitalized wells, the greater the scope to exceed present expectations, which will make the future return prospects from taking a stake in this company at a steep discount to reserves even more compelling.

Lucas has an attractive and unusual ability to acquire properties with equity rather than cash or debt. The fact that Wilson Oil and Gas recently accepted payment for its properties partially in the form of restricted shares valued at \$2.50 per share says a lot for the value of the shares. Restricted shares are typically discounted from the freely traded price for lack of marketability. This gesture implies that Wilson is optimistic about the direction of Lucas Energy's stock price.

Based on a relative valuation we can estimate a target price for the company's stock using an Enterprise Value to EBITDA (EV/EBITDA) ratio and a Price to Earnings (P/E) ratio. The ratios for the industry are 6.8x and 14.8x, respectively based on 2006 estimates. Applying the PE ratios of 14.8x to Lucas Energy's our FY2008 Net earnings forecast of \$1.3 million (EPS 4c), results in an equity value of \$19.5 million. We must then divide this value by total shares outstanding of 29.45 million, resulting in a price per share of \$0.60 which is clearly negated by the market and by the price of restricted shares.

Instead we base our recommendation rather in the short term on reserves rather than pure earnings power. We have assumed that the Company will continue to add additional wells and that its \$300 million targeted reserves under the P10 category is realistic and attainable in the medium term we calculate an adjusted Reserve Value per share of \$4.22 based on 29.5 million shares outstanding.

Under the assumption that FY2008 revenue of \$2.8 million and net income of \$1.3 million are achievable and that its anticipated capital raising activity is well-managed and successfully executed and expecting LUCE to lift production and revenues substantially in FY2009, as more progress is made to boost production levels at former producing sites and for its lateral drilling programs to bear fruit, while strong US and worldwide demand for crude oil prevails, we are of the opinion that LUCE stock has major upside potential on multiple factors.

Given these calculations and our bottom up analysis and financial estimates which are quantitative measures, and also factors that are qualitative in nature, we set a 12-month target price for the security of \$4.20, which is also pegged close to our calculated serve value per share based on the P10 reserve category values mentioned above. Lucas Energy's stock has been lackluster in recent days but we believe there is still ample scope for the stock to rise from present levels. As the Company manages its growth, focus will be on reducing lease operating expenses, general and administrative costs, and finding and development costs.

In addition, acquisition efforts will be geared toward pursuing opportunities that fit well within existing operations, or in areas where the Company is establishing new operations, or where Management believes that a base of existing production will produce an adequate foundation for economies of scale necessary to grow its E&P business within the Texas geography. All factors weighed, we anticipate a stake in LUCE still has compelling upside potential in the coming 12-24 months in light of the fact that negligible value is assigned to possible added value and incremental production benefit that can be added when the production commences and additional proven reserves are added.

Leveraging its considerable experience in oil and gas, the team at Lucas Energy has carefully analyzed the industry landscape and devised a highly intelligent strategy to identify, acquire and develop overlooked and under exploited oil and gas plays in the domestic market. With state of the art recovery techniques, strong energy demand and skyrocketing prices driving record profits in the industry and opening up major opportunity for lean, well-funded emerging energy companies, Lucas Energy is targeting a fertile niche under the radar of the majors and out of the reach of small independents.

Lucas Energy is creating rapid growth and momentum. Moving quickly on a variety of fronts, the company has acquired working interests in highly prospective projects in Texas, Peru and Colombia and is evaluating additional opportunities in North and Latin America. Drilling readiness and spud programs are on track for projects with sizeable potential reserves.

Armed with unparalleled management expertise, key acquisitions, solid reputation with Texas landowners, in a market hungry for oil and gas, the ability to move quickly, and an intelligent strategy for expanding its net acreage portfolio at a fast rate, Lucas Energy is on track to become a distinguished positive junior exploration and production company in record time.

Lucas Energy appears poised for further growth and is indicating extraordinary shareholder value under our assumptions based on future revenue streams and costs and based on the implied net oil reserve economics of 6 million barrels (\$300 million reserve target) given its high operating and gross margin structure.

We regard the present market capitalization of \$61.8 million as very modest in light of the current reserves calculations and computed above. Our target price of \$4.20 implies a market cap of \$123 million. Under the cited assumptions we initiate coverage on LUCE with a SPECULATIVE BUY rating.

Risk to our recommendation include amongst other: failure of intended revitalization and recovery projects to come on-stream as projected, unforeseen production difficulties in the near or medium term from flooding or other factors, inability to obtain permitting and logistic or regulatory problems to conduct its strategy and implement its plans by the scheduled date at a given prospect, slowdown in production or failure to operate wells at estimated flow rates an unexpected decline in oil prices that will lead to a contraction in forward PE multiple assumptions and diminish the reserve valuation, a steep rise in drilling and production costs or unanticipated problems obtaining production equipment or drill rigs etc., new fees and/or any adverse regulatory changes in the markets it conducts operations.

New competition in its regional market by other larger oil producers, tax expense accounting changes, any inability to obtain necessary financing from capital markets when needed, inability to close its earmarked acquisitions to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, are some additional factors that will counteract price appreciation potential or cause shares to decline in value.

We would caution that given the size of the company (micro-cap) and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.

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Our rating system, for stocks we rate, is divided into four main classifications: **Buy**, Positive, **Neutral**, and **Sell/Avoid**. Our Buy rating is divided into sub classifications by our analysts to reflect the degree to which the analyst believes the shares are undervalued in relation to the market and its peers, and the degree of financial risk represented by an investment in the shares. These Buy sub classifications include: **SPECULATIVE BUY** and **SPECULATIVE STRONG BUY**. The analyst will comment in the company reports on any of the perceived risk factors underlying the assigned rating.

Classification	Sub Classification	Description
BUY RATINGS	Speculative Strong Buy	<i>The current price of the company reflects a substantial discount from the market and from the valuation accorded its peers. The analyst believes the stock at current levels represents a compelling opportunity for capital gains over the time period to its target price. Speculative means the company does have significant financial or other risks, while the Strong Buy category means at least 100% gain indicated over 12 months between current and analyst target price. Speculative Buy means at least a 50% appreciation indicated over 12 months between current and analysts' target price.</i>
	Speculative Buy	
POSITIVE	Speculative Positive	<i>The current price reflects a discount from the market, and from its peers. The analyst believes the stock at current levels will provide an opportunity for capital gains over the period of its target price. Speculative means the company does have significant financial or other risks. Speculative Positive means 0% up to 50% appreciation indicated over 12 months between current and analysts' target price.</i>
NEUTRAL	Neutral Rating	<i>The analyst is unable to assign a speculative buy/positive rating due to a number of specified factors noted in the report. These include the stock being fairly valued relative to its peers and the market, or the company may have risks that make it potentially unsuitable for investment. Finally, there may be actions or financings the company must accomplish before being considered for raising the investment rating or alternatively the stock has little or no recent financial disclosure or delinquent in SEC filings.</i>
SELL/AVOID	Avoid	<i>The analyst believes that the risks of investment in the company are too severe, and an investment in the company has a substantial probability for loss of all invested capital.</i>
	Sell	<i>We believe that the Company may be fairly valued or overvalued based on its current price, and that an investment in the company should produce below market returns.</i>

The table below contains a summary of ratings awarded by **Tri-State Capital** to covered companies in its universe during the past 18 months:

RATINGS Universe Distribution		SPECULATIVE NEUTRAL	SPECULATIVE POSITIVE	SPECULATIVE BUY	SPECULATIVE STRONG BUY
Percentage:	100%	14%	38%	27%	22%
TOTAL COMPANIES	64	9	24	17	14

Lucas Energy Inc.



See Appendix A-1 for Analyst Certification and Important Disclosures.

ANALYST CERTIFICATIONS

APPENDIX A-1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Tri-State Capital received \$6,000 in compensation for work on the subject company from a third party.

The firm of the analyst does not actively seek to do investment banking business with the company covered in this research report. This independent analysis and judgment relies on material supplied by the subject company and other sources, such as SEC filings believed to be reliable. The analyst that prepared this report cannot guarantee the information contained herein for accuracy or completeness. Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the companys rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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