CEO CFO

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Lucas Energy Is Building A Different Kind Of Oil And Gas Company Acquiring Risk Averse Properties That Are Underperforming Or Plugged And Applying Their Experience And Technology To Increase Production And Value

LUCAS ENERGY

Basic Materials
Independent Oil & Gas
(LEI-AMEX)

W. A. Sikora
President and CEO

BIO:
W.A. Sikora has provided financial and business advisory services to executive management teams of publicly- owned and privately- held companies with an emphasis on the energy industry since 1982 except for the period between 1996 and 1999 when he served as Executive Vice President of TransMontaigne, Inc., a publicly-owned downstream energy company. He served as a Director of Appleton Papers, Inc., an SEC reporting company, and Chairman of the Audit Committee from 2001 to 2004. In addition, he has served as a board member of several independent E&P companies in recent years. Mr. Sikora was a Partner with Peat Marwick Mitchell & Co., a predecessor to KPMG, LLP; a Partner with Touche Ross & Co., a predecessor to Deloitte &Touche LLP; and a Co-founder of Hein & Sikora, a predecessor to Hein &Associates LLP. Mr. Sikora received a degree in Accounting from the University of Colorado and is Certified Public Accountant.

Company Profile:
Lucas Energy, Inc. (AMEX:LEI) is an independent crude oil and gas company building a diversified portfolio of valuable oil and gas assets in the United States. Lucas is focused on identifying underperforming, overlooked and plugged and abandoned oil and gas assets, which are revitalized through an intensive process of evaluation, application of modern well operating methods and stringent management controls. This process allows Lucas to increase its reserve base and cash flow while significantly reducing the risk of traditional exploration projects. Headquarters are located at 3000 Richmond Avenue, Suite 400, Houston, Texas 77098.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Sikora, you are new to the position of CEO but you come with a long background in the industry; why have you chosen to be with Lucas Energy today?
Mr. Sikora: "I think it presents a very interesting opportunity for me personally. I like the Lucas game plan. I like the people who are involved. I am particularly impressed with the solid board of directors, and having been around the oil patch for a long time to find this kind of a situation in my hometown of Houston at this particular time is very attractive to me."

CEOCFO: What is the plan for Lucas Energy?
Mr. Sikora: "The plan is to grow Lucas by increasing reserves, production, and cash flow, and, by all means, significantly enhancing shareholder value."

CEOCFO: Please tell us where you are, what you are doing, and what you are looking to grow on.
Mr. Sikora: "Very simply we operate in the Austin Chalk in south Texas, primarily in Gonzales, Karnes, and Wilson Counties. That is where we have our primary production and leasehold positions. At the present, we control nearly twelve thousand net acres in over 60 leases, principally in Gonzales County. We have over twenty PUD locations. We have 30 producing wells. We have a 100% working interest in virtually all of the properties we own with a net revenue interest of between 75% and 80%. We intend to continue to grow our position in those counties and in surrounding areas. We are not limited to the Austin Chalk, but that is where our expertise primarily lies. We intend to keep Lucas' momentum alive through a continuing program of revitalizing old wells; re-entering shut-in, plugged and abandoned wells; and drilling the PUD locations that we control; while also adding to our leasehold positions as well as building additional reserves to the extent we find opportunistic producing property acquisition situations."

CEOCFO: What are the characteristics you look for in your properties and how much is science, technology, knowledge, and how much is instinct?
Mr. Sikora: "Our activities are not high tech but operational know-how and knowledge of the area are vital. We don't go out and play the game of closeology,

We are selective in the properties we lease. Our COO, Bill Sawyer, really knows this area of the Austin Chalk like the back of his hand. We know the landowners and the leaseholders. We know where wells have been drilled that are underperforming, or shut-in or were plugged and abandoned. We have good people out there leasing these properties and we are constantly staying alert for new opportunities in dealing with landowners and small operators who want to exit their holdings.”

CEOCFO: Do you find a lot of people looking to get out today?

Mr. Sikora: “There are and for a variety of reasons. For example, they can’t keep up with the regulatory and reporting requirements and potential financial demands of operating producing properties, or they want to diversify their assets, or maybe they are getting to the point where they are long in the tooth and would like to ease back and receive a royalty check. Whatever their reasons we think that there will be a continuing flow of properties we can acquire and bring into economic production.”

CEOCFO: What is your game plan for growth?

Mr. Sikora: “We don’t intend to be a small company in this market forever by any means. Our game plan is to continue to grow. Right now, we third party contract out a lot of the services that other companies handle in-house. For instance, we outsource all of our operating functions in the field. We also outsource our internal accounting, management reporting and investor relations services. We are a small and relatively low overhead public company. Our present permanent employee base is six people, plus all the independent contractors providing services to us. Our business plan is to expand our operations, to grow our reserves, production, and cash flow and to do that in a short period of time. Our time horizon is two to three years in order to really make a definite impact. We are nimble and we are quick. We want to build a different kind of oil and gas company. We do not take exploratory risks. We are risk averse and demonstrate that in the kinds of properties we acquire, clean up, re-enter, re-work or drill new laterals on and we anticipate that all of them will be brought back onto economic production. We have had very good success at that. We are not the typical E&P company that takes high dollar risks. We acquire properties in proven areas where significant reserves have been and remain to be produced, especially where our management has experience in acquiring targets and bringing those properties to a higher level of on-going production.”

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- W. A. Sikora

CEOCFO: Management is one of the big differentiators for you!

Mr. Sikora: “Yes, we are small but we are good at what we do. We know the business in which we operate. I have been around the oil business for a long time and know a lot about it in terms of deal-making, finance, accounting and public company awareness. Bill Sawyer, our COO, is a seasoned, highly experienced and savvy petroleum engineer in dealing with the Austin Chalk play and has a long and successful operating track record of maximizing the value of underperforming and overlooked properties.”

CEOCFO: Please tell us about the equipment and technology that helps you in the process.

Mr. Sikora: “We put new equipment on nearly every well that we reenter or rework which decreases future maintenance costs and increases operating efficiency by reducing down time. This is not rocket-science technology; it is just knowing what to look for in the field. We know where the wells that have been plugged and abandoned are located. We know where wells have been dropped by the larger oil companies because they were not interested in producing five or ten barrels a day. It is a matter of local industry knowledge as well as personal and business relationships more than technology. We are using some new techniques to enhance production and to minimize maintenance costs, but there is nothing new, revolutionary or particularly proprietary as to what we are doing.”

CEOCFO: What is the financial picture for Lucas today?

Mr. Sikora: “We are debt-free. We presently don’t have any long-term debt. We have $22 million of shareholder equity.

We are about to close on a new revolving credit facility with a Houston-based energy bank that will provide us additional capital since we are using our current cash flow to finance both our working capital and cap ex requirements. We have been positive cash flow every quarter since the company has come into existence. We are going to need additional cash to expand our lease acquisition, rework and lateral drilling plans. We are also in the initial stages of initiating a PUD program that we believe will significantly increase production and cash flow. As I indicated, we have over twenty PUD locations and many of them will be included in this go-forward program, which should have a very positive impact on our growth. We are solid from a financial point of view, but I have always thought that in the oil business you never want to say you are so well capitalized that you aren't looking for new sources of money. That's because almost everyone in this business is looking for and needs capital since there is always a place to productively invest it and create greater shareholder value."

CEOCFO: What is your two-minute take on the current energy situation?

Mr. Sikora: "I wish I knew what was going to happen. I never expected that July '08 would have $147 dollar oil. I think that this morning (9/25/08) the price of crude was $104 and is most likely heading a lot lower. Gas is hovering in the seven fifty range and is probably headed south. It is extremely hard to predict what is going to happen either domestically or internationally. You get both schools of thought from knowledgeable people that supply will exceed demand and then the flip-flop that demand will exceed supply. I do know this, when we import over 70% of our crude requirements, the future should be bright for low cost producers like Lucas to pump as much oil as possible, and there will always be a market for it."

CEOCFO: Will you tell us what your cost structure is and how you are going to reach your goals of doubling quarter-over-quarter?

Mr. Sikora: "It comes from a continuing process of doing what we do best and that is cleaning up older existing and underperforming or overlooked wells and putting them back on production. Sometimes you just go into an existing well bore and clean it out and the production goes from virtually nothing to fifteen barrels or more a day. When we re-enter a targeted shut-in or plugged and abandoned well, we rework it and install new equipment. It's not high-tech but you have to know what you're doing. When we drill lateral extensions, if we are down eight thousand feet, we will go out laterally another two thousand feet or so and tap into the reserves that were always there, but never produced. As you know, conventional production methods generally recover less than half the reserves that are under a lease and we want to produce a significant portion of the remainder. We are going to drill some new wells with laterals on our PUD leases to maximize reserve recovery. That is how we are going to grow Lucas and how we are going to get from 150 barrels a day to 300 and so on."

CEOCFO: What is the cost of development and how is that is going to lead you into great profitability?

Mr. Sikora: "We may put $150,000 - $600,000 in a well, and I don't want to use that as a benchmark, but it can be representative depending on whether it's a workover, reentry or drilling a new lateral and it could be more. We look for a payout in less than one year. We can see achieving eight to ten times our investment over the next four or five years, depending on the price of oil. The Austin Chalk is an interesting phenomenon; production is fairly flush initially for the first thirty to sixty days, then it drops off to maybe half of the initial production rate, and after that it has a very slow decline that goes on for a long time. Some of these wells in the Austin Chalk have been producing for over forty years, others have been producing for twenty years, and they still have a lot of recoverable reserves. We think it's a great place to be. Once again, it's hitting singles and doubles, rather than grand-slam homeruns, but that production is going to be very consistent over time with steady cash flow because our operating costs are less than $10 a barrel and finding costs at $8-$10 a barrel are low."

CEOCFO: Why should potential investors pick Lucas Energy out of the crowd?

Mr. Sikora: "We have exciting growth and appreciation potential. If you look at our PV-10 as of March 31, 2008 of $90 million, our low market cap or if you want to use our $22 million book value as some standard of measurement, Lucas would be an attractive addition to an investor's portfolio. We believe Lucas is materially under-priced in the market place. That provides significant upside potential for investing in our stock. We are risk averse and, if an investor is looking for steady internal cash flow to fund growth and a continuing increase in reserves and production; this is an interesting company to consider. I liked it particularly when I came on board because it's at a lower market valuation than it should be and our management is going to do everything it can, along with the board of directors, to increase shareholder value. The potential for doing that is really significant."

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