

8-K - 2007-02-21

Form: 8-K

Filing date: 2007-02-21

Accession: 0001140905-07-000010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

February 21, 2007

Date of Report (Date of earliest event reported)

Commission File Number: **0-51414**

Lucas Energy, Inc.

(Exact name of registrant as specified in its charter)

Nevada, United States

(State or other jurisdiction of incorporation or organization)

98-0417780

(I.R.S. Employer ID Number)

3000 Richmond Avenue, Suite 400, Houston, Texas 77040

(Address of principal executive offices) (Zip code)

(713) 528-1881

(Issuer's telephone number)

N/A

(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

Effective February 21, 2007, Mr. Gordon Jones will resign from the board of directors of Lucas Energy, Inc. (the "Company"), and from his position as Chief Financial Officer. There are no disagreements between the Company and Mr. Jones.

Item 8.01 Other Events.

The Company is providing, with this filing, additional disclosure to enhance the understanding of its financial condition and results of operation and inform shareholders and prospective shareholders of risks attendant with an investment in the Company. This information should be read in conjunction with our other reports filed with the Securities and Exchange Commission (the "SEC"), including our Current Reports on Form 8-K and our Quarterly Reports on Form 10-QSB, for the quarters ended June 30, 2006, September 30, 2006 and December 31, 2006, and the consolidated financial statements and notes included in those reports.

The following tables summarize our selected consolidated financial information. The selected consolidated financial information shown below has been derived from our unaudited consolidated financial statements which, in the opinion of management, reflect all adjustments necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the information for those periods. Operating results for the nine months ended December 31, 2006 are not necessarily indicative of results that may be expected for the year ended March 31, 2007 or any other interim period or future year.

=	3 Months Ended		Nine Months Ended
	December 31,		December 31,
(in thousands)	2005	2006	2006
Statements of Operations			
Total revenues	\$ 97	\$ 396	\$ 945
Lease operating expenses	19	16	186
Depreciation and depletion	6	49	112
Gross profit	72	331	647
Expenses:			
Professional fees	15	21	35
Fixed assets			
General and administrative	7	23	90
Income from operations	51	288	522
Other income (expenses):			
Sale of Assets	?	?	82

Interest Income	?	4	8
Interest Expense	?	(84)	(139)
Net income before taxes	51	208	472
Income tax provision	1	41	122
Net income	\$ 50	\$ 167	\$ 350

December 31, 2006

(in thousands)

Balance Sheet Data

Cash, cash equivalents and short-term investments	\$ 1,011
Total assets	9,923
Total debt	2,300
Total liabilities	2,862
Common stock	30
Retained earnings	412
Stockholders' equity	7,061

Lucas Energy, Inc., through its consolidated operations, is an independent oil and gas Company focused on building and revitalizing a diversified portfolio of oil and gas production assets located in the State of Texas. Our business is conducted through our wholly-owned operating subsidiary, Lucas Energy Resources, Inc., which was incorporated on April 6, 2005 in Nevada, has been granted a Certificate of Authority to transact business in the state of Texas and is a bonded operator with the Texas Railroad Commission. We seek to acquire underperforming oil and gas assets that we believe we can revitalize in a short period of time. We believe that the continuing divestiture of mature assets held by large companies has created an opportunity to acquire undervalued properties with significant upside potential.

Our primary source of revenue comes from the sale of the crude oil that we extract from our wells. We also derive some ancillary revenue from natural gas sales related to our existing producing oil wells.

The main costs associated with our business are related to initial well revitalization and ongoing lease operating expenses. Typical lease acquisition and revitalization cost per well is \$250,000 (\$60,000 pumping unit; \$90,000 in-ground well equipment; \$100,000 intangible drilling costs, which includes a number of costs. They are associated with the drilling, completion, re-entry, or re-completion of oil gas and gas wells. The intangible portion of the costs, as opposed to the tangible (or equipment) costs, are labor, drilling rig and service rig contractors, chemical treatments, rental of tools and equipment, water hauling services, provision of drilling mud, work over and completion fluids, location work, wire line services such as logging and perforating, insurance, engineering, mud logging, on-site geology, and other overhead. Intangibles do not include daily operating costs associated with the production of oil and gas.

Since May 2005, we have completed 14 separate acquisitions, purchasing a 100% working interest in a total of 25 leases. We currently own 34 oil and gas wells located throughout three counties in Texas. Our monthly production, as measured in barrels of oil, has increased from approximately 1,000 barrels per month in December 2005 to over 3,300 barrels per month in January 2007. Details are located on our web site at www.lucasenergy.com. Since inception, we have been successful at reducing our average lifting cost from over \$14.00 per barrel to below \$10.00 per barrel for our quarter ending December 31, 2006.

Acquisitions are a core part of our growth strategy. The majority of the acquisition proposals and candidates that we review are sourced directly by our senior management or specialized third-party consultants with local area knowledge. We focus on well acquisitions in which we estimate (a) our total revitalization cost will be less than \$250,000 per well, (b) our related payback periods will be less than 12 months and (c) our projected internal rate of return on capital invested will exceed 40%.

We focus on acquiring shut-in wells that we believe have been overlooked by larger companies and have a high probability of responding to our revitalization process. We seek opportunities to acquire mature oil fields that have 30 to 50% of original oil in place. These fields typically have lost some or all of the reservoir pressure required to drive the oil through the overlying rock and sand and into the well bores of the producing wells, or have experienced mechanical problems. We believe we have standardized a process that enables us to quickly restore oil production as well as increase production yield.

We are conducting engineering on a program to drill three laterals on existing well-bores or offset locations that we have already leased. The purpose of these laterals will be to provide more aerial access

to the formation in order to increase the flow rate and to recover additional oil and gas reserves not recoverable from the existing vertical (straight) holes. We expect drilling to commence by the third calendar quarter of 2007.

We seek to maintain a low overhead cost structure while we remain focused on growing our portfolio. Our management team, which collectively owned 17% of our Company as of December 31, 2006, has elected not to receive any compensation before April 1, 2007 at the earliest in order to maximize quarterly earnings. For the past seven consecutive quarters since inception, we have achieved positive net income and have retained our earnings in order to grow our portfolio. Compensation for management will be determined by our compensation committee, which is led by an outside director, and the committee will determine a fair level for management salaries.

Risk Factors

Risks Relating to Our Business

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

Crude oil and natural gas operations are subject to extensive federal, state and local government regulations, which may be changed from time to time. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of crude oil and natural gas wells below actual production capacity in order to conserve supplies of crude oil and natural gas. There are federal, state and local laws and regulations primarily relating to protection of human health and the environment applicable to the development, production, handling, storage, transportation and disposal of crude oil and natural gas, byproducts thereof and other substances and materials produced or used in connection with crude oil and natural gas operations. In addition, we may inherit liability for environmental damages caused by previous owners of property we purchase or lease. As a result, we may incur substantial liabilities to third parties or governmental entities. We are also subject to changing and extensive tax laws, the effects of which cannot be predicted. The implementation of new, or the modification of existing, laws or regulations could have a material adverse effect on us.

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

There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their estimated values. The reserves we will report in our filings with the SEC will only be estimates and such estimates may prove to be inaccurate because of these uncertainties. Reservoir engineering is a subjective and inexact process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. Estimates of economically recoverable crude oil and natural gas reserves depend upon a number of variable factors, such as historical production from the area compared with production from other producing areas and assumptions concerning effects of regulations by governmental agencies, future crude oil and natural gas prices, future operating costs, severance and excise taxes, development costs and work-over and remedial costs. Some or all of these assumptions may in fact vary

considerably from actual results. For these reasons, estimates of the economically recoverable quantities of crude oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, reserve estimates may be subject to downward or upward adjustment. Actual production, revenue and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material.

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

Our growth will be materially dependent upon the success of our future development program. Drilling for crude oil and natural gas and reworking existing wells involve numerous risks, including the risk that no commercially productive crude oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is substantial and uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors beyond our control, including:

1. unexpected drilling conditions;
2. pressure or irregularities in formations;
3. equipment failures or accidents;
4. inability to obtain leases on economic terms, where applicable;
5. adverse weather conditions;
6. compliance with governmental requirements; and
7. shortages or delays in the availability of drilling rigs or crews and the delivery of equipment.

Drilling or reworking is a highly speculative activity. Even when fully and correctly utilized, modern well completion techniques such as hydraulic fracturing and horizontal drilling do not guarantee that we will find crude oil and/or natural gas in our wells. Hydraulic fracturing involves pumping a fluid with or without particulates into a formation at high pressure, thereby creating fractures in the rock and leaving the particulates in the fractures to ensure that the fractures remain open, thereby potentially increasing the ability of the reservoir to produce oil or gas. Horizontal drilling involves drilling horizontally out from an existing vertical well bore, thereby potentially increasing the area and reach of the well bore that is in contact with the reservoir. Our future drilling activities may not be successful and, if unsuccessful, such failure would have an adverse effect on our future results of operations and financial condition. We cannot assure you that our overall drilling success rate or our drilling success rate for activities within a particular geographic area will not decline. We may identify and develop prospects through a number of methods, some of which do not include lateral drilling or hydraulic fracturing, and some of which may be unproven. The drilling and results for these prospects may be particularly uncertain. Our drilling schedule may vary from our capital budget. The final determination with respect to the drilling of any scheduled or budgeted prospects will be dependent on a number of factors, including, but not limited to:

1. the results of previous development efforts and the acquisition, review and analysis of data;
2. the availability of sufficient capital resources to us and the other participants, if any, for the drilling of the prospects;
3. the approval of the prospects by other participants, if any, after additional data has been compiled; economic and industry conditions at the time of drilling, including prevailing and anticipated prices for crude oil and natural gas and the availability of drilling rigs and crews;
4. our financial resources and results;
5. the availability of leases and permits on reasonable terms for the prospects; and
6. the success of our drilling technology.

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

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

Our revenues, operating results, profitability, cash flow, future rate of growth and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent upon prevailing prices of crude oil and natural gas. Lower crude oil and natural gas prices also may reduce the amount of crude oil and natural gas that we can produce economically. Historically, the markets for crude oil and natural gas have been very volatile, and such markets are likely to continue to be volatile in the future. Prices for crude oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control, including:

1. worldwide and domestic supplies of crude oil and natural gas;
2. the level of consumer product demand;
3. weather conditions;
4. domestic and foreign governmental regulations;
5. the price and availability of alternative fuels;
6. political instability or armed conflict in oil producing regions;
7. the price and level of foreign imports; and
8. overall domestic and global economic conditions.

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

Risks Related To Share Ownership

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

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

We have anti-takeover defenses that could delay or prevent an acquisition and could adversely affect the price of our common stock

Provisions in our certificate of incorporation and by-laws and provisions of Nevada law could delay, defer or prevent an acquisition or change in control of us or otherwise adversely affect the price of our common stock. Nevada law also contains certain provisions that may have an anti-takeover effect and otherwise discourage third parties from effecting transactions with us.

Item 9.01 Exhibits

10.2 Assignment of Lease with Delphic

10.3 Assignment of Lease with Wilson

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 21, 2007

LUCAS ENERGY, INC.

/s/ James J. Cerna, Jr.

James J. Cerna, Jr.

President and Chief Executive Officer

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Exhibit 10.2

ASSIGNMENT, BILL OF SALE AND CONVEYANCE

STATE OF TEXAS

COUNTY OF GONZALES

I.

This Assignment, Bill of Sale and Conveyance ("*Assignment*") is effective as of December 1, 2006, at 7:00 am. Central time ("*Effective Time*"), and is from Delphic Oil Co., LLC, a Florida limited liability company whose address is 1358 Fruitville Road, Suite 210, Sarasota, FL 34236 ("*Assignee*") to Lucas Energy, Inc., a Nevada corporation whose mailing address is 3000 Richmond Ave, Suite 400, Houston, Texas 17040 ("*Assignee*"),

For ten dollars anti other consideration, the receipt arid sufficiency of which Assignor and Assignee acknowledge, Assignor grants, bargains, sells, assigns, and conveys to Assignee and its successors and assigns, but subject to the limitations, conditions, reservations, agreements arid exceptions hereinafter set forth and in the Exhibit(s) attached hereto, and subject to the terms of any applicable instruments of record In the county or counties where the Subject Interests are located, all of Assignor's right, title, and interest in and to the following (collectively, the "*interests*"):

- (a) the oil, gas and Mineral leases described in Exhibit A (collectively, the "*Leases*"), and arty other oil, gas and mineral leasehold interests, overriding royalty interests, non-working or carried interests, operating rights, record title and other similar Interests in the Leases, together with lands covered thereby, or pooled or unitized therewith (the "*Lands*") (the Leases and Lands being collectively, the "*Subject Interests*" or, singularly, a "*Subject Interest*"), together with (1) all rights with respect to any pooled, communitized or unitized interest by virtue of any Subject Interest being a part thereof, and (ii) all Hydrocarbon production after the Effective Time from the Subject Interests, and from any such pool or unit and allocated to any such Subject Interest;
 - (b) all easements, rights-of-way, servitudes, surface leases, surface use agreements and other rights or agreements related to the use of the surface and subsurface (the "*Surface Agreements*"), in such case to the extent directly used on connection with the operation of the Subject Interests, together with all fixtures and Improvements situated upon such real property and directly used in the operation of the Subject Interests;
 - (c) to the extent assignable or transferable, all permits, licenses, franchises, consents, approvals and other similar rights and privileges, in each case to the extent directly used in connection with the operation of the Subject Interests (the "*Permits*");
 - (d) all real, personal and mixed, movable and immovable property, including without limitation, structures, facilities, equipment,
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machinery, fixtures, spare parts, inventory and other personal property used directly in connection with the operation of the Interests or in Connection with the production, treatment, compression, gathering, transportation, sale, or disposal of oil, gas or other hydrocarbons produced from or attributable to the Subject interests (collectively, "Hydrocarbon and any water, byproducts or waste produced therefrom or therewith or otherwise attributable thereto, including all wells drilled on lands covered by the Leases or lands pooled or unitized therewith (whether producing, shut in or abandoned, and whether for production, produced water injection or disposal, or otherwise), including but not limited to those described in Exhibit A (collectively, the "Wells"), wellhead equipment, pumps, pumping units, flow-lines, pipelines, gathering systems, pipe, tanks, buildings, treatment facilities, injection facilities, disposal facilities, compression facilities and other materials, supplies, and facilities (collectively the "Facilities");

- (e) to the extent assignable or transferable and relating to the Interests (other than the Leases), (I) all contracts, agreements, drilling contracts, equipment leases, production sales and marketing contracts, farm-out and farm-in agreements, operating agreements, service agreements, unit agreements, gas gathering and transportation agreements, the equipment leases, and rental contracts, service agreements, supply agreements and other contracts, agreements and arrangements and other contracts, agreements and arrangement (collectively, the "Contracts");
- (f) to the extent assignable or transferable, all books, records, files, maps, databases, geological and geophysical data (but excluding all interpretations and other derivative works based thereon), monuments of title, reports *and* similar documents and materials that In each case relates solely to the forgoing interests in the possession of, and maintained by, Assignor (the "Records"); and situated upon such real property and directly used in the operation of the Subject Interests; and materials that in each case relates solely, to the foregoing interests in the possession of, and maintained by, Assignor (the "Records"); and
- (g) all gas production imbalance accounts, if applicable, as of the Effective Time.

TO HAVE AND TO HOLD UNTO ASSIGNEE, ITS SUCCESSORS AND ASSIGNS FOREVER. Assignor agrees to defend title to the Interests against all third party claims arising by, through or under Assignor, but not otherwise, with full substitution and subrogation in favor of Assignee of all warranties of title made by any of Assignor's predecessors in interest.

Assignee accepts this Assignment and assumes all Assignor's obligation and liabilities arising out of the Subject Interests, whether existing on or arising from and after the Effective Time under the Leases, the contracts and the Surface Agreements and any other agreements, whether recorded or not.

Assignee agrees that the purchase price provided for hereunder excludes any sales taxes or other taxes, if any,

required to be paid in connection with the sale of the Subject Interests pursuant to this agreement. Assignee shall be liable for and bear all sales and use taxes, conveyance, transfer and recording fees and real estate transfer stamps or taxes, if any, imposed on any transfer of the Subject Interests pursuant to this agreement.

II.

ASSIGNEE ACKNOWLEDGES THAT THE INTERESTS HAVE BEEN USED FOR EXPLORATION DEVELOPMENT, AND PRODUCTION OF OIL AND GAS AND THAT THERE MAY BE PETROLEUM, PRODUCED WATER, WASTES, OR OTHER MATERIALS LOCATED ON OR UNDER THE INTERESTS OR ASSOCIATED WITH THE INTERESTS. EQUIPMENT AND SITES INCLUDED IN THE INTERESTS MAY CONTAIN ASBESTOS, HAZARDOUS SUBSTANCES, OR NATURALLY OCCURRING RADIOACTIVE MATERIAL ("NORM"). NORM MAY AFRIX OR ATTACH ITSELF TO THE INSIDE OF WELLS, MATERIALS, AND EQUIPMENT AS SCALE, OR IN OTHER FORMS; THE WELLS, MATERIALS, AND EQUIPMENT LOCATED ON OR INCLUDED IN THE INTERESTS MAY CONTAIN NORM AND OTHER WASTES OR HAZARDOUS SUBSTANCES; AND NORM-CONTAINING MATERIAL AND OTHER WASTES OR HAZARDOUS SUBSTANCES MAY HAVE BEEN BURIED, COME IN CONTACT WITH THE SOIL, OR OTHERWISE BEEN DISPOSED OF ON THE INTERESTS. SPECIAL PROCEDURES MAY BE REQUIRED FOR THE REMEDIATION, REMOVAL, TRANSPORTATION, OR DISPOSAL OF WASTES, ASBESTOS, HAZARDOUS SUBSTANCES, AND NORM FROM THE INTERESTS OR FROM A LOCATION OFFSITE. ASSIGNEE WILL STORE, HANDLE, TRANSPORT, AND DISPOSE OF OR DISCHARGE ALL MATERIAL SUBSTANCES, AND WASTES FROM THE INTERESTS (INCLUDING PRODUCED WATER, DRILLING FLUIDS, NORM, AND OTHER WASTES), WHETHER PRESENT BEFORE OR AFTER THE EFFECTIVE TIME, IN ACCORDANCE WITH APPLICABLE LOCAL, STATE, AND FEDERAL LAWS AND REGULATIONS, INCLUDING THOSE RELATING TO HEALTH, SAFETY, THE ENVIRONMENT OR THE PROTECTION OF NATURAL RESOURCES, ASSIGNEE WILL KEEP RECORDS OF THE TYPES, AMOUNTS, AND TRANSPORTED, HANDLED, DISCHARGED, RELEASED, OR DISPOSED OF ONSITE AND OFFSITE, WHEN ANY **LEASE TERMINATES**, AN INTEREST IN WHICH HAS BEEN ASSIGNED UNDER THIS ASSIGNMENT, ASSIGNEE WILL TAKE ADDITIONAL TESTING, ASSESSMENT, CLOSURE, REPORTING, AND REMEDIAL ACTION WITH RESPECT TO THE INTERESTS AS IS NECESSARY TO SATISFY ALL LOCAL, STATE, AND FEDERAL REQUIREMENTS, INCLUDING THOSE RELATING TO HEALTH, SAFETY, THE ENVIRONMENT OR THE PROTECTION OF NATURAL RESOURCES, IN EFFECT AT THAT TIME AND NECESSARY TO RESTORE THE INTERESTS.

III.

Assignee recognizes, and will either perform or assure that performance of its obligations under Articles I, II, III, and V hereof, is accomplished properly in compliance with the applicable Contracts, Leases and Surface Agreements, and in accordance with applicable federal, state, local laws, rules and regulations, including laws relating to hearth, safety, the environment or the protection of natural resources, whether existing on or arising before or after the Effective Time, including obligations, as applicable, to:

- (a) obtaining plugging exceptions in the operators name for each Well (abandoned and unabandoned) with a current plugging exception or permanently plugging and abandoning each Well.
 - (b) plugging, abandoning, and if necessary, re-abandoning each Well (abandoned and unabandoned).
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- (c) removing all equipment and Facilities, including flow lines and pipelines.
- (d) closing all pits.
- (e) restoring the surface, subsurface, and any other sites associated with the Interests.

Assignee will take all necessary steps to ensure that Assignee is recognized as the owner and, if applicable, operator of the Interests by all appropriate parties, including any regulatory commission, body or board with jurisdiction. If Assignor is the principal on any financial assurance (including a bond) relating to the Interests, which financial assurance is required by any law, rule, or regulation, then Assignee will secure new financial assurance in the required amount and supply it to the regulatory body requiring the financial assurance, to the end that Assignor's financial assurance is released and discharged. Assignee will pay all costs and expenses associated with the obligations assumed under this Article. Assignor may require Assignee to maintain a letter of credit, establish an escrow account, or obtain a performance bond or other financial security, in an amount, in a form, and from an institution acceptable to Assignor, to guarantee Assignee's obligations.

IV.

BY ACCEPTANCE OF THIS ASSIGNMENT, ASSIGNEE ACKNOWLEDGES THAT ASSIGNEE HAS RELIED SOLELY ON THE BASIS OF AN OWN INDEPENDENT INVESTIGATION OF THE PROPERTIES. EXCEPT FOR THE SPECIAL WARRANTY OF TITLE PROVIDED FOR IN THIS ASSIGNMENT, ASSIGNOR MAKES NO WARRANTY OF ANY TYPE IN THIS ASSIGNMENT, WHETHER EXPRESS, STATUTORY, OR IMPLIED. ASSIGNEE HAS INSPECTED AND HAS SATISFIED ITSELF AS TO THE CONDITION OF THE INTERESTS. THIS ASSIGNMENT IS MADE BY ASSIGNOR AND ACCEPTED BY ASSIGNEE ON AN "AS IS, WHERE IV BASIS. ASSIGNOR DISCLAIMS ALL WARRANTIES, INCLUDING:

- (a) **AS TO THE FITNESS OR CONDITION OR MERCHANTABILITY OF THE MATERIALS, EQUIPMENT, OR FACILITIES CONVEYED.**
- (b) **AS TO THE PHYSICAL, OPERATIONAL OR ENVIRONMENTAL CONDITION OF THE INTERESTS.**
- (c) **AS TO THE OIL, GAS, AND OTHER HYDROCARBON OPERATIONS OF THE INTERESTS COVERED BY THE TERMS AND CONDITIONS OF ANY LEASES, THE CONTRACTS, THE SURFACE AGREEMENTS OR OTHER AGREEMENTS THAT ARE A PART OF OR PERTAIN TO THE INTERESTS.(d) AS TO THE ISSUANCE, REISSUANCE, OR TRANSFER OF ANY PERMITS RELATING TO ANY OF THE INTERESTS.**
- (e) **AS TO ANY CONSENT OR APPROVAL REQUIRED UNDER ANY INSTRUMENT DESCRIBED IN ARTICLE I HEREOF.**

The parties hereto agree that, to the extent required by applicable law to be operative, the disclaimers of certain warranties contained in this Article IV are 'conspicuous' disclaimers for the purposes of any applicable law, rule or order.

V.

All covenants and agreements in this Assignment bind and inure to the benefit of

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Exhibit 10.3

STATE OF TEXAS

COUNTY OF GONZALES

CONVEYANCE AND ASSIGNMENT

THIS ASSIGNMENT AND CONVEYANCE (hereinafter called the "Assignment") is made by and between BILLY R. WILSON, 112 W. Tanglewood Drive, New Braunfels, Tx 78130 (hereinafter called "Assignor") and LUCAS ENERGY, INC., 3000 Richmond Ave Suite 400, Houston, Texas 77098 (hereinafter called "Assignee").

In consideration of ten Dollars (\$10.00) and other good and valuable consideration received, and subject to the terms, conditions and reservations set forth in this Assignment, Assignor hereby SELLS, CONVERTS, ASSIGNS, TRANSFERS, AND DELIVERS unto Assignee all of Assignor's interest, except any reservations described in Item 9. below, in and to the oil and gas leases located in Gonzales and Karnes Counties, Texas, and described in Exhibit "A" (the "Leases"), which shall include to the extent associated with the Leases, all of Assignor's interest, if any, in the following which are collectively herein referred to as the "Property":

- (a) Interests in Production. Royalties, overriding royalties, production payments, rights to take royalties in kind, or other interests in production of oil, gas or other minerals subject to the exceptions and reservations herein contained.
- (b) Rights: Working Interests. Rights and interests in or derived from unit agreements, joint operating agreements, farmout agreements and farm-in agreements, options, drilling agreements, exploration agreements and working interests.
- (c)

Easements. Rights-of way, surface or ground leases, easements, servitudes and franchises acquired or used in connection with operations for the exploration and production of oil, gas or other minerals.

- (d) Wells. Producing, non-producing, shut-in and abandoned wells.
- (e) Equipment. All surface and down-hole equipment and personal property.

This Assignment shall be subject to the following additional terms, conditions or Exceptions:

1. This Assignment shall be effective ("Effective date") as of 7:00 am CDT where the Property is located, on August 1, 2006 and shall be subject to any overriding royalty interests of record as of such date and any overriding royalties specifically reserved in this Assignment.
2. Assignee shall be responsible for the plugging and abandonment of all wells located on the Leases in accordance with all laws, regulations and lease obligations. Prior to plugging any such well, Assignee will give written notice of intent to plug to Assignor. Assignor shall have 72 hours from receipt of this notice within which to elect, at its sole cost and expense, to take over all future operations pertaining to such well. Should Assignor elect to exercise this option, then Assignor shall pay Assignee the salvage value net of plugging costs for such well and all rights of Assignee related to the well shall be transferred to Assignor.
3. Assignee shall be responsible for all costs, expenses, claims, damages, (including damages to the physical or environmental condition of the Property), suits, causes of actions and liabilities pertaining to the Property after the Effective Date.
4. The terms, conditions or exceptions contained herein shall constitute covenants running with the land, and shall be binding upon, and for the benefit of, the respective successors and assigns of Assignor and Assignee.
5. Assignor shall be responsible for the payments of all royalties and overriding royalties on oil and gas produced from the Property prior to the Effective Date, Assignee shall be responsible for the payment of all royalties and overriding royalties on oil and gas produced from the Property on and after the Effective Date.
6. Assignor does hereby warrant and agree to defend the title to the interests Conveyed herein unto the said Assignee and its successors

and assigns against all persons whomsoever lawfully claiming, or to claim, the same, or any party thereof, by, through , or under it, but not otherwise. As to all personal property and equipment, this assignment is made "AS IS, WHERE IS" AND WITHOUT WARRANTY EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY AND ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. ASSIGNEE ACKNOWLEDGES THAT SOME PRODUCTION EQUIPMENT MAY CONTAIN ASBESTOS AND/OR NATURALLY OCCURRING RADIOACTIVE MATERIAL AND THAT ASSIGNEE ASSUMES ALL LIABILITY FOR OR IN CONNECTION WITH THE REMOVAL, TRANSPORTATION AND DISPOSAL OF SUCH MATERIALS.

7. Assignor agrees to execute and deliver to Assignee all such other additional instruments, notices, division orders, transfer orders and other documents and to do all such other and further acts and things as may be necessary to more fully and effectively grant, convey and assign to Assignee the rights, titles and interests and estates in the Property.
8. Assignor makes no warranty, express or implied, as to the accuracy, correctness or completeness of any of the information, data or materials heretofore provided by Assignor or as to the amount of reserves or ability of the properties to produce. Assignor makes no statements or representations concerning the present or future value of the anticipated income, cost, or profits, if any, to be derived by Assignee from the interests being sold.
9. Assignor assigns the following Working Interest and Revenue Interest on the Properties described on Exhibit "A" attached hereto:

<u>LEASE</u>	<u>WORKING INTEREST</u>	<u>REVENUE INTEREST</u>
	ASSIGNED	ASSIGNED
Zavadil, Louis	100%	.7500000

RVS #2	100%	.7500000
RRC ID 12856		
Upton Ruddock	100%	.7500000
RRC ID 12977		
Hagen Ranch # 1		
75%		.5625000
RRC ID 12996		
Merit RVS		
100%		.7400000
RRC ID 13211		
Perkins Oil Unit		
100%		.7500000
RRC ID 13263		
Griffin-Ruddock		
100%		.7500000
RRC ID 13480		
Hagen Ranch # 3		
75%		.5625000
RRC ID 13832		
Copeland Karnes		
100%		

RRC ID 13598

Assignor reserves unto himself the difference between the existing **leases burdens and** 25% on each of the above listed properties except the Merit RVS (RRC ID 13211) on which the reservation will be the difference between existing lease burdens and 26%.

10. Assignee will pay Assignor for all produced oil located in the production tanks of each of the Properties on the effective date of this Assignment (August 1, 2006) at the rate of \$50.00 per barrel_ The total amount of produced oil on hand on the effective date will be determined by measurement conducted jointly by Assignor and Assignee or by a mutually appointed representative. Title to the produced oil on hand will be transferred to Assignee upon the payment of the above-determined amount. Assignor will assume liability of payment of royalties and taxes due on the produced oil.
 11. Assignee may, from time to time, pool, unitize or rearrange the acreage covered by this Assignment with other lands so as to form new production units, or to drill or reenter and complete new wells, however such pooling, unitization or rearrangement will not serve to reduce **the overriding royalties specifically** reserved in this Assignment, rather the overriding royalties will remain whole is all poolings, unitizations, rearrangements, new drills or reenters conducted on the lands covered by this Assignment or on other lands pooled herewith,
 12. Assignee warrants to maintain all leases in force in accordance with their individual and unique terms. Assignor retains access to all wells and well sites covered by this Assignment.
-

EXECUTED ON THE 7th day of August, 2006, but effective for all purposes on August 1, 2006.

ASSIGNOR

ASSIGNEE

BILLY R. WILSON

LUCAS ENERGY, INC.

/s/ Billy R. Wilson

/s/ William A. Sawyer

By: Billy R. Wilson, an individual

By: William A. Sawyer, Vice-President &

STATE OF TEXAS
COUNTY OF GONZALES

The foregoing instrument was acknowledge before me on this 4th Day of August, 2006, by William A. Sawyer, Vice-President and Chief Operations Officer of Lucas Energy, Inc., a Texas Corporation, on Behalf of said corporation.

/s/ Pat L. Mosher
Notary Public in and for
Gonzales County, Texas

My Commission Expires:
August 25, 2008

STATE OF TEXAS
COUNTY OF GONZALES

The foregoing instrument was acknowledge before me on this 4th Day of August, 2006, by Billy R. Wilson.

/s/ Pat L. Mosher
Notary Public in and for
Gonzales County, Texas

My Commission Expires:
August 25, 2008

EXHIBIT ?A?
 TO
 CONVEYANCE AND ASSIGNMENT
 BILLY R. WILSON TO LUCAS ENERGY, INC.

The interests of Assignor in the following properties, being the same Properties described in a Conveyance and Assignment from Rosewood Resources, Inc. To Billy R. Wilson and recorded in Volume 779 Page 5, Et. Seq. Of the deed records of Gonzales County, Texas, and being the same Properties described in a Conveyance and Assignment from Magnum Hunter Production, Inc. To Billy R. Wilson and recorded in Volume 779 Page 8, et seq. Of the deed records of Gonzales County, Texas:

1. Griffin-Ruddock Oil Unit	RRC ID#	13480
Revenue Interest Assigned	.7500000	
Revenue interest Retained	.0435741	
2. Upton Rudduck Oil Unit	RRC ID#	12977
Revenue Interest Assigned	.7500000	
Revenue Interest Retained	.0525000	
3. Perkins Oil Unit**	RRC 1()1	13263
Revenue Interest Assigned	.7500000	
Revenue Interest Retained	.0287500	
4. Writ RVS Oil Unit	RRC 1D#	13211
Revenue Interest Assigned	.7500000	
Revenue Interest Retained	.0070310	
5. RVS Oil Unit No, 2	RRC ID#	12856
Revenue Interest Assigned	.7500000	
Revenue Interest Retained	.0525000	

The interest 01 Assignor in the following Property, being the same Properties described in an Assignment and Bill of Sale from Tuskar (Texas), Inc. to Billy R. Wilson and being recorded in Volume 750 Page 291, et seq. of the Deed Records of Gonzales County, Texas.1.

Zavadil, Louis Well #2ST	RRC 1D#	05695
Revenue Interest Assigned		

.7500000
Revenue Interest Retained .0133333

The interest of Assignor **in** the following Property, being the same Properties described in an Assignment and Bill of Sale from Tuskar (Texas), Inc. to Billy R. Wilson and being recorded in **Volume 750 Page 291**, et seq. of the Deed Records of Gonzales County, Texas.

1. Zavadil, Louis Well #2ST RRC 1D# 05695
Revenue Interest Assigned .7500000
Revenue Interest Retained .0133333

The interest of Assignor in the following Property, being the same Property described in Oil, Gas and Mineral Lease between Lillie Copeland, a feme sole, by and through Leland Copeland, here there Unto duly authorized agent and attorney-in-fact, acting, under and By virute of a written power of attorney dated April 7, 1998, and now of record in Volume 797, Pages 64-66 of the official deed records of Gonzales County, Texas, and Leland Copeland as Trustee of the C. Copeland Trust as Lessors and Billy R. Wilson as Lessee dated October 23, 2000.

1. Copeland Karnes Well No 1-H RRC1D# 13598
Revenue Interest Assigned .7500000
Revenue Interest Retained .0500000

The interest of Assignor **in** the following Property, and being the same Properties described in an Assignment and Bill of Sale from Tuskar (Texas), Inc. to Billy R. Wilson dated March 14, 1995 and being recorded in **Volume 750 Page 287**, et seq. of the Deed Records of Gonzales County, Texas.

1. Hagen Ranch Lease #3 RRC 1D# 13832
Revenue Interest Assigned .56250000

The interest of Assignor **in** the following Property, being the same Properties described in an Assignment and Bill of Sale from Tuskar (Texas), Inc. Et al, being recorded in **Volume 740 Page 73, et seq. and in Vol 750, Pages 293-308** of the Deed Records of Gonzales County, Texas.

1. Hagen Ranch #1 RRC 1D# 12996
Revenue Interest Assigned

	.5625000
Revenue Interest Retained	.0300000

SIGNED FOR IDENTIFICATION:

/s/ Billy R. Wilson

BILLY R. WILSON

/s/ William A. Sawyer

WILLIAM A. SAWYER