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Lucas Energy Announces Fiscal 2016 Year-End Results And Provides Company Outlook

HOUSTON, July 13, 2016 /PRNewswire/ -- Lucas Energy, Inc. (NYSE MKT: LEI) ("Lucas" or the "Company"), an independent oil and gas company with its operations in central Texas, today announced its fourth quarter and fiscal year-end results for the periods ending March 31, 2016 and the filing of its Annual Report on Form 10-K on July 13, 2016.

"While the past year was another difficult one for the energy industry, it afforded our Company with multiple opportunities, with the most significant being our agreement to acquire the working interests in certain oil and gas properties in Texas and Oklahoma from Segundo Resources," said Anthony C. Schnur, Chief Executive Officer of Lucas Energy. "Also during the year we regained compliance with the NYSE MKT exchange by restructuring and extending our existing term loan and completing a 1-for-25 reverse stock split. Additionally, we entered into several financial transactions, some of which will be triggered after the close of the Segundo acquisition.

"We did not realize full production potential in fiscal 2016 because some of our top producing wells were offline at various times throughout the year. Our production was also significantly impacted by declines in realized oil prices that limited our ability to provide sufficient cash flow to the field level, especially during the fiscal fourth quarter when prices averaged \$31.68, \$30.32, and \$37.55 per barrel for the months of January, February and March, respectively. As a result, our average production fell 42% from the prior year.

"We continue to remain vigilant in controlling our costs." Mr. Schnur continued. "During the year, we lowered our respective lease operating expenses and G&A costs by 49% and 25%, this following our respective fiscal 2015 reductions of 34% and 13% year over year. We relocated our corporate offices, reducing our monthly lease payments by about 40%. As we develop acquired acreage, we expect to materially increase our production and expand and optimize our asset base. We believe these efforts, combined with our ongoing cost-cutting initiatives, will stabilize our cash flow, improve our profitability margins, and ultimately achieve greater value for our shareholders."

Review and Outlook

The price of a barrel of oil in mid-2014 was over \$100; by the end of 2015 it was in the \$30 range and in the first calendar quarter reached into the twenties. The resulting fallout saw 42 bankruptcies among energy companies in 2015 followed by an additional 39 in the first five months of 2016. Survival in our industry has been the primary objective, and we have done so to date. In fact, we view the current market environment as an opportunity to expand our footprint and grow the company. The first-step in our transition from a distressed

turnaround concern to a renewed acquisition-focused, growth-oriented company is the strategic business combination announced in December of 2015. This transaction is currently under review by the Securities Exchange Commission, and the parties anticipate closing, which is subject to various conditions, to occur during the second quarter of fiscal 2017.

As previously disclosed, we expect that once the acquisition is completed, our asset base and daily production will increase significantly with the addition of the Hunton formation Mid-continent reserves in Central Oklahoma. We also intend to redirect our strategic vision with the initial rebranding name change to "Camber Energy." Camber is a noun, meaning a slightly convexed, or arched shape, which bears resemblance to the production curve of the Hunton reserves which exhibit an atypical inclining rate of production in the first 18 to 24 months, and a very low decline rate thereafter. We are excited about the course we have chosen, and we are eager to bring it to a close.

The Company also completed a series of financial transactions during the year that provided working capital and near-term debt relief and provided for a capital infusion at the closing of the acquisition. By working closely with our lender, we restructured the existing debt on our balance sheet, affording us the opportunity to continue to operate as well as transact. Our current capital requirements are augmented through a convertible loan note facility that we expect to utilize through closing. Finally, as announced on April 7, 2016, Lucas entered into a series of agreements with an institutional investor whereby it will receive \$10.0 million of equity capital, subject to meeting certain conditions including the acquisition of the Segundo assets. This financing was specifically arranged to ensure our fiscal stability and liquidity as we begin our growth as Camber Energy.

We intend to drill the acquired acreage, funding permitting, and have identified 50 Hunton locations where an initial six locations are under review. That review will assess current drilling costs, updated production profiles and the availability of electrical and saltwater disposal facilities. Any development schedule will be dependent on when we are able to close the acquisition. Beyond those known locations, we believe there are opportunities to develop other sands present in the acreage.

Our existing properties are located in the Eagle Ford Shale trend, one of the most active plays in the U.S. Drilling activity around our Eagle Ford assets continues to support an enhanced view of our position. In addition, leading operators in the Eagle Ford area have developed drilling and completion technologies that have significantly reduced production risk and decreased per well capital costs. While commodity prices have dropped precipitously, the associated cost to drill and complete have fallen as well. We continue to review opportunities to accelerate development of our five million barrels of proved Eagle Ford and other oil reserves through either direct development or strategic partnerships.

Our long-term strategy is to grow the Company in three ways: develop our acquired and existing assets; expand our existing footprint through bolt-on acquisitions; and continue to pursue material acquisitions. The prolonged down cycle in oil, or otherwise referred to as "lower for longer," likely favors a strategy of focused acquisition in the near term, but we will be flexible and opportunistic. It is our intent to create an asset portfolio of increasing production AND expanded drilling inventory where we can apply technical expertise to the asset.

With our acquisition of Segundo, we also acquire technical knowledge of how the impact of dewatering practices improves production rates, how sophisticated field-wide saltwater disposal systems and proprietary electrical infrastructure can lower operating costs, and how this combined process can be applied to other formations that harbor characteristics similar to the Hunton formation. Identifying and acquiring properties in areas analogous to the Hunton will be a key component to the future growth of the company.

The last several years have been difficult for Lucas, and the fiscal 2016 results bear that out. However, we are confident in our future direction and ambitious growth initiative. What we will create with Segundo and the establishment of Camber is a platform on which to build our Company, through the acquisition, and development of additional reserves through and out of this cyclical downturn.

Please refer to our Annual Report on Form 10-K for the year ended March 31, 2016, at www.sec.gov for complete financial statements, footnotes relating to such financial statements, risk factors regarding the Company and a more detailed discussion of our plan of operations and results of operations, as well as other matters.

Fiscal 2016 Annual Results

For the twelve months ending March 31, 2016, Lucas reported a fiscal year net loss of \$25.4 million, or a loss of (\$17.58) per share), compared to a net loss of \$5.1 million or (\$3.78) per share in the twelve months ending March 31, 2015. Fiscal year 2016 included impairment charges [related to the full-cost write-down of its oil and gas assets]. Excluding for the impairment charges, the adjusted net loss for fiscal year 2016 was \$4.8 million, or (\$2.80) per share compared to a net loss of \$5.1 million, or (\$3.78) per share in fiscal 2015.

Total crude oil and natural gas revenues for fiscal 2016 were \$1.0 million compared to \$3.0 million for the same period a year ago due primarily to a 45% drop in crude oil prices and a 42% decrease in annual production volumes. The decline in crude oil prices impacted revenues by approximately \$1.3 million and the lower production volumes decreased revenues by another \$0.7 million when compared with the same period last year. The production decline is primarily attributable to two of the Company's top producing wells being shut-in for over two months. Capital constraints prohibited the Company from performing timely workovers on three other top producing wells, which experienced down times ranging from between 20 and 256 days. Other factors impacting production were severe flooding conditions in Texas during the year, significant interference from offset activity, and the higher front-end production in the prior reporting period related to workover drilling and lateral programs.

Lease operating expenses of \$0.7 million for the year ended March 31, 2016 decreased \$0.7 million, or 49%, from \$1.5 million for the same period a year ago, principally due to less production related to reduced drilling activity and workover activity due to limited funding and the Company's efforts to preserve capital while maintaining cash flow. General and administrative expenses (excluding share-based compensation) decreased approximately \$0.8 million or 24% for fiscal 2016 compared to the prior year despite a one-time expense of \$0.4 million related to transaction costs associated with the Segundo acquisition. Last year's expenses included \$0.3 million of legal expenses, investment banking fees and other transaction costs related to strategic initiatives that were subsequently abandoned.

Depreciation, depletion, amortization and accretion (DD&A) expenses for the 2016 fiscal year decreased \$0.7 million, or 43%, from the same period a year ago, primarily due to a 42% reduction in production volumes by 15,886 barrels of oil equivalent (BOE) to 22,190 BOE. Average daily production was 61 barrels of oil per day (BOPD) compared to 104 BOPD in fiscal 2015, all of which was produced from the Austin Chalk formation.

In fiscal 2016, the Company recorded an impairment of \$21.4 million associated with oil and gas properties primarily due to a significant decline in commodity prices during the fiscal year, which triggered a full-cost write-down of these assets. These fields were reduced to the fair value of approximately \$14.0 million using discounted future cash flows.

SELECTED FINANCIAL DATA

Fiscal Year Ending 3/31/2016

INCOME STATEMENT (\$000s)	FYE 2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Net operating revenues	\$968	\$101	\$184	\$290	\$393
Operating expenses					
Lease operating expense	741	143	182	253	163
G&A	2,501	646	676	629	550
Impairment charge	21,391	21,391			
Other operating expenses	1,003	165	232	293	313
Total operating expense	<u>25,636</u>	<u>22,345</u>	<u>1,090</u>	<u>1,175</u>	<u>1,026</u>
Interest expense & other	(782)	(197)	(117)	(68)	(400)
Income (loss) before income taxes	<u>(25,450)</u>	<u>(22,441)</u>	<u>(1,023)</u>	<u>(953)</u>	<u>(1,033)</u>
Provision for income taxes	0	0	0	0	0
Net loss, reported	<u>(\$25,450)</u>	<u>(\$22,441)</u>	<u>(\$1,023)</u>	<u>(\$953)</u>	<u>(\$1,033)</u>

Fiscal Year Ending 3/31/2015

INCOME STATEMENT (\$000s)	FYE2015	3/31/2015	12/31/2014	9/30/2014	6/30/2014
Net operating revenues	\$3,001	\$383	\$683	\$993	\$942
Operating expenses					
Lease operating expenses	1,458	216	335	453	454
G&A	3,313	566	748	1,139	860
Other operating expenses	1,832	397	470	501	464
Total operating expense	<u>6,603</u>	<u>1,179</u>	<u>1,553</u>	<u>2,093</u>	<u>1,778</u>
Interest expense & other	(1,512)	(282)	(437)	(375)	(418)
Income (loss) before income taxes	<u>(5,112)</u>	<u>(1,078)</u>	<u>(1,307)</u>	<u>(1,475)</u>	<u>(1,254)</u>
Provision for Income taxes	(14)	0	0	(14)	0
Net loss, reported	<u>(\$5,128)</u>	<u>(\$1,078)</u>	<u>(\$1,307)</u>	<u>(\$1,489)</u>	<u>(\$1,254)</u>

Fiscal 2016 Reserves

At year-end on March 31, 2016, Lucas' estimated net proved crude oil and natural gas reserves were approximately 4.3 million BOE, down approximately 0.8 million or 16% from 5.1 million BOE at the end of fiscal 2015. In 2016, Lucas had a downward revision primarily due to the sale of existing leases of 0.3 million Boe in Karnes County, Texas, the expiration of 0.4 million Boe on existing leases and the transfer of approximately 0.1 million Boe of proved undeveloped reserves to probable undeveloped reserves.

Using the SEC pricing methodology of an average monthly crude oil price of \$45.22 per Bbl and natural gas price of \$2.39 per thousand cubic feet for the twelve months ended March

31, 2016, the estimated discounted future net cash flow (PV-10) before tax expenses for Lucas' proved reserves was approximately \$14.0 million, of which approximately \$12.1 million are proved undeveloped reserves of which a large portion are located in the Eagle Ford shale formation. These reserves were determined in accordance with standard industry practices and SEC regulations by the licensed independent petroleum engineering firm of Ralph E. Davis Associates, LLC.

	<u>Oil</u> <u>(MBbls)</u>	<u>Gas</u> <u>(Mmcf)</u>	<u>Total</u> <u>(Mboe)</u>	<u>PV-10</u> <u>(\$mm)</u>	<u>PV-10 /</u> <u>BOE</u>
PDP	118	0	118	\$1.9	\$15.94
PUD	3,724	2,512	4,143	\$12.1	\$2.93
Total	3,842	2,512	4,260	\$14.0	\$18.87
Probable	2,092	1,344	2,316	\$4.8	\$2.06
Total 2P	5,934	3,856	6,576	\$18.9	\$20.93

About Lucas Energy, Inc.

Based in Houston, Texas, Lucas Energy (NYSE MKT: LEI) is a growth-oriented, independent oil and gas company engaged in the development of crude oil and natural gas in the Austin Chalk and Eagle Ford formations in South Texas.

For more information, please visit the updated Lucas Energy web site at www.lucasenergy.com.

Safe Harbor Statement and Disclaimer

This news release includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements give our current expectations, opinion, belief or forecasts of future events and performance. A statement identified by the use of forward looking words including "may," "expects," "projects," "anticipates," "plans," "believes," "estimate," "should," and certain of the other foregoing statements may be deemed forward-looking statements. Although Lucas believes that the expectations reflected in such forward-looking statements are reasonable, these statements involve risks and uncertainties that may cause actual future activities and results to be materially different from those suggested or described in this news release. These include risks inherent in natural gas and oil drilling and production activities, including risks of fire, explosion, blowouts, pipe failure, casing collapse, unusual or unexpected formation pressures, environmental hazards, and other operating and production risks, which may temporarily or permanently reduce production or cause initial production or test results to not be indicative of future well performance or delay the timing of sales or completion of drilling operations; delays in receipt of drilling permits; risks with respect to natural gas and oil prices, a material decline which could cause Lucas to delay or suspend planned drilling operations or reduce production levels; risks relating to the availability of capital to fund drilling operations that can be adversely affected by adverse drilling results, production declines and declines in natural gas and oil prices; risks relating to unexpected adverse developments in the status of properties; risks relating to the absence or delay in receipt of government approvals or fourth party consents; and other risks described in Lucas's Annual Report on Form 10-K and other filings with the SEC, available at the SEC's website at www.sec.gov. Investors are cautioned

that any forward-looking statements are not guarantees of future performance and actual results or developments may differ materially from those projected. The forward-looking statements in this press release are made as of the date hereof. The Company takes no obligation to update or correct its own forward-looking statements, except as required by law, or those prepared by third parties that are not paid for by the Company. The Company's SEC filings are available at <http://www.sec.gov>.

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