



*The following is an excerpt from the Company's Registration Statement filed on February 14, 2008. Readers are urged to carefully review and consider the various disclosures, including the risk factors, made by Pegasi Energy in its reports filed with the Securities and Exchange Commission, in particular under the caption "Risk Factors" of its 8-K filed on December 18, 2007 and the S-1 filed February 14, 2008, which attempt to advise interested parties of the risks and factors that may affect Pegasi Energy's business.*

#### **Company Overview**

Pegasi Energy Resources Corporation (PERC) is an organic growth-oriented independent energy company engaged in the exploration and production of natural gas and oil through the development of a repeatable, low geological risk, high potential project in the active East Texas oil and gas region. The Company currently holds interests in properties located in Marion and Cass County, Texas, home to the Rodessa oil field, which has produced approximately 2.3 trillion cubic feet of gas and 400 million barrels of oil. The field has historically been the domain of small independent operators and is not a legacy field for any major oil company.

Pegasi's Cornerstone Project (CP) is to identify and exploit resources in and adjacent to existing or indicated producing areas within the Rodessa field area. Pegasi intends to quickly develop and produce reserves at a low cost and will take an aggressive approach to exploiting its contiguous acreage position through utilization of "best in class" drilling, (i.e. using the latest drilling techniques available completion, and seismic technology). Pegasi and its management team believe that they are uniquely familiar with the history and geology of the CP area based on their collective experience in the region as well as through its ownership of a large proprietary database which details the drilling history of the CP area over the previous 28 years. Pegasi believes implementing its drilling strategy and using new drilling and completion techniques will enable it to find significant gas and oil reserves in the CP area.

Pegasi conducts its main exploration and production operations through its wholly-owned subsidiary, Pegasi Operating Inc. Pegasi conducts additional operations through two other wholly-owned subsidiaries: (i) TR Rodessa, LLC and (ii) 59 Disposal.

TR Rodessa operates a 40-mile natural gas pipeline and gathering system which is currently being used by Pegasi to transport its hydrocarbons to market. Excess capacity on this system may be used to transport third-party hydrocarbons in the future.

59 Disposal owns and operates a saltwater disposal facility which disposes saltwater and flow-back waste into subsurface storage. 59 Disposal currently disposes of wastewater for Pegasi operations as well as from other accepted operators for a per barrel fee.

On December 12, 2007, we entered into a Share Exchange Agreement with each of the shareholders of Pegasi Energy Resources Corporation, a Texas corporation ("PERC"), pursuant to which we purchased from the Pegasi shareholders all issued and outstanding shares of PERC's common stock in consideration for the issuance of 17,500,000 shares of our common stock.

The Share Exchange resulted in a change in control of the Company with the Shareholders owning 17,500,000 shares of common stock of the Company out of a total of 21,000,000 issued and outstanding shares after giving effect to the Share Exchange. Also, the Shareholders were elected to our board of directors and appointed as our executive officers. As a result of the Exchange Agreement, (i) PERC became our wholly-owned subsidiary and (ii) we succeeded to the business of PERC as our sole business. Effective January 23, 2008, we changed our name to Pegasi Energy Resources Corporation. The share exchange was accounted for as a reverse merger. Accordingly, our historical financial results reported herein are those of PERC.

From December 12, 2007 through January 24, 2008 we entered into a series of identical securities purchase agreements (the "Offering") with a number of accredited investors (the "Investors"), pursuant to which the Investors purchased from us 8,375,784 Units, each Unit consisting of one share of common stock of the Company and a five-year warrant to purchase 0.5 shares at \$1.60 per whole share (the "Warrants"). The purchase price per Unit was \$1.20. Total gross proceeds resulting from the Offering to the Company were approximately \$10,051,000.

## **Corporate History**

### *The Company*

The Company was incorporated in the State of Nevada on April 14, 2006 under the name of Maple Mountain Explorations, Inc. to engage in the acquisition, exploration and development of natural resource properties. It never generated any revenues from that business. As a result of the share exchange completed on December 12, 2007, (i) PERC became a wholly-owned subsidiary of the Company and (ii) the Company succeeded to the business of PERC as its sole business.

### *Pegasi*

Pegasi is the successor entity to First Southern Crown Ltd. ("FSC"), a Texas limited partnership formed in December 2002 as a holding company for a number of operating subsidiaries. Prior to the formation of FSC, PERC's principals spent over three years and invested over \$3.5 million in equity for data harvesting, prospect evaluation and acreage acquisitions for the Cornerstone Project. These assets were assigned to FSC by TR Energy, Inc., which was incorporated in 1999 by Mike Neufeld and William Sudderth, Pegasi's principal shareholders. Operations from December 2002 to December 2004 were funded by Mr. Neufeld, Mr. Sudderth and by a \$15 million mezzanine financing. Approximately \$7.5 million was drawn down from the mezzanine facility and used for drilling an initial five wells. In December 2004, FSC sold a thirty percent (30%) interest in all of its production, acreage position, pipeline and disposal plant to Marion Energy Limited ("Marion"), an entity publicly traded on the Australian stock exchange ("ASE.ax"). Proceeds from the sale amounted to \$10 million and were used to repay the mezzanine facility and residual interest.

In March 2007, Pegasi was formed as a Texas corporation, and FSC changed its name to PERC and converted into a Texas corporation as part of a consolidation and corporate restructuring.

## **Principal Operations**

PERC began its leasing and farm-in activities in the Rodessa field area of the East Texas oil and gas basin in 2000. Its initial leasehold purchase was comprised of approximately 1,500 gross acres, which PERC has grown to over 20,000 gross acres (14,000 net acres) as of May 2007. PERC serves as operator of the

Cornerstone Project with a working interest partner, Marion, its successors, and/or assigns, to develop its acreage position in the Cornerstone Project. Marion currently maintains a 30% interest in the Cornerstone Project properties, which constitutes all of the Company's leases and related assets. Since initiating operations in 2000, PERC has drilled five productive wells. These wells were producing approximately 1,166 gross (816 net) mcfe per day as of June 2007.

Pegasi has been aggressively acquiring oil and gas leases to add to its existing lease inventory. It presently has over 20,000 gross acres (14,000 net acres) in the Cornerstone Project and has been preparing for a multi-well drilling program. Based on detailed log analysis of thousands of wells from Pegasi's database and information derived from its drilling experience in the area, 109 drilling locations have been identified on its present leased acreage. Pegasi is currently focusing on an initial well drilling program.

During Pegasi's initial 12-month vertical well drilling program it will target gas reserves in the Cotton Valley, Travis Peak, and Pettit geologic formations at depths ranging from 7,000 – 10,500 feet. Pegasi also plans on drilling horizontal wells to target oil in the Bossier formation at depths around 10,000 feet.

### **Plan of Operations**

PERC intends to continue to use its competitive strengths to advance its corporate strategy. The following are key elements of that strategy:

- Develop the Cornerstone Project in East Texas through an aggressive drilling program. PERC will focus its near-term efforts on development drilling on existing acreage. PERC expects this drilling program to significantly increase our proved reserve and cash flow profile within 12 months.
- Apply management expertise in the CP area and recent developments in drilling and completion technology to identify new drilling opportunities and enhance production. PERC plans to maximize the present value of our vertical wells by utilizing a "Sawtooth" production technique. This technique is characterized by sequentially completing multiple geologic horizons in a single wellbore in order to maximize well economics (see "Business - Well Economic" for further description). PERC will also implement the latest drilling, fracturing and completion techniques to develop its properties including horizontal drilling. These horizontal wells will primarily target the Bossier formation and our management expects these wells to yield significantly higher hydrocarbon flow rates than the Company's vertical wells.
- Continue to lease underdeveloped acreage in the Cornerstone Project area. PERC intends to use our extensive proprietary database to help optimize additional drilling locations and to acquire additional acreage. It intends to target acreage with exploitation and technology upside within the Cornerstone Project area. Most properties in the CP area are held by smaller independent companies that lack the resources to exploit them to the fullest extent. PERC intends to pursue these opportunities to selectively expand our portfolio of properties. These acreage additions will complement PERC's existing substantial acreage position in the area and provide the Company with significant additional drilling inventory.
- Maintain a conservative and flexible financial strategy. PERC intends to continue to focus on maintaining a low level of corporate overhead expense in addition to continued utilization of outsourcing, when appropriate, to maximize cash flow. PERC believes this internally-generated cash flow, coupled with reserve-based debt financing when appropriate, will provide the optimal capital structure to fund our future drilling activity.

## **Forward Looking Statements**

Cautionary Note to U.S. Investors -- The United States Securities and Exchange Commission ("SEC") permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this press release, such as probable, possible and potential, that the SEC's guidelines strictly prohibit us from including in filings with the SEC. U.S. Investors are urged to consider closely the disclosure in our Form 8-K, filed with the SEC on December 18, 2007, available from us at our principal executive offices at 218 N. Broadway, Suite 204, Tyler Texas 75702. You can also obtain this form from the SEC by calling 1-800-SEC-0330.

The statements in this press release regarding Pegasi Energy's expectations with respect to the timing of testing and drilling operations, transportation of crude oil, acquisition of seismic data, and the construction of the pipeline, the use to which seismic data will be put, the ability of Pegasi Energy to plan a full field development, including additional drilling, facilities and pipeline to handle new production as appropriate through 2010, and the expectation as to sources of funding, are 'forward-looking statements' within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934. Although these forward-looking statements reflect the good faith judgment of management, forward-looking statements are inherently subject to known and unknown risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements including, but not limited to, in the case of these forward-looking statements: unexpected delays in drilling or pipeline or other transportation infrastructure completion due to equipment failure or other unforeseen reasons; unforeseen events, such as unexpected difficulties in drilling or unexpected discoveries, may cause Pegasi Energy to reallocate resources, which may delay drilling, surveys, design plans, transportation infrastructure development and production or alter the mix of development drilling and exploration drilling in Pegasi Energy's portfolio; and unexpected costs may decrease funds available to carry out Pegasi Energy's plans described in this press release, which could delay or prevent execution of these plans. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. Pegasi Energy assumes no obligation to update these forward-looking statements to reflect any event or circumstance that may arise after the date of this release, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures, including the risk factors, made by Pegasi Energy in its reports filed with the Securities and Exchange Commission, in particular under the caption "Risk Factors" of its 8-K filed on December 18, 2007, which attempt to advise interested parties of the risks and factors that may affect Pegasi Energy's business. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, Pegasi Energy's actual results may vary materially from those expected or projected.

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