Lucero ENERGY CORP.

Management's Discussion and Analysis

For the three months and years ended

December 31, 2022 and 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (the "MD&A") has been prepared by management and was reviewed and approved by the Board of Directors of Lucero Energy Corp., formerly PetroShale Inc. ("Lucero" or the "Company") on March 9, 2023. This MD&A should be read in conjunction with the Company's audited consolidated financial statements as at December 31, 2022 and 2021 and for the years then ended. The reader should be aware that the operating results discussed below may not be indicative of future performance.

The financial data presented below has been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise indicated.

Frequently Used Terms

Term	Description
Bbl(s)	Barrel(s)
Boe	Barrel(s) of oil equivalent
BBls/d	Barrels per day
Boepd	Barrels of oil equivalent per day
HH	Henry Hub, reference price paid in US$ for natural gas deliveries
Mcf	Thousand cubic feet
Mmbtu	Million British Thermal Units
Mmbtu/d	Million British Thermal Units per day
NGLs	Natural gas liquids
WTI	West Texas Intermediate, reference price paid in US$ for crude oil of standard grade

Barrel of Oil Equivalent Advisory

Where amounts are expressed on a Boe basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil (6 Mcf:1 Bbl). This Boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The value ratio between the commodities, based on the price of crude oil compared to natural gas, could be significantly different from the energy equivalency of 6 Mcf: 1 Bbl, and therefore utilizing this conversion ratio may be misleading as an indication of value.

Presentation of Volumes

The Company's reserves have been categorized as Tight Oil, Shale Gas, and Natural Gas Liquids pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Production volumes and per Boe calculations are presented on a gross working interest basis, before royalty interests, unless otherwise stated.

Functional and Presentation Currency

Amounts in this MD&A are in Canadian dollars, which is the Company's presentation currency, unless otherwise stated. Transactions of the Company's US subsidiary are recorded in US dollars, as this is the primary economic environment in which this subsidiary operates. The US subsidiary has a US dollar functional currency. In translating the financial results from US dollars to Canadian dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the consolidated balance sheet; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and changes in shareholders' equity are translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the Canadian dollar presentation currency are included in other comprehensive income.

Non-GAAP and Other Financial Measures

Throughout this MD&A and in other materials disclosed by the Company, Lucero uses certain measures to analyze historical financial performance, financial position and cash flow. These non-GAAP and other financial measures are not defined by IFRS and therefore may not be comparable to performance measures presented by others. These non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are defined by IFRS, such as net income (loss) or cash provided by operating activities, as indicators of the Company's performance.

Non-GAAP Financial Measures

Exploration and Development Expenditures

Lucero uses exploration and development expenditures to measure the Company's investments in capital compared to the Company's annual capital budget. The most directly comparable GAAP measure to exploration and development expenditures is additions to property, plant and equipment in the cash used in investing activities. The reconciliation between additions to property, plant and equipment, as defined by IFRS, and exploration and development expenditures, as defined herein, is as follows:

	Three months ended December 31,		**Year ended December 31,**	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Additions to property, plant and equipment	**$17,306**	$29,929	**$62,981**	$63,028
Capitalized general and administrative expenses	**(746)**	(382)	**(3,057)**	(1,172)
Exploration and development expenditures	**$16,560**	$29,547	**$59,924**	$61,856

Capital Expenditures

In addition to Exploration and Development Expenditures, Lucero uses capital expenditures to quantify the Company's investments in property, plant and equipment. The most directly comparable GAAP measure to capital expenditures is cash used in investing activities. The reconciliation between cash flow used in investing activities, as defined by IFRS, and capital expenditures, as defined herein, is as follows:

	Three months ended December 31,		**Year ended December 31,**	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Cash used in investing activities	**$17,669**	$23,361	**$78,883**	$52,036
Change in non-cash investing working capital	**(363)**	6,568	**(7,044)**	10,992
Capitalized share-based compensation	**758**	44	**2,256**	179
Decommissioning obligation	**769**	338	**(2,543)**	1,517
Capital expenditures	**$18,833**	$30,311	**$71,552**	$64,724

Funds Flow and Funds Flow, Excluding Transaction Related Costs

Funds flow represents cash provided by operating activities prior to changes in non-cash working capital and including cash finance expenses. Funds flow, excluding transaction related costs, represents cash provided by operating activities prior to changes in non-cash working capital and transaction related costs, including cash finance expenses. Lucero considers these measures to be useful as they assist in the determination of the Company's ability to generate liquidity necessary to finance capital expenditures, settlement of decommissioning obligations and service its debt. Transaction related costs are incurred during asset acquisitions, corporate acquisitions, or corporate reorganizations and are typically not considered a cost incurred in the normal course of business. As a result, excluding transaction related costs from funds flow further assists in the determination of the Company's ability to generate liquidity in the normal course of business.

	Three months ended December 31,		**Year ended December 31,**	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Cash provided by operating activities	**$41,903**	$17,448	**$172,570**	$72,230
Finance expenses - cash	**(1,693)**	(2,447)	**(7,081)**	(10,838)
Changes in non-cash operating working capital	**(3,195)**	4,960	**(18,358)**	3,350
Funds flow	**$37,015**	$19,961	**$147,131**	$64,742
Transaction related costs	**-**	-	**2,100**	-
Funds flow, excluding transaction related costs	**$37,015**	$19,961	**$149,231**	$64,742

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

Lucero uses adjusted EBITDA, which represents cash provided by operating activities prior to changes in non-cash working capital, to measure the Company's ability to generate funds to service debt and other obligations and to fund the Company's operations, without the impact of changes in non-cash working capital which can vary based solely on timing of settlement of accounts receivable and accounts payable. The reconciliation between cash flow from operating activities, as defined by IFRS, and adjusted EBITDA, as defined herein, is as follows:

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Cash provided by operating activities	**$41,903**	$17,448	**$172,570**	$72,230
Changes in non-cash operating working capital	**(3,195)**	4,960	**(18,358)**	3,350
Adjusted EBITDA	**$38,708**	$22,408	**$154,212**	$75,580

Operating Netback and Operating Netback Prior to Hedging

Operating netback represents petroleum and natural gas revenues, plus or minus any realized gain or loss on financial derivatives, less royalties, operating expenses, production taxes, and transportation expenses. Operating netback prior to hedging represents operating netback prior to any realized gain or loss on financial derivatives. Lucero believes that in addition to net income (loss) and cash provided by operating activities, operating netback and operating netback prior to hedging are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage, and liquidity. Operating netback is commonly used by investors to assess performance of oil and gas properties and the possible impact of future commodity price changes on energy producers.

The table below discloses Lucero's operating netback and operating netback prior to hedging, including the reconciliation to the Company's most closely comparable GAAP measure, petroleum and natural gas revenues.

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Petroleum and natural gas revenues	**$76,146**	$72,883	**$342,582**	$229,340
Royalties	**(13,281)**	(13,785)	**(63,358)**	(42,699)
Operating expenses	**(9,438)**	(7,998)	**(34,695)**	(28,563)
Production taxes	**(7,003)**	(5,393)	**(27,715)**	(16,992)
Transportation expenses	**(1,797)**	(1,824)	**(7,282)**	(7,361)
Operating netback prior to hedging	**$44,627**	$43,883	**$209,532**	$133,725
Realized loss on financial derivatives	**(4,055)**	(20,036)	**(45,966)**	(52,694)
Operating netback	**$40,572**	$23,847	**$163,566**	$81,031

Net Debt

Net debt represents total liabilities, excluding decommissioning obligations, deferred tax liability, lease liability and financial derivative liability, less current assets. Lucero believes net debt is a key measure to assess the Company's liquidity position at a point in time. Net debt is not a standardized measure and may not be comparable with similar measures for other entities. The reconciliation between total liabilities, as defined by IFRS, and net debt, as defined herein, is as follows:

	As at December 31, 2022	As at December 31, 2021
Total liabilities	**$149,123**	$261,047
Decommissioning obligations	**(5,993)**	(7,971)
Deferred tax liability	**(30,553)**	-
Financial derivative liability	**-**	(15,544)
Lease liability	**(1,053)**	(1,125)
Total current assets	**(34,098)**	(40,340)
Net Debt	**$77,426**	$196,067

Non-GAAP Financial Ratios

Adjusted EBITDA per Share Basic and Diluted

The Company calculates adjusted EBITDA per share basic and diluted as adjusted EBITDA divided by weighted average basic and diluted shares outstanding, respectively. Adjusted EBITDA is a non-GAAP financial measure. Lucero believes that adjusted EBITDA per share basic and diluted are key industry performance measures of the Company's ability to generate liquidity and are common measures within the oil and gas industry.

Funds Flow and Funds Flow, Excluding Transaction Costs per Share Basic and Diluted

The Company calculates funds flow per share basic and diluted as funds flow divided by weighted average basic and diluted shares outstanding, respectively. Funds flow, excluding transaction costs per share basic and diluted is calculated as funds flow, excluding transaction costs divided by weighted average basic and diluted shares outstanding, respectively. Funds flow and funds flow, excluding transaction costs are non-GAAP financial measures. Lucero believes that funds flow per share basic and diluted and funds flow, excluding transaction costs per share basic and diluted are key industry performance measures of the Company's ability to generate liquidity and are common measures within the oil and gas industry.

Operating Netback per Boe and Operating Netback Prior to Hedging per Boe

The Company calculates operating netback per Boe as operating netback divided by production for the period. Operating netback prior to hedging per Boe is calculated as operating netback prior to hedging divided by production for the period. Operating netback and operating netback prior to hedging are non-GAAP financial measures. Lucero believes that operating netback per Boe and operating netback prior to hedging per Boe are key industry performance measures of operational efficiency and are common measures within the oil and gas industry.

Supplementary Financial Measures

In this MD&A, the Company uses the following supplementary financial measures, which have the following meaning.

"Average realized NGLs price" (per Bbl) is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production, expressed in US$ or C$, as applicable.

"Average realized shale gas price" (per Mcf) is comprised of shale gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's shale gas production, expressed in US$ or C$, as applicable.

"Average realized tight oil price" (per Bbl) is comprised of tight oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's tight oil production, expressed in US$ or C$, as applicable.

"Depletion and depreciation expenses per BOE" is comprised of the Company's depletion and depreciation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Impairment (impairment recovery) per BOE" is comprised of the Company's impairment, or impairment recovery for the period, as the case may be, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Net G&A expenses per BOE" is comprised of the Company's gross G&A expenses, as determined in accordance with IFRS, less capitalized G&A, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Operating expenses per BOE" is comprised of the Company's operating expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

(continued)

"Petroleum and natural gas revenues, per BOE" is comprised of petroleum and natural gas revenues, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Petroleum and natural gas revenues, net, per BOE" is comprised of petroleum and natural gas revenues, net of royalties, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Production taxes per BOE" is comprised of the Company's production taxes, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Realized loss on financial derivatives, per BOE" is comprised of the Company's realized loss on financial derivatives, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Royalties per BOE" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Royalties as a percentage of revenue" is comprised of royalties, as determined in accordance with IFRS, divided by petroleum and natural gas revenues as determined in accordance with IFRS.

"Net share-based compensation expenses per BOE" is comprised of the Company's net share-based compensation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Total operating expenses per BOE" is comprised of the Company's total operating expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Transaction related costs per BOE" is comprised of the Company's transaction related costs, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Transportation expenses per BOE" is comprised of the Company's transportation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Unrealized gain (loss) on financial derivatives per BOE" is comprised of the Company's unrealized gain (loss) on financial derivatives, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

Forward-Looking Statements

This MD&A contains forward looking statements and forward-looking information (collectively, "forward looking statements") within the meaning of applicable Canadian securities laws. The use of any of the words "expect," "anticipate," "continue," "estimate," "objective," "ongoing," "may," "will," "project," "should," "believe," "plans," "intends," "strategy," and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Management's assessment of future plans and operations, the Company's plans, focus and strategy, the Company's intention to use derivative instruments, anticipated timing to complete wells, the term out and maturity dates of the senior credit facility and the timing for the next borrowing base review thereunder, methods the Company will use to monitor cash flow and terms of contractual obligations and other commercial commitments.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: risks associated with oil and gas development, exploitation, production, marketing and transportation of oil, natural gas (including as it relates to the Dakota Access Pipeline and other transportation methods), and natural gas liquids, loss of markets, determinations by OPEC and other countries as to production levels, events resulting from hostilities in the Ukraine and elsewhere, the results of litigation matters, volatility of commodity prices, currency fluctuations, inability to transport or process natural gas at economic rates or at all, imprecision of reserve estimates, environmental risks, competition from other producers, impacts of inflation, inability to retain drilling rigs and other services at reasonable costs or at all, unforeseen challenges or circumstances in drilling, equipping and completing wells leading to higher capital costs than anticipated, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions or drilling operations, risks associated with Lucero's non-operated status on some of its properties, risks associated with the availability of transportation of the Company's production through pipeline and other systems; risks associated with pricing and costs inflation; production delays resulting from an inability to obtain required regulatory approvals or services, unfavorable weather, or the tie-in of associated natural gas production and an inability to access sufficient capital from internal and external sources.

The Company's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward looking statements or information is based on several factors and assumptions which have been used to develop such statements and information, but which may prove to be incorrect. Although Lucero believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic, regulatory and political environment in which Lucero operates; the outcome of various legal and other administrative matters effecting the Company and/or its properties; the ability of the Company to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner; the impact of inflation on the Company's costs; drilling results; the ability of the Company and the operators of its non-operated properties to operate in the field in a safe, efficient, compliant and effective manner; Lucero's ability to obtain financing on acceptable terms or at all; changes in the Company's credit facilities including changes to borrowing base and maturity dates; receipt of regulatory approvals; field production rates and decline rates; the ability of the Company, and the operators of its non-operated properties, to tie-in associated natural gas production in an economic manner, or at all; the ability to manage lease operating and transportation costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the ability to convert non-producing proved and undeveloped or probable oil and natural gas reserves to producing reserves; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate transportation for commodity production; future petroleum and natural gas prices; differentials between benchmark commodity prices and those received by the Company for its production in the field; currency exchange and interest and inflation rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; Lucero's ability to successfully drill, complete and commence production at commercial rates from its operated wells; and Lucero's ability, or those of the operators of its non-operated properties, to successfully market its petroleum and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive.

Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website (www.sedar.com) or at the Company's website (www.lucerocorp.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Financial and Operational Highlights

	Three months ended December 31,		Year ended December 31,	
Financial *($ thousands, except share amounts)*	**2022**	**2021**	**2022**	**2021**
Petroleum and natural gas revenues	**$76,146**	$72,883	**$342,582**	$229,340
Cash provided by operating activities	**$41,903**	$17,448	**$172,570**	$72,230
Net income (loss)	**$18,995**	$25,065	**$80,519**	($828)
Per share - basic	**$0.03**	$0.05	**$0.12**	-
Per share - diluted	**$0.03**	$0.05	**$0.12**	-
Funds flow [(1)]	**$37,015**	$19,961	**$147,131**	$64,742
Per share - basic	**$0.06**	$0.04	**$0.23**	$0.15
Per share - diluted	**$0.06**	$0.04	**$0.22**	$0.15
Funds flow, excluding transaction related costs [(1)]	**$37,015**	$19,961	**$149,231**	$64,742
Per share - basic	**$0.06**	$0.04	**$0.23**	$0.15
Per share - diluted	**$0.06**	$0.04	**$0.22**	$0.15
Adjusted EBITDA [(1)]	**$38,708**	$22,408	**$154,212**	$75,580
Per share - basic	**$0.06**	$0.04	**$0.24**	$0.17
Per share - diluted	**$0.06**	$0.04	**$0.23**	$0.17
Exploration and development expenditures [(1)]	**$16,560**	$29,547	**$59,924**	$61,856
Net debt [(1)]	**$77,426**	$196,067	**$77,426**	$196,067
Number of common shares outstanding				
Shares outstanding, end of period	**662,410,687**	523,387,831	**662,410,687**	523,387,831
Weighted average - basic	**662,410,687**	521,800,232	**648,842,077**	431,950,365
Weighted average - diluted	**672,207,332**	532,490,737	**672,009,827**	442,640,870
Operating				
Daily production [(2)]				
Tight oil (Bbls)	**6,326**	7,342	**6,564**	6,930
Shale gas (Mcf)	**13,218**	11,615	**12,207**	11,226
Natural gas liquids (Bbls)	**2,480**	1,628	**2,275**	1,747
Barrels of oil equivalent	**11,009**	10,906	**10,874**	10,548
Average realized price:				
Tight oil ($/Bbls)	**$114.49**	$94.72	**$124.12**	$83.16
Shale gas ($/Mcf)	**$5.34**	$4.71	**$5.93**	$2.15
Natural gas liquids ($/Bbls)	**$13.25**	$25.81	**$22.61**	$16.00
Barrels of oil equivalent ($/Boe)	**$75.18**	$72.64	**$86.32**	$59.57
Operating netback ($ per Boe) [(3)]				
Petroleum and natural gas revenues	**$75.18**	$72.64	**$86.32**	$59.57
Royalties	**($13.11)**	($13.74)	**($15.96)**	($11.09)
Operating expenses	**($9.32)**	($7.97)	**($8.74)**	($7.42)
Production taxes	**($6.91)**	($5.37)	**($6.98)**	($4.41)
Transportation expenses	**($1.77)**	($1.82)	**($1.83)**	($1.91)
Operating netback prior to hedging [(1)]	**$44.07**	$43.74	**$52.81**	$34.74
Realized loss on financial derivatives	**($4.00)**	($19.97)	**($11.58)**	($13.69)
Operating netback [(1)]	**$40.07**	$23.77	**$41.23**	$21.05

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section “Non-GAAP and Other Financial Measures” contained within this MD&A.

(2) The Company’s reserves have been categorized as Tight Oil, Shale Gas, and Natural Gas Liquids pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities (“NI 51-101”).

(3) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of operating netback. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Description of Business

Lucero Energy Corp. ("Lucero" or the "Company") is an independent oil company focused on the acquisition, development, and production of oil-weighted assets in the Bakken and Three Forks formations in the Williston Basin area of North Dakota. On May 24, 2022, the Company's name was changed from PetroShale Inc. to Lucero Energy Corp. The Company's common shares are listed on the TSX Venture Exchange under the "LOU" ticker symbol.

The Company has corporate offices located at Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

New Management Team, Board Appointment and Private Placements

New Management Team and Board Appointment

On January 13, 2022, the Company announced the appointment of a new management team (the "New Management Team"), led by Brett Herman as President & Chief Executive Officer, Jason Skehar as Chief Operating Officer, Marvin Tang as Vice President, Finance & Chief Financial Officer, Sandy Brown as Vice President, Geosciences, Kristine Lavergne as Vice President, Engineering, and Shane Manchester as Vice President, Operations. In addition, the Company announced the appointment of Dale O. Shwed to the Board of Directors. On February 22, 2022, the Company announced the appointment of Anthony Baldwin as Vice President, Business Development.

Private Placements

In connection with the appointment of the New Management Team, on February 2, 2022, the Company closed a non-brokered private placement of units of Lucero (the "Units") with the New Management Team, among others, for gross proceeds of $9.5 million (the "Non-Brokered Private Placement") and a brokered private placement of common shares of Lucero for gross proceeds of $45.0 million (the "Brokered Private Placement", and combined with the Non-Brokered Private Placement, the "Private Placements").

Pursuant to the Non-Brokered Private Placement, Lucero issued 23,750,000 Units at a price of $0.40 per Unit for total proceeds of $9.5 million. Each Unit is comprised of one common share of Lucero ("Common Share") and one warrant ("Warrant") entitling the holder to purchase one Common Share at a price of $0.475 per Common Share for a period of five years from the issuance date. The Warrants will vest and become exercisable as to one-third upon the 20-day volume weighted average trading price of the Common Shares (the "Trading Price") equaling or exceeding $0.67 per Common Share, an additional one-third upon the Trading Price equaling or exceeding $0.83 per Common Share and the final one-third upon the Trading Price equaling or exceeding $0.95 per Common Share. As of December 31, 2022, 15.8 million warrants are vested and exercisable.

Pursuant to the Brokered Private Placement, the Company issued 112,500,000 Common Shares at a price of $0.40 per Common Share for gross proceeds of $45.0 million. Through the Private Placements, Lucero raised total gross proceeds of $54.5 million which was used to reduce debt and for general corporate purposes, positioning the Company to execute on a disciplined corporate strategy.

The Company's two largest shareholders, FR XIII PetroShale Holdings L.P. and M. Bruce Chernoff, waived their respective rights to participate in the Private Placements in order to maintain their ownership positions and did not acquire any Common Shares or Warrants as part of the Company's Private Placements.

Results of Operations

Production

($ thousands)	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Tight oil (Bbl per day)	**6,326**	7,342	**6,564**	6,930
Shale gas (Mcf per day)	**13,218**	11,615	**12,207**	11,226
Natural gas liquids (Bbl per day)	**2,480**	1,628	**2,275**	1,747
Total (Boe per day)	**11,009**	10,906	**10,874**	10,548
Liquids percentage of total	**80%**	82%	**81%**	82%

Total production during the three months and year ended December 31, 2022 increased 1% and 3%, respectively, compared to the three months and year ended December 31, 2021 (the "Corresponding Periods"). The increases in the three months and year ending December 31, 2022, are primarily due to new production from operated wells drilled and completed during the year, offset by natural declines.

Pricing

	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Average Benchmark Prices (US$):				
Crude oil - WTI ($ per Bbl)	**$82.63**	$77.36	**$94.23**	$67.96
Natural gas - HH spot (per Mcf) (1)	**$5.94**	$4.77	**$6.37**	$3.91
Average Differential (US$):				
Crude oil - (per Bbl)	**$1.72**	($2.21)	**$1.09**	($1.63)
Natural gas - (per Mcf) (1)	**($2.01)**	($1.03)	**($1.81)**	($2.20)
Average Realized Prices (US$):				
Tight oil (per Bbl)	**$84.35**	$75.15	**$95.32**	$66.33
Shale gas (per Mcf)	**$3.93**	$3.74	**$4.56**	$1.71
Natural gas liquids (per Bbl)	**$9.76**	$20.47	**$17.37**	$12.76
Average Realized Prices (C$):				
Tight oil (per Bbl)	**$114.49**	$94.72	**$124.12**	$83.16
Shale gas (per Mcf)	**$5.34**	$4.71	**$5.93**	$2.15
Natural gas liquids (per Bbl)	**$13.25**	$25.81	**$22.61**	$16.00

(1) Includes conversion from Mmbtu to Mcf.

Benchmark commodity prices recovered throughout 2021 and into 2022. The Company's average differential for crude oil improved during the three months and year ended December 31, 2022, contributing to a significant improvement in realized tight oil prices. Crude oil pricing differentials are largely a function of global supply/demand fundamentals as well as crude oil quality, transportation and inventories.

Henry Hub benchmark natural gas prices in the three months and year ended December 31, 2022 increased compared to the Corresponding Periods, as North American and global supply/demand fundamentals provided strong pricing momentum. NGL prices in the year ended December 31, 2022, reflected the improvement in oil prices.

Revenues and Royalties

($ thousands, except where noted)	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Tight oil	**$66,635**	$63,985	**$297,373**	$210,337
Shale gas	**6,488**	5,032	**26,432**	8,799
Natural gas liquids	**3,023**	3,866	**18,777**	10,204
Petroleum and natural gas revenues	**$76,146**	$72,883	**$342,582**	$229,340
Less: royalties	**(13,281)**	(13,785)	**(63,358)**	(42,699)
Petroleum and natural gas revenues, net	**$62,865**	$59,098	**$279,224**	$186,641
Royalties as a percentage of revenue	**17%**	19%	**18%**	19%
Per Boe amounts:				
Petroleum and natural gas revenues	**$75.18**	$72.64	**$86.32**	$59.57
Less: royalties	**(13.11)**	(13.74)	**(15.96)**	(11.09)
Petroleum and natural gas revenues, net	**$62.07**	$58.90	**$70.36**	$48.48

Revenues in the three months and year ended December 31, 2022 increased 4% and 49%, respectively, compared to the Corresponding Periods. The increases were primarily due to increased realized commodity prices.

The Company's royalty rate as a percentage of revenues decreased for the three months and year ended December 31, 2022, compared to the Corresponding Periods. The decrease was primarily due to an increase in production from assets that benefit from lower royalty rates in the current period.

Realized and Unrealized Gain (Loss) on Financial Derivatives

($ thousands)	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Realized loss on financial derivatives	**($4,055)**	($20,036)	**($45,966)**	($52,694)
Realized loss on financial derivatives per Boe	**($4.00)**	($19.97)	**($11.58)**	($13.69)
Unrealized gain (loss) on financial derivatives	**$3,282**	$17,273	**$16,318**	($5,216)
Unrealized gain (loss) on financial derivatives per Boe	**$3.24**	$17.22	**$4.11**	($1.35)

In the year ended December 31, 2021, during the uncertain economic environment related to the COVID-19 pandemic, the Company entered into various financial derivatives to reinforce the Company's capital structure. As crude oil and natural gas prices subsequently recovered, the Company realized losses on its financial derivatives during the three months and year ended December 31, 2022.

Operating Expenses

($ thousands, unless otherwise noted)	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Operating expenses	**$9,438**	$7,998	**$34,695**	$28,563
Operating expenses per Boe	**$9.32**	$7.97	**$8.74**	$7.42

Operating expenses increased on both a dollar and per Boe basis, for the three months and year ended December 31, 2022, compared to the Corresponding Periods. The increases were primarily due to cost inflation, largely related to non-operated properties.

Production Taxes

($ thousands, unless otherwise noted)	**Three months ended December 31, 2022**	**Three months ended December 31, 2021**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Production taxes	**$7,003**	$5,393	**$27,715**	$16,992
Production taxes per Boe	**$6.91**	$5.37	**$6.98**	$4.41
Production taxes - % of petroleum and natural gas revenues, net	**11%**	9%	**10%**	9%

Production taxes are determined by the State of North Dakota, and depending on prevailing crude oil prices, can range between 9% and 11% of the Company's gross value of after-royalty volumes produced at the wellhead, after certain allowable exemptions. Production taxes, on both a dollar and per Boe basis, in the three months and year ended December 31, 2022 were higher than the Corresponding Periods, primarily due to higher crude oil prices.

Transportation Expenses

($ thousands, unless otherwise noted)	**Three months ended December 31, 2022**	**Three months ended December 31, 2021**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Transportation expenses	**$1,797**	$1,824	**$7,282**	$7,361
Transportation expenses per Boe	**$1.77**	$1.82	**$1.83**	$1.91

Transportation expenses associated with the Company's petroleum production are netted against the related revenue if they are incurred following the transfer of control to the entity which has purchased the commodity. If transportation costs are incurred prior to the sale of the production, such costs are reflected separately as an expense in the consolidated statement of operations and comprehensive income (loss). Transportation expenses per Boe in the three months and year ended December 31, 2022 were relatively consistent compared to the Corresponding Periods.

Operating Netbacks

($ per Boe, unless otherwise noted)	**Three months ended December 31, 2022**	**Three months ended December 31, 2021**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Petroleum and natural gas revenues	**$75.18**	$72.64	**$86.32**	$59.57
Royalties	**(13.11)**	(13.74)	**(15.96)**	(11.09)
Operating expenses	**(9.32)**	(7.97)	**(8.74)**	(7.42)
Production taxes	**(6.91)**	(5.37)	**(6.98)**	(4.41)
Transportation expense	**(1.77)**	(1.82)	**(1.83)**	(1.91)
Operating netback prior to hedging [1]	**$44.07**	$43.74	**$52.81**	$34.74
Realized loss on financial derivatives	**(4.00)**	(19.97)	**(11.58)**	(13.69)
Operating netback [1]	**$40.07**	$23.77	**$41.23**	$21.05

[1] Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

General and Administrative Expenses ("G&A")

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
General and administrative expenses	**$2,610**	$1,821	**$10,311**	$6,623
Capitalized general and administrative expenses	**(746)**	(382)	**(3,057)**	(1,172)
Net general and administrative expenses	**$1,864**	$1,439	**$7,254**	$5,451
Net general and administrative expenses per Boe	**$1.84**	$1.43	**$1.83**	$1.42

Net G&A expenses increased, on both a dollar and per Boe basis, for the three months and year ended December 31, 2022, compared to the Corresponding Periods. This was largely the result of additional administrative costs associated with the implementation of the New Management Team's corporate strategy.

Transaction Related Costs

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Transaction related costs	**-**	-	**$2,100**	-
Transaction related costs per Boe	**-**	-	**$0.53**	-

The transaction related costs in the year ended December 31, 2022 are related to severance costs and one-time administrative costs incurred to transition the New Management Team, previously described.

Depletion and Depreciation Expenses

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Depletion and depreciation expenses	**$12,892**	$11,880	**$48,757**	$46,207
Depletion and depreciation expenses per Boe	**$12.73**	$11.84	**$12.29**	$12.00

Depletion and depreciation expenses on a per Boe basis remained relatively consistent, compared to the Corresponding Periods.

Impairment Recovery

	Three months ended		Year ended	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Impairment recovery	**-**	-	**-**	($19,324)
Impairment recovery per Boe	**-**	-	**-**	($5.02)

During the second quarter of 2021, management identified indicators of impairment recovery. After evaluating the carrying amount of D&P assets versus the estimated recoverable value, the Company recognized an impairment recovery of $19.3 million, primarily due to the increase in forecast oil and gas prices at June 30, 2021. The Company's impairment recovery reflects the full prior year impairment net of the related depletion expense impact.

There were no indicators of impairment at December 31, 2022.

Finance Expenses

	Three months ended December 31,		Year ended December 31,	
($ thousands)	2022	2021	2022	2021
Senior credit facility interest	**$1,693**	$2,447	**$7,081**	$10,838
Preferred share dividends	**-**	-	**-**	4,171
Preferred share accretion, net	**-**	-	**-**	683
Decommissioning obligations accretion	**48**	119	**174**	208
Operating lease and other	**17**	19	**73**	92
Total finance expenses	**$1,758**	$2,585	**$7,328**	$15,992

In the three months and year ended December 31, 2022, finance expenses were lower compared to the Corresponding Periods, reflecting the elimination of preferred share dividends on the exchange of the Company's preferred shares for common shares in April 2021, as well as a decrease in the average drawn amount on the senior credit facility.

Share-Based Compensation Expenses

	Three months ended December 31,		Year ended December 31,	
($ thousands)	2022	2021	2022	2021
Gross share-based compensation expenses	**$2,162**	$195	**$6,434**	$1,096
Capitalized share-based compensation	**(758)**	(44)	**(2,256)**	(179)
Net share-based compensation expenses	**$1,404**	$151	**$4,178**	$917
Net share-based compensation expenses per Boe	**$1.39**	$0.15	**$1.05**	$0.24

The Company has granted restricted share bonus awards and performance share bonus awards (collectively, the "Share Bonus Awards") to certain directors, officers, and employees. Share Bonus Awards granted according to the plan vest over three years from the date of grant and expire before the end of the third year from the date of grant. Restricted share bonus awards vest pro rata, typically over a three-year period. Performance share bonus awards vest ratably over a three-year period, and their value is based on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2.0 times based on the Company's performance against specified key performance indicators. The Share Bonus Awards may be settled by the Company, in its sole discretion, in cash and/or common shares of the Company. The estimated fair value of the Share Bonus Awards is determined based on the current market value of the Company's common shares at the dates of grant and considering anticipated forfeiture rates. For purposes of valuing performance share bonus awards, the Company assumes a performance share bonus award multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations and comprehensive income (loss) over the vesting period with a corresponding increase to contributed surplus in the consolidated statement of financial position.

Net share-based compensation expenses increased in the three months and year ended December 31, 2022, primarily due to share bonus awards granted to the New Management Team and staff.

Foreign Currency Gain (Loss) and Translation Adjustment

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Foreign currency translation rates - C$/US$				
Average period exchange rate	**$1.3573**	$1.2605	**$1.3021**	$1.2537
Ending period exchange rate	**$1.3544**	$1.2637	**$1.3544**	$1.2637

The Company's consolidated financial statements are reported in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's US subsidiary are recorded in US dollars, its functional currency, as this is the primary economic environment in which the subsidiary operates. The assets, liabilities, and results of operations of the Company's US subsidiary are translated to Canadian dollars in the consolidated financial statements according to the Company's foreign currency translation policy, with any corresponding gain or loss reflected as a currency translation adjustment in other comprehensive income. From September 30, 2022 to December 31, 2022, due to a strengthening Canadian dollar relative to the US dollar, the Company recorded a currency translation loss of $9.3 million (Corresponding Period: currency translation loss of $0.9 million). In the year ended December 31, 2022, due to a weakening Canadian dollar relative to the US dollar, the Company recorded a currency translation gain of $28.4 million (Corresponding Period: currency translation gain of $0.2 million).

Taxes

For the three months and year ended December 31, 2022, the Company recorded a deferred income tax expense of $6.9 million and $29.7 million, respectively.

Liquidity and Capital Resources

Summary

The Company's capital resources consist primarily of cash flow provided by operating activities, cash and cash equivalents and availability under the senior credit facility. The Company is dependent on cash on hand, operating cash flows and equity and/or debt issuances to finance capital expenditures and property acquisitions. Borrowings are managed in relation to credit capacity and ability to generate future operating cash flows to service such debt.

The Company continuously monitors production, commodity prices and/or resulting cash flows. Should the outlook for future cash flow forecasts reflect a significantly negative trend, Lucero is capable of managing the Company's cash flows by not consenting to participate in additional drilling proposed by the operators of its non-operated properties, by reducing the Company's drilling and completion activity on its operated properties and by entering into commodity price hedge contracts. Lucero considers its current and future financial capacity and liquidity before proceeding with additional wells and other operations on the Company's operated lands.

During the year ended December 31, 2022, the Company utilized proceeds from the Private Placements and funds flow to significantly reduce the amount drawn under the senior credit facility. The senior credit facility balance was US$39.0 million at December 31, 2022 (US$143.2 million at December 31, 2021), or US$35.9 million (US$142.9 million at December 31, 2021), net of available cash of US$3.1 million (US$0.3 million at December 31, 2021). In November 2022, the available borrowing base of the senior credit facility was renewed at US$180.0 million with the next borrowing base redetermination scheduled to be completed by May 31, 2023. The Company has no other debt obligations.

Cash Flow Provided by Operating Activities

Cash flow provided by operating activities depends on several factors including commodity prices, royalty rates, production volumes, operating expenses, transportation expenses, and production taxes, as well as the impact of changes in non-cash working capital. During the three months and year ended December 31, 2022, cash flow provided by operating activities was $41.9 million and $172.6 million, respectively, compared to $17.4 million and $72.2 million, respectively, in the Corresponding Periods. Cash flow provided by operating activities increased mainly due to larger funds flow in 2022. During the three months and year ended December 31, 2022, funds flow increased by $17.1 million and $82.4 million, respectively, compared to the Corresponding Periods. The increases are primarily due to significant improvements in commodity prices, compared to the Corresponding Periods.

Financial Derivatives and Hedging Activities

The Company's results of operations and cash flow provided by operating activities are impacted by changes in market prices for crude oil, natural gas and NGLs. The Company will, from time to time, enter into various derivative instruments to mitigate a portion of its exposure to adverse market changes in commodity prices. These derivative instruments allow the Company to predict with greater certainty the total revenue it will receive, provide stability to the Company's operating cash flows for capital spending planning purposes, and protect development and acquisition economics.

As at December 31, 2022, the Company had no derivative contracts outstanding.

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Cash:				
Land retention costs	**($2)**	$98	**$311**	$114
Drilling, completions and optimizations	**16,216**	26,733	**57,004**	54,951
Equipment and facilities	**346**	2,716	**2,397**	6,757
Administrative assets	**-**	-	**212**	34
Exploration and development expenditures	**$16,560**	$29,547	**$59,924**	$61,856
Capitalized G&A	**746**	382	**3,057**	1,172
Exploration and development expenditures, including capitalized G&A	**$17,306**	$29,929	**$62,981**	$63,028
Acquisitions	**-**	-	**8,858**	-
Total capital expenditures - cash items	**$17,306**	$29,929	**$71,839**	$63,028
Non-cash:				
Capitalized share-based compensation	**758**	44	**2,256**	179
Decommissioning obligations	**769**	338	**(2,543)**	1,517
Total capital expenditures [1]	**$18,833**	$30,311	**$71,552**	$64,724

[1] Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

Capital expenditures, consisting of capitalized development activity for the year ended December 31, 2022, were funded from operating cash flows. During the year ended December 31, 2022, in addition to various well optimizations, the Company constructed a multi-well facility, drilled five (4.95 net) operated wells and completed three (2.48 net) operated wells.

During the year ended December 31, 2022, Lucero closed acquisitions of various top-up working interests in the Company's core Williston Basin area for total cash consideration of $8.9 million.

Senior Credit Facility

The Company maintains a senior revolving credit facility which is referred to as the senior credit facility in the consolidated statement of financial position. The borrowing capacity was renewed at US$180.0 million in November 2022 with the existing lending syndicate. The term out date is May 31, 2023, at which point, the facility can be further extended at the option of the lenders or converted to a one-year term loan expiring on the one year anniversary of the term out date. The amount of the facility is subject to a borrowing base test performed periodically based primarily on producing oil and natural gas reserves and using commodity prices estimated by the lenders as well as other factors. The next borrowing base redetermination is scheduled for May 2023. If a decrease in the borrowing base is determined by the senior lenders in the future, it could potentially result in a reduction to the credit facility, which may require a repayment to the lenders within 60 days, if the drawn amount exceeds the borrowing base.

The credit facility is subject to certain non-financial covenants and the Company was in compliance with all covenants under the senior credit facility as at December 31, 2022. The credit facility has no financial covenants.

As at March 9, 2023, the net amount drawn under the Senior Credit Facility was US$39.8 million representing US$47.0 million of borrowings under the Senior Credit Facility and US$7.2 million of cash on hand.

Share Capital

	Three months ended December 31,		**Year ended December 31,**	
($ thousands)	**2022**	**2021**	**2022**	**2021**
Weighted average outstanding common shares:				
Basic	**662,410,687**	521,800,232	**648,842,077**	431,950,365
Diluted	**672,207,332**	532,490,737	**672,009,827**	442,640,870
Outstanding Securities:				
Common shares	**662,410,687**	523,387,831	**662,410,687**	523,387,831
Restricted share bonus awards	**7,225,030**	2,297,872	**7,225,030**	2,297,872
Performance share bonus awards	**25,156,587**	7,803,086	**25,156,587**	7,803,086
Warrants	**23,750,000**	-	**23,750,000**	-

On closing of the Private Placements in February 2022, the Company issued 136.3 million Common Shares and 23.8 million Warrants.

As at March 9, 2023, the Company had 662,410,687 common shares issued and outstanding, 23,750,000 warrants outstanding, 25,156,587 performance share bonus awards outstanding and 7,225,030 restricted share bonus awards outstanding.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations and Other Commercial Commitments

The following is a summary of the Company's contractual obligations and commitments as at December 31, 2022:

($ thousands)	**Total**	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	**$58,662**	$58,662	-	-	-
Lease liability	**1,053**	440	310	303	-
Senior credit facility	**52,862**	-	52,862	-	-
Total	**$112,577**	$59,102	$53,172	$303	-

Off-Balance Sheet Arrangements

The Company is not involved with any contractual arrangement under which a non-consolidated entity may have an obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to a non-consolidated entity or similar arrangement that serves as credit, liquidity, or market risk support by the Company to that entity for such assets. Lucero has no obligation under financial instruments or a variable interest in a non-consolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

Critical Accounting Estimates

The timely preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

Reserve Estimates

The Company uses estimated proved and probable oil and gas reserves to deplete developed and producing ("D&P") assets, to assess for indicators of impairment or impairment reversal on each of the Company's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU. The estimation of recoverable quantities of proved and probable oil and natural gas reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on forecasted production, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs, all of which are subject to uncertainty. The Company’s proved and probable oil and gas reserves are estimated by independent third party reserve evaluators and are determined in accordance with Canadian practices and specifically in accordance with National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities, and the Canadian Oil and Gas Evaluation Handbook.

Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions made during the year. Changes in reserve estimates can affect the impairment of D&P assets, including the recovery of previously recorded impairment, the estimation of decommissioning obligations, and the amounts reported for depletion of D&P assets.

Impairment

Each quarter, management reviews indicators of impairment (and indicators of impairment recovery as applicable) including internal and external sources of information including changes to reserve estimates, drilling results, performance of the Company's oil and gas producing assets and changes in commodity prices. Significant judgment is involved when assessing such indicators of impairment (and indicators of impairment reversal) and if indicators do exist, to prepare estimates of value in use and fair value less selling costs. Related estimates include assumptions as to appropriate discount factors and future commodity prices.

Decommissioning Obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies, and the estimate of the discount rates used to determine the present value of these cash flows.

Business Combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon estimation of recoverable quantities of proved and probable reserves being acquired.

Share-based Compensation

The Company's estimate of share-based compensation expense associated with stock option grants and the value of warrants issued is dependent upon estimates of expected volatility of the Company's share price and anticipated forfeiture rates of the related securities. The Company's estimate of share-based compensation expense associated with share bonus awards is dependent on an estimate of anticipated forfeiture rates of such securities.

Deferred Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the balance sheet date and the likelihood of deferred tax assets being realized.

Derivatives

The Company's estimate of the fair value of derivative financial instruments is dependent upon estimated forward commodity prices and the volatility in those prices.

Business Conditions and Risks

The Company's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates, the effects of inflation and the ability to access debt and/or equity financing at a reasonable cost, or at all. Operational risks include the performance of the Company's properties, safety and performance risks associated with drilling and well completion activities, competition for land and services, availability of transportation for the Company's production, environmental factors, reservoir performance uncertainties, a complex regulatory environment, other safety concerns, and reliance on the operators of a portion of the Company's properties. When acquiring land, the Company uses technical and industry knowledge to evaluate potential hydrocarbon plays in order to pay what it believes are economically sound prices that will benefit Lucero's shareholders. The Company's focus is on areas where the prospects are understood by management. There is risk that the Company may not realize the anticipated benefits of acquired properties or future development thereof.

The Company minimizes operational risks by hiring experienced management and engaging experienced service providers on our operated properties and by participating with well-established operators of our non-operated properties. On our non-operated properties, we have limited ability to exercise influence over, and control the risks associated with, operations of these properties. The failure of an operator of the Company's non-operated properties to adequately perform operations, an operator's breach of the applicable agreements or regulations or an operator's failure to act in ways that are in the Company's best interests could reduce production and revenues or could create a liability for the Company due to the operator's failure to properly maintain wells and facilities or to adhere to applicable safety and environmental standards. With respect to properties that the Company does not operate:

- The operator could refuse to initiate exploration or development projects;
- If the Company proceeded with any of those projects the operator has refused to initiate, Lucero may not receive any funding from the operator with respect to that project and thus bear all the capital risk;
- The operator may initiate exploration or development projects on a different schedule than the Company would prefer, possibly resulting in lease expirations;
- The operator may propose greater capital expenditures, or proceed on a different schedule than the Company anticipated, including expenditures to drill more wells or build more facilities than the Company has funds for, which may mean that the Company cannot participate in those projects or participate in a substantial amount of the revenues from those projects;
- The operator may not have adequate expertise or resources to perform operations efficiently.

(continued)

Any of these events, and the resulting activities, could significantly and adversely affect anticipated exploration and development activities conducted on its properties which the Company does not operate, and the results of those activities.

Lucero's focus is on areas and geological formations in which the prospects are understood by management. Technological tools are extensively used to increase the probability of success and reduce risk.

Lucero relies on appropriate sources of funding to support the various stages of the Company's business strategy. There is no guarantee that external sources of financing will be available in the future, on favorable terms or at all. The various sources of funding include:

- Internally-generated funds flow from operations;
- New equity, if available on acceptable terms which may be utilized to fund acquisitions, to expand capital programs when appropriate and to repay any outstanding debt;
- Debt, in the form of traditional oil and gas borrowing base bank facilities, and/or subordinated debt which typically has a higher cost than bank debt; and
- Disposition of non-core assets.

The Company is exposed to commodity price and market risk for our principal products of tight oil, shale gas, and natural gas liquids. Commodity prices are influenced by a wide variety of factors, most of which are beyond Lucero's control. In addition, the Company is exposed to fluctuations in the differentials between market price benchmarks and what is received in our geographic area of operation for our production. To manage this risk, the Company may enter financial derivative contracts for hedging purposes. These derivative contracts may relate to crude oil and natural gas prices, as well as foreign exchange and interest rates. When considering if derivative contracts are warranted, the Company may also, from time to time, enter fixed physical contracts to hedge the realized prices from its production. The Company monitors the cost and associated benefit of these instruments and contracts as well as any debt levels and utilization rates on debt lines. Although the Company's intent in entering such derivative contracts is to manage its exposure to fluctuations in commodity prices, such contracts may limit the Company's ability to fully realize the benefits of higher market prices.

Risk of cost inflation subjects the Company to potential erosion of product netbacks and returns from well drilling and completion activities. For example, increasing costs of crude oil and natural gas production equipment and services can inflate operating costs and/or drilling and well completion expenditures. In addition, increasing prices for undeveloped land can inflate costs of both asset and corporate acquisitions.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a reasonable cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company and the operators of its non-operated properties attempt to mitigate this risk by developing long-term relationships with suppliers and contractors.

Demand for crude oil, NGLs and natural gas produced by the Company exists within Canada and the United States; however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are currently primarily affected by factors restricted to the North American market. Demand for natural gas liquids is influenced mainly by the demand for petrochemicals in North American and offshore markets. Lucero mitigates the above-mentioned risks as follows:

- Lucero and the operators of certain of our properties attempt to explore for and produce oil that is high quality (light, sweet), mitigating the Company's exposure to adverse quality differentials;
- Natural gas production will generally be connected to established pipeline infrastructure or other local uses for the natural gas may be found; and
- Financial derivative instruments or fixed price physical contracts may be used where appropriate to manage commodity price volatility.

The Company is exposed to operational risks in terms of engaging service suppliers and drilling contractors, the normal oilfield risks of dangerous operations and the potential for discharge of hazardous substances into the environment, arranging for marketing of the Company's tight oil and shale gas production, as well as financing the costs of completing wells and recovering a share of those costs from our non-operating partners. The Company has and will continue to engage appropriate resources to ensure these risks are managed to the extent possible.

(continued)

Lucero owns leases from individual mineral owners (Fee Leases), the State of North Dakota acting by and through the Board of University and School Lands (State Leases), individual native owners with approval from the Secretary of the Interior of the Bureau of Indian Affairs ("Allotted Leases" or BIA Leases), and the Bureau of Land Management (Federal Leases). Lucero adheres to the National Environmental Policy Act in its operations and is under the regulatory authority of the North Dakota Industrial Commission, the Bureau of Indian Affairs ("BIA"), the Bureau of Land Management and the Department of the Interior's Office of Natural Resources Revenue. The Allotted Leases are held in trust by the United States for the benefit of individual native owners and are subject to restrictions against alienation or encumbrance without approval of the Secretary of the Interior. All the Company's Allotted Leases are located within the boundaries of the Fort Berthold Indian Reservation ("FBIR") which makes the Company subject to unique regulations that are not applicable to lands outside the FBIR. The Company mitigates regulatory risk by maintaining good relationships with the BIA and local residents, and staying abreast of current regulations. Lucero's ability to execute projects and realize the benefits therefrom is subject to factors beyond our control, including changes to regulations promulgated by any of the above entities.

Environmental Regulation and Risk

General Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with exacting standards in order to protect the environment, its employees and consultants, and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. If the Company becomes subject to environmental liabilities without such insurance, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

Climate Change Risks

Our exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require us to comply with US federal and/or state GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate our effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. Some of our significant facilities may ultimately be subject to future regional, and/or US federal climate change regulations to manage GHG emissions. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties. The Company has undertaken several initiatives, including continuous flaring reduction initiatives, transporting crude oil by pipeline rather than by truck, and connecting natural gas to pipeline connections to reduce GHG emissions from its operations. Climate change and related regulation and public response to such items may negatively impact demand for oil, natural gas and NGLs in the future, and could reduce market prices for our commodities.

Additional Risk Information

Additional information regarding risks including, but not limited to, business risks the Company may be subject to, are available in the Company's Annual Information Form, a copy of which may be accessed through SEDAR website (www.sedar.com).

Additional Information

Additional information can be obtained by contacting the Company at Lucero Energy Corp., Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 or by email at info@lucerocorp.com. Additional information is also available on www.sedar.com or www.lucerocorp.com.

Summary of Quarterly and Annual Results

(in $000's of dollars, except per share amounts)	**Q4 2022**	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021 (1)
Petroleum and natural gas revenues, net of royalties	**62,865**	70,698	76,661	69,000	59,098	55,530	36,561	35,452
Net income (loss)	**18,995**	29,812	25,824	5,888	25,065	14,954	3,578	(44,424)
Per share – basic	**0.03**	0.05	0.04	0.01	0.05	0.03	0.01	(0.24)
Per share – diluted	**0.03**	0.04	0.04	0.01	0.05	0.03	0.01	(0.24)
Funds flow (2)	**37,015**	41,498	35,017	33,601	19,962	21,137	11,211	12,432
Per share – basic	**0.06**	0.06	0.05	0.06	0.04	0.04	0.02	0.07
Per share – diluted	**0.06**	0.06	0.05	0.05	0.04	0.04	0.02	0.06
Funds flow, excluding transaction related costs (2)	**37,015**	41,498	35,017	35,701	19,962	21,137	11,221	12,432
Per share – basic	**0.06**	0.06	0.05	0.06	0.04	0.04	0.02	0.07
Per share – diluted	**0.06**	0.06	0.05	0.06	0.04	0.04	0.02	0.06
Cash provided by operating activities (3)	**41,903**	47,791	44,634	38,242	17,449	23,884	15,005	15,893
Per share – basic	**0.07**	0.07	0.07	0.06	0.03	0.05	0.03	0.08
Per share – diluted	**0.07**	0.07	0.07	0.06	0.03	0.04	0.03	0.08
Total assets	**612,527**	623,220	571,535	569,159	558,035	547,209	520,611	500,410
Senior credit facility	**52,862**	78,575	100,175	127,715	180,393	178,765	184,668	218,411
Net debt (2)	**77,426**	99,192	107,451	121,092	196,067	185,864	182,351	318,285

(footnotes on next page)

(in $000's of dollars, except per share amounts)	**Year ended Dec 31, 2022**	Year ended Dec 31, 2021 (1)	Year ended Dec 31, 2020 (1)
Petroleum and natural gas sales, net of royalties	**279,224**	186,641	117,251
Net income (loss)	**80,519**	(828)	(61,985)
Per share – basic	**0.12**	-	(0.33)
Per share – diluted	**0.12**	-	(0.33)
Funds flow (2)	**147,131**	64,742	48,645
Per share – basic	**0.23**	0.15	0.26
Per share – diluted	**0.22**	0.15	0.25
Cash provided by operating activities (3)	**172,570**	72,230	69,991
Per share – basic	**0.27**	0.17	0.37
Per share – diluted	**0.26**	0.16	0.36
Total assets	**612,527**	558,035	502,877
Senior credit facility	**52,862**	180,393	221,915
Net debt (2)	**77,426**	196,067	326,906

(1) The diluted number of shares is equivalent to the basic number of shares due to stock options, performance and restricted share bonus awards, and/or warrants being antidilutive in periods where the Company has a "net loss". Therefore, the diluted per share amounts in these periods are equivalent to the basic per share amounts.

(2) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

(3) Cash provided by operating activities is determined in accordance with IFRS and includes changes in non-cash working capital.

Revenues in the fourth quarter of 2022 decreased 12% over the third quarter of 2022 due primarily to a decrease in realized oil prices. Cash flow provided by operating activities decreased in the fourth quarter of 2022 versus the prior quarter primarily due to the decrease in realized oil prices, offset by decreased realized hedging losses.

Revenues in the third quarter of 2022 decreased 8% over the second quarter of 2022 due primarily to a decrease in realized oil prices. Cash flow provided by operating activities increased in the third quarter of 2022 versus the prior quarter primarily due to decreased realized hedging losses.

Revenues in the second quarter of 2022 increased 12% over the first quarter of 2022 due primarily to an increase in realized oil prices, combined with an increase in production volumes. Net income also improved in the second quarter of 2022 mainly as a result of pricing and production volume increases. Cash flow provided by operating activities increased in the second quarter of 2022 versus the prior quarter due to improved realized pricing and increased production, offset by increased realized hedging losses.

Revenues in the first quarter of 2022 increased 16% over the fourth quarter of 2021 due primarily to an increase in realized oil prices, somewhat offset by a decrease in production volumes. Cash flow provided by operating activities increased in the first quarter of 2022 versus the prior quarter due to improved realized pricing and decreased realized hedging losses, offset by decreased production.

Revenues in the fourth quarter of 2021 increased 6% over the third quarter of 2021 due primarily to an increase in realized oil prices, somewhat offset by a decrease in production volumes. Net income also improved in the fourth quarter of 2021 mainly as a result of pricing increases. Cash flow provided by operating activities decreased in the fourth quarter of 2021 versus the prior quarter due to decreased volumes and increased realized hedging losses, offset by improved realized pricing.

Revenues in the third quarter of 2021 increased 52% over the second quarter of 2021 due primarily to a 27% increase in production volumes and increased commodity pricing. Adjusted EBITDA and net income also improved in the third quarter of 2021 mainly as a result of production and pricing increases. Cash flow provided by operating activities increased in the third quarter 2021 of versus the prior quarter due to improved volumes and pricing.

Revenues in the second quarter of 2021 remained consistent with the prior period as improved pricing was partially offset by a minor production decrease. Cash flow from operating activities and adjusted EBITDA were negatively impacted by the realized loss on financial derivatives, increased operating costs, and increased production taxes.

In the first quarter of 2021, revenues and cash flow from operating activities increased versus the prior quarter primarily as a result of improved pricing while Adjusted EBITDA remained relatively consistent due to the offsetting impacts of a higher operating netback and lower production.

Financial Statements

As at and for the years ended

December 31, 2022 and 2021

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel (403) 691-8000
Fax (403) 691-8008
www.kpmg.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lucero Energy Corp.

Opinion

We have audited the consolidated financial statements of Lucero Energy Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of operations and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable oil and gas reserves on developed and producing ("D&P") assets

Description of the matter

We draw attention to note 2, note 3 and note 7 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete D&P assets, to assess for indicators of impairment or impairment reversal on the Entity's cash generating unit ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. The Entity has $577 million of D&P assets as at December 31, 2022. The Entity depletes its net carrying value of its D&P assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Depletion and depreciation expense was $48 million for the year ended December 31, 2022.

The estimate of proved and probable oil and gas reserves requires the expertise of independent third party reserve evaluators and includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty rates
- Forecasted future development costs.

The Entity engages independent third party reserve evaluators to estimate the proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on D&P assets as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with IFRS as issued by the IASB.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

KPMG

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commission.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

KPMG

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Murray Suey.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 9, 2023

LUCERO ENERGY CORP.

Consolidated Statements of Financial Position
(in $000's of Canadian dollars)

	Note	**As at December 31, 2022**	As at December 31, 2021
Assets			
Cash and cash equivalents		**$4,158**	$340
Accounts receivable	5	**28,420**	39,617
Prepaid expenses and deposits		**1,520**	383
Total current assets		**34,098**	40,340
Restricted cash		**217**	298
Right of use assets	6	**901**	1,006
Property, plant and equipment	7	**577,311**	516,391
Total non-current assets		**578,429**	517,695
Total assets		**$612,527**	$558,035
Liabilities			
Accounts payable and accrued liabilities	8	**$58,662**	$56,014
Financial derivative liability	17	**-**	15,544
Lease liability	6	**440**	345
Total current liabilities		**59,102**	71,903
Senior credit facility	8	**52,862**	180,393
Lease liability	6	**613**	780
Decommissioning obligations	9	**5,993**	7,971
Deferred tax liability	15	**30,553**	-
Total non-current liabilities		**90,021**	189,144
Total liabilities		**$149,123**	$261,047
Shareholders' Equity			
Common shares	11	**$418,566**	$366,730
Warrants	11	**2,342**	-
Contributed surplus		**9,888**	6,596
Retained earnings (deficit)		**5,020**	(75,499)
Accumulated other comprehensive income (loss)		**27,588**	(839)
Total equity		**463,404**	296,988
Total liabilities and equity		**$612,527**	$558,035

Key management personnel compensation (note 16)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board

(signed)

Brett Herman
CEO, Director

(signed)

David Rain
Director

LUCERO ENERGY CORP.

Consolidated Statements of Operations and Comprehensive Income (Loss)
(in $000's of Canadian dollars, except per share amounts)

	Note	Year ended December 31, 2022	2021
Revenues			
Petroleum and natural gas revenues	12	**$342,582**	$229,340
Royalties		**(63,358)**	(42,699)
Petroleum and natural gas revenues, net of royalties		**279,224**	186,641
Realized loss on financial derivatives	17	**(45,966)**	(52,694)
Unrealized gain (loss) on financial derivatives	17	**16,318**	(5,216)
Petroleum and natural gas revenues, net of royalties and derivatives		**249,576**	128,731
Expenses			
Operating		**34,695**	28,563
Production taxes		**27,715**	16,992
Transportation		**7,282**	7,361
General and administrative		**7,254**	5,451
Transaction related costs		**2,100**	-
Finance	14	**7,328**	15,992
Share-based compensation		**4,178**	917
Depletion and depreciation	6, 7	**48,757**	46,207
Impairment recovery	7	**-**	(19,324)
Loss on modification of preferred shares	10	**-**	27,400
		139,309	129,559
Income (loss) before income taxes		**110,267**	(828)
Deferred income tax expense	15	**29,748**	-
Net income (loss)		**$80,519**	($828)
Currency translation adjustment		**28,427**	193
Comprehensive income (loss)		**$108,946**	($635)
Net income (loss) per share:			
Basic and diluted	13	**$0.12**	-

See accompanying notes to the consolidated financial statements

LUCERO ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity
(in $000's of Canadian dollars)

	Common shares	Warrants	Preferred share equity component	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at Dec 31, 2020	$198,925	-	$7,510	$6,968	($74,671)	($1,032)	$137,700
Settlement of share bonus awards	833	-	-	(1,468)	-	-	(635)
Exercise of stock options	39	-	-	-	-	-	39
Share-based compensation, gross	-	-	-	1,096	-	-	1,096
Loss on modification of preferred shares	-	-	27,400	-	-	-	27,400
Conversion of preferred shares	136,933		(34,910)	-	-	-	102,023
Rights offering	5,900		-	-	-	-	5,900
Private placements	24,100		-	-	-	-	24,100
Net loss	-		-	-	(828)	-	(828)
Other comprehensive income	-	-	-	-	-	193	193
Balance at Dec 31, 2021	**$366,730**	**-**	**-**	**$6,596**	**($75,499)**	**($839)**	**$296,988**
Balance at Dec 31, 2021	$366,730	-	-	$6,596	($75,499)	($839)	$296,988
Settlement of share bonus awards	1,913	-	-	(3,142)	-	-	(1,229)
Share-based compensation, gross	-	-	-	6,434	-	-	6,434
Issued pursuant to the Private Placements	52,158	2,342	-	-	-	-	54,500
Share issue costs	(2,235)	-	-	-	-	-	(2,235)
Net income	-		-	-	80,519	-	80,519
Other comprehensive income	-	-	-	-	-	28,427	28,427
Balance at Dec 31, 2022	**$418,566**	**$2,342**	**-**	**$9,888**	**$5,020**	**$27,588**	**$463,404**

See accompanying notes to the consolidated financial statements

LUCERO ENERGY CORP.

Consolidated Statements of Cash Flows
(in $000's of Canadian dollars)

	Note	Year ended December 31, 2022	2021
Operating activities			
Net income (loss) for the year		**$80,519**	($828)
Depletion and depreciation	6, 7	**48,757**	46,207
Impairment recovery	7	**-**	(19,324)
Loss on modification of preferred shares	10	**-**	27,400
Deferred income tax expense	15	**29,748**	-
Unrealized (gain) loss on financial derivatives	17	**(16,318)**	5,216
Share-based compensation		**4,178**	917
Finance expenses - non-cash	14	**247**	5,154
Finance expenses - cash	14	**7,081**	10,838
Change in non-cash working capital	18	**18,358**	(3,350)
Cash provided by operating activities		**172,570**	72,230
Investing activities			
Additions to property, plant and equipment	7	**(62,981)**	(63,028)
Acquisitions	7	**(8,858)**	-
Change in non-cash working capital	18	**(7,044)**	10,992
Cash used in investing activities		**(78,883)**	(52,036)
Financing activities			
Repayment to senior credit facility, net		**(134,350)**	(38,536)
Debt issuance costs		**570**	(569)
Payment of interest	18	**(7,096)**	(11,188)
Payment of lease obligations	6	**(547)**	(568)
Proceeds from the Private Placements	11	**54,500**	29,271
Settlement of share awards	11	**(1,229)**	(635)
Proceeds from exercise of stock options		**-**	39
Share issue costs	11	**(2,235)**	-
Cash used in financing activities		**(90,387)**	(22,186)
Change in cash and cash equivalents		**3,300**	(1,992)
Effect of foreign exchange rate changes		**518**	(498)
Cash and cash equivalents, beginning of year		**340**	2,830
Cash and cash equivalents, end of year		**$4,158**	$340

See accompanying notes to the consolidated financial statements

LUCERO ENERGY CORP.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2022 and December 31, 2021
(in $000's of Canadian dollars, unless otherwise noted)

1. Description of Business

Lucero Energy Corp. ("Lucero" or the "Company") is an independent oil company focused on the acquisition, development, and production of oil-weighted assets in the Bakken and Three Forks formations in the Williston Basin area of North Dakota. On May 24, 2022, the Company changed it's name from PetroShale Inc. to Lucero Energy Corp. The Company's common shares are listed on the TSX Venture Exchange under the "LOU" ticker symbol.

The Company has corporate offices located at Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

2. Basis of Presentation

(a) Basis of Measurement and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements. The Company's accounting policies have been applied consistently for all periods presented in these consolidated financial statements.

These consolidated financial statements were approved by the Company's Board of Directors on March 9, 2023.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, PetroShale (US), Inc. The Company's accounts reflect the proportionate share of the assets, liabilities, revenues, expenses, and cash flows from the Company's oil and gas activities that are conducted jointly with third parties. In preparing the consolidated financial statements, all intercompany transactions have been eliminated.

(c) Functional and Presentation Currency

The Company's consolidated financial statements are reported in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's US subsidiary are recorded in US dollars, as this is the primary economic environment in which this subsidiary operates. The US subsidiary has a US dollar functional currency. In translating the financial results from US dollars to Canadian dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the consolidated statement of financial position; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and changes in shareholders' equity are translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the Canadian dollar presentation currency are included in other comprehensive income.

Transactions of the US subsidiary that are denominated in a currency other than the US dollar are translated to the US dollar using the following method: monetary assets and liabilities are translated at the exchange rate in effect at the date of the consolidated statement of financial position; non-monetary assets and liabilities are translated at the exchange rate on the date such assets or liabilities are assumed; and revenues and expenses are translated at the average rate for the period. Realized gains and losses resulting therefrom are reflected in the consolidated statement of operations as foreign exchange gain or loss.

(d) Use of Estimates, Judgments and Assumptions

The timely preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates, judgments, and assumptions.

(continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and on a prospective basis. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the consolidated financial statements. These underlying assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances, and are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained, and as the Company's operating environment changes, including considerations related to environmental regulations.

Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

Identification of cash generating units

The Company's assets are aggregated into cash generating units for the purpose of calculating impairment. The aggregation of assets into a cash generating unit ("CGU" or "CGUs") is based on an assessment of the unit's ability to generate independent cash inflows. The determination of individual CGUs is based on management's judgment regarding shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The Company currently has one CGU.

Impairment of property, plant and equipment

Judgments are required to assess when impairment, or impairment reversal, indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of tight oil and shale gas reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of undeveloped land and other relevant assumptions.

Deferred income taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

(e) Key Sources of Estimation Uncertainty

The Company faces uncertainties related to future environmental laws and climate-related regulations, which could affect the Company's financial position and future earnings. A number of variables and assumptions used to determine the estimated recoverable amounts of the Company's oil and gas assets could be impacted. The unpredictable nature, timing and extent of climate-related initiatives presents various risks and uncertainties, including to management's judgements, estimates and assumptions that affect the application of accounting policies. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

The following are key estimates and assumptions made by management affecting the measurement of balances and transactions in the consolidated financial statements:

Reserve estimates

The Company uses estimated proved and probable oil and gas reserves to deplete developed and producing ("D&P") assets, to assess for indicators of impairment or impairment reversal on the Company's CGU and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. The estimation of recoverable quantities of proved and probable oil and gas reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on forecasted production, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty rates and forecasted future development costs, all of which are subject to uncertainty. The Company's proved and probable oil and gas reserves are estimated by independent, third party reserve evaluators and are determined in accordance with Canadian practices and specifically in accordance with National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities, and the Canadian Oil and Gas Evaluation Handbook.

(continued)

Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions made during the year. Changes in reserve estimates can affect the impairment of D&P assets, including the reversal of previously recorded impairment, the estimation of decommissioning obligations and the amounts reported for depletion and depreciation of D&P assets.

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proved and probable reserves being acquired.

Share-based compensation

The Company's estimate of share-based compensation expense associated with stock option grants and the value of warrants issued is dependent upon estimates of expected volatility of the Company's share price and anticipated forfeiture rates of the related securities. The Company's estimate of share-based compensation expense associated with share bonus awards is dependent on an estimate of anticipated forfeiture rates of such securities.

Deferred income taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the balance sheet date and the likelihood of deferred tax assets being realized.

Derivatives

The Company's estimate of the fair value of derivative financial instruments is dependent upon estimated forward commodity prices and the volatility in those prices.

3. Significant accounting policies

(a) Business Combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the consolidated statement of operations and comprehensive income.

(b) Revenue Recognition

Revenues associated with the production and sale of petroleum products owned by the Company are recognized at the point in which control of the products is transferred to the buyer, which may be when the production enters that party's pipeline or processing facility. Processing or transportation costs associated with petroleum production are netted against the related revenue if they are incurred following the transfer of control to the entity who has purchased the commodity. If transportation or processing costs are incurred prior to the sale of the relevant commodity, such costs are reflected separately as an expense in the consolidated statement of operations and comprehensive income.

In addition, the Company is required to evaluate its arrangements with its joint venture partners to determine if the Company acts as the principal or as an agent in respect of the sale of the partners' interest in production. In making this evaluation, management considers whether the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the products, its ability to establish prices or assumption of inventory risk. In the Company's case, it is acting in the capacity of an agent rather than as a principal in commodity sales transactions on its operated properties, and so revenue is recognized on a Company net basis.

(c) Cash and Cash Equivalents

The Company considers investments in all highly liquid instruments with original maturities of three months or less at the date of purchase to be cash equivalents. The Company maintains cash in accounts that may not be federally insured beyond certain limits; however, the Company has not experienced any losses in such accounts and believes there is no exposure to any significant credit risk.

(d) Leased Assets

At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date. The assets are depreciated over the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of future economic benefits.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease components are included in the present value calculation of lease payments, with non-lease components expensed as incurred. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease obligation. The lease obligation is subsequently measured at amortized cost using the effective interest rate method.

(continued)

(e) Property, Plant and Equipment ("PP&E")

The Company has two categories of PP&E: Developed and Producing assets ("D&P assets") and Other PP&E assets. D&P assets include capital costs (i) related to drilling projects where the drilling location is already determined to hold proved and probable oil and gas reserves, (ii) incurred to improve an already technically feasible and commercially viable well, and (iii) related to facilities and equipment projects. Other PP&E includes furniture, fixtures, leasehold improvements, software, and office equipment. For presentation purposes, both D&P assets and Other PP&E are included in the PP&E category on the consolidated statement of financial position.

(i) Recognition and measurement

PP&E is measured at cost less accumulated depreciation and depletion and accumulated impairment losses. For the purposes of determining depreciation and depletion, when significant parts of PP&E have different useful lives, they are accounted for separately so that depreciation and depletion rates appropriately reflect useful lives.

Gains and losses on disposal of PP&E, including property swaps and farm-outs of oil and gas interests, are determined by comparing the proceeds from disposal with the carrying amount of the PP&E sold, and are recognized on a net basis in profit or loss.

The Company depletes its net carrying value of D&P assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Proved and probable oil and gas reserves are expressed on a barrels of oil equivalent (“Boe”) basis where natural gas volumes are converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. The Company engages independent, third party reserve evaluators to estimate the proved and probable oil and gas reserves.

Depreciation for substantially all other property, plant and equipment is provided using the straight-line method based on the estimated useful lives of assets less any estimated residual value. The useful lives of assets are estimated based upon the period the asset is expected to be available for use by the Company. Residual values are based upon the estimated amount that would be obtained on disposal; net of any costs associated with the disposal. Other property, plant and equipment held under finance leases are depreciated over the shorter of the lease term and the estimated useful life of the asset.

Depreciation and depletion rates for all capitalized costs associated with the Company’s activities are reviewed at least annually, or when events or conditions occur that impact capitalized costs, reserves, and estimated service lives.

(ii) Capitalized overhead

The Company capitalizes to D&P assets certain directly attributable general and administrative costs, including share-based compensation, associated with employees and consultants involved in acquiring licenses or other approvals and drilling, completion, and construction activities on the Company’s operated lands.

(iii) Impairment

For the purposes of impairment testing, assets are grouped into the smallest group of assets that generate independent cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

Impairment testing of PP&E is performed as facts and circumstances suggest by comparing the carrying amount of D&P assets to their recoverable amount. The recoverable amount is the greater of (i) the assets’ value in use, and (ii) its fair value less selling costs. In assessing value in use for D&P assets, the estimated future cash flows from the production of proved and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(continued)

Impairment losses recognized in prior periods are assessed at each reporting date to evaluate if those losses have decreased or no longer exist. If those impairment losses have decreased or no longer exist (recovered), they are reversed accordingly. Previously recognized impairment losses may be recovered in future reporting periods due to changes in estimates used to determine the recoverable amount. An impairment loss recovery is recorded only to the extent that the PP&E carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. Impairment losses and recoveries are recorded in the consolidated statement of operations and comprehensive income.

(iv) Subsequent costs

Subsequent costs are capital costs incurred to improve an existing D&P asset (such as a well) that is technically feasible and commercially viable. These costs are capitalized as D&P assets only if they increase the future economic benefits of the asset. All other expenditures are expensed in the consolidated statement of operations and comprehensive income as incurred. These improvement costs include costs of further developing proved and probable reserves or enhancing production. The costs of routine maintenance of D&P assets are recognized in the consolidated statement of operations and comprehensive income as incurred. The carrying value of any replaced or sold component is derecognized.

(f) Decommissioning Obligations

An obligation is recognized if, as a result of a past event, the Company has a future legal or constructive obligation resulting from the retirement and reclamation of tangible long-lived assets and this obligation can be reliably estimated. The obligation is measured at the present value of management's best estimate of the expected expenditures required to settle this obligation and is recorded in the period the related assets are put into use with a corresponding increase to the carrying amount of the related assets. This increase in capitalized costs is depleted and depreciated on a basis consistent with the underlying assets. Subsequent changes in the estimated fair value of the obligation are capitalized and depleted over the remaining useful life of the underlying asset.

The obligation is carried in the consolidated statement of financial position at its discounted present value and is accreted over time for the change in its present value. The obligation is discounted at a rate that reflects a current market assessment of the time value of money and the risks specific to the obligation. Accretion of the obligation is included in finance expense in the consolidated statement of operations and comprehensive income.

(g) Income Taxes

Current income taxes are measured at the amount expected to be payable on taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period.

The Company follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of statement of financial position items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(continued)

(h) Share-based Compensation

The Company uses the fair value method to recognize the cost associated with stock options granted to employees, directors, and other service providers. The fair value of the stock options granted is measured using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Under the fair value method, the Company recognizes estimated compensation expense related to stock options over the vesting period of the options granted, with the related credit being charged to contributed surplus. Fair value is measured at the grant date and each vesting tranche is recognized using the graded vesting method over the period during which the options vest. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Upon exercise of any stock options, amounts previously credited to contributed surplus are reversed and credited to share capital.

Share bonus awards to employees, directors and other service providers are measured at the market share price as at the date of grant. A forfeiture rate is estimated on the grant date and the related compensation expense is recognized over the vesting period of the share bonus awards, using the graded vesting method, with the related credit being charged to contributed surplus.

(i) Earnings Per Share

Basic earnings per common share are calculated by dividing the net earnings for the period by the weighted average number of common shares outstanding in each respective period. Diluted earnings per common share reflect the maximum possible dilution from other securities, if dilutive.

(j) Financial Instruments

<u>Non-derivative financial assets and liabilities</u>

These comprise cash and cash equivalents including bank overdrafts, restricted cash, accounts receivable, accounts payable and accrued liabilities, and the senior credit facility. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

- Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of outstanding bank overdrafts. These balances are reflected at cost.
- Restricted cash in the consolidated statement of financial position consists of bank deposits held in escrow related to bonding obligations. These balances are reflected at cost plus accrued interest.
- Other non-derivative financial instruments, such as the senior credit facility, accounts receivable, and accounts payable and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses.

(continued)

Derivative financial instruments

The Company may enter into certain financial derivative contracts in order to manage its exposure to market risks from fluctuations in commodity prices, interest rates and foreign exchange rates. These instruments are not used for trading or speculative purposes. The Company will not designate its financial derivative contracts as effective accounting hedges, and thus will not apply hedge accounting, even though the Company considers all commodities contracts to be economic hedges. As a result, all financial derivative contracts will be classified as fair value through profit or loss and recorded in the consolidated statement of financial position at fair value with changes in fair value recognized in net income. Related transaction costs such as trading commissions will be recognized in the consolidated statement of operations when incurred.

Forward physical delivery and sales contracts of crude oil and natural gas products are entered into in the normal course of business and therefore not recorded at fair value in the consolidated statement of financial position. These physical delivery contracts are not considered to be derivative financial instruments or hedges. Settlements on these physical delivery contracts are recognized in petroleum and natural gas revenues in the consolidated statement of operations.

(k) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants and share options are recognized as a deduction from equity, net of any tax effects.

(l) Preferred Share Compound Financial Instrument

Preferred shares which included both an equity conversion feature and a redemption obligation on the part of the Company are considered a compound financial instrument for accounting purposes. Such an instrument requires the Company to value each of the liability and equity residual components of the instrument and present them separately on the consolidated statement of financial position. The Company determines the fair value of the liability component by discounting contractual dividend and redemption payments over the term of the preferred shares at the rate of interest that would apply to a similar financial instrument without a conversion option. The liability component is presented as “preferred share obligation” under non-current liabilities on the consolidated statement of financial position and the equity residual component is presented as “preferred share equity component” under shareholders’ equity on the consolidated statement of financial position. Related transaction and issuance costs reduce the carrying amounts of each of the liability and equity residual components on a pro rata basis. The liability component is accreted to the redemption amount of the preferred shares over the term of the preferred shares to maturity, with the related accretion expense included in finance expense on the consolidated statement of operations.

(m) Comprehensive Income

Comprehensive income consists of net earnings and other comprehensive income (loss) (“OCI”). OCI is comprised of the change in the fair value of any derivative instruments accounted for as effective hedges and, the exchange gains and losses arising from the translation of foreign operations with a functional currency that is not Canadian dollars. Accumulated OCI is presented in the consolidated statement of financial position under shareholders’ equity.

(continued)

4. Determination of fair values

Several of the Company's accounting policies require a determination of fair value for certain assets and liabilities. Fair value for measurement or disclosure purposes is determined on the following basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques include the market, income, and cost approaches. The market approach uses information generated by market transactions involving identical or comparable assets or liabilities; the income approach converts estimated future amounts to a present value; and the cost approach is based on the amount that currently would be required to replace an asset.

The Company is required to classify its financial instruments within a hierarchy that prioritizes the inputs to fair market value. The three levels of the fair value hierarchy are:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3: Inputs that are not based on observable market data.

<u>Property, plant and equipment</u>

The fair value of property, plant and equipment recognized in a business combination is based on market value. The market value of PP&E is the estimated amount for which PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted with knowledge and prudence and without compulsion. The market value of crude oil and natural gas interests included in PP&E is estimated with reference to the discounted future cash flows expected to be derived from crude oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

<u>Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities</u>

The fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and senior loan are estimated as the present value of related future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2022 and 2021, the fair value of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying value due to their short-term maturity.

(continued)

(in $000's of Canadian dollars, unless otherwise noted)

Derivatives

The Company does not engage in the use of any derivative instruments for speculative purposes. If the Company enters into any contracts for the future delivery of non-financial assets, these are done in accordance with its expected sale requirements. As such, these contracts are not considered to be derivative instruments and have not been recorded at fair value in the consolidated financial statements. As the Company delivers petroleum products in accordance with the terms of these contracts, any associated revenue will be recorded as petroleum and natural gas revenues. The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the consolidated statement of financial position date, using the remaining underlying amounts and a risk-free interest rate. The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices, and interest rates. The Company classifies its derivative financial instruments as Level 2 in the fair value hierarchy.

Share-based compensation

The fair value of share-based awards is measured using current market value at the related grant date. Measurement inputs include current market value of the Company's shares with consideration of an expected forfeiture rate.

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility of the underlying share price (based on historical experience), weighted average expected life of the option (based on historical experience and general option holder behavior), expected dividends, forfeiture rate and the risk-free interest rate (based on government bonds).

Warrants

The fair value of warrants is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the warrant, expected volatility of the underlying share price (based on historical experience), weighted average expected life of the warrant (based on historical experience and general option holder behavior), forfeiture rate and the risk-free interest rate (based on government bonds).

Senior credit facility

The fair value of the Senior Credit Facility approximates the carrying value as it bears a floating rate of interest and the margin charged by the lenders is indicative of current credit spreads.

5. Accounts Receivable

	December 31, 2022	December 31, 2021
Accounts receivable - petroleum and natural gas	**$25,230**	$31,951
Accounts receivable - joint interest billing and other	**3,190**	7,666
Total accounts receivable	**$28,420**	$39,617

LUCERO ENERGY CORP.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2022 and December 31, 2021
(in $000's of Canadian dollars, unless otherwise noted)

6. Right-of-Use Assets and Lease Liability

The Company's right of use assets and lease liability relate to leases for office space in Calgary and Denver.

Right of use assets

Balance at December 31, 2020	$1,529
Depreciation	(509)
Effect of foreign currency rate changes	(14)
Balance at December 31, 2021	$1,006
Additions	338
Depreciation	(498)
Effect of foreign currency rate changes	55
Balance at December 31, 2022	**$901**

Lease liability

Balance at December 31, 2020	$1,617
Payments	(568)
Lease interest expense	92
Effect of foreign currency rate changes	(16)
Balance at December 31, 2021	$1,125
Additions	338
Payments	(547)
Lease interest expense	73
Effect of foreign currency rate changes	64
Balance at December 31, 2022	**$1,053**

7. Property, Plant and Equipment

	Developed and producing	Other	Total
Balance at December 31, 2020	$480,644	$20	$480,664
Additions to property, plant and equipment	62,994	34	63,028
Capitalized share-based compensation	179	-	179
Change in decommissioning obligations	1,517	-	1,517
Impairment recovery	19,324	-	19,324
Depletion and depreciation	(45,671)	(27)	(45,698)
Effect of foreign currency rate changes	(2,623)	-	(2,623)
Balance at December 31, 2021	516,364	27	516,391
Property acquisitions	8,858	-	8,858
Additions to property, plant and equipment	62,769	212	62,981
Capitalized share-based compensation	2,256	-	2,256
Change in decommissioning obligations	(2,543)	-	(2,543)
Depletion and depreciation	(48,208)	(51)	(48,259)
Effect of foreign currency rate changes	37,627	-	37,627
Balance at December 31, 2022	**$577,123**	**$188**	**$577,311**

(continued)

Acquisitions

During the year ended December 31, 2022, Lucero closed acquisitions of various top-up working interests in the Company's core Williston Basin area for total cash consideration of $8.9 million.

Depreciation, depletion and future development costs

Depletion and depreciation expense was $48.3 million (2021 - $45.7 million) for the year ended December 31, 2022, which reflected an estimated US$257.9 million and US$253.0 million, respectively, of future development costs associated with proved and probable oil and gas reserves.

Impairment

The Company evaluates its developed and producing (“D&P”) assets for impairment indicators that may suggest the carrying value of these assets may not be recoverable. If such impairment indicators exist, impairment is determined by comparing the carrying amount of D&P assets to the greater of the assets value in use or the estimated fair value less selling costs. If the carrying amount is in excess of the estimated recoverable value, the Company will record an impairment expense related to the D&P assets. Alternatively, impairment losses may be reversed in future periods if the estimated recoverable amount of the D&P assets exceed the carrying value. The impairment recovery is limited to a maximum of the previously recognized impairment expense, net of any depletion that would have occurred if not for the impairment.

Determining the estimated cash flows associated with the Company’s proved and probable oil and gas reserves is an inherently complex process involving the exercise of professional judgment and the use of significant estimates, including forecasted oil and gas prices, forecasted discount rates, forecasted production volumes, forecasted royalties, forecasted operating costs, and forecasted future development costs.

During the second quarter of 2021, management identified indicators of impairment recovery. After evaluating the carrying amount of D&P assets versus the estimated recoverable value, the Company recognized an impairment recovery of $19.3 million, primarily due to the increase in forecast oil and gas prices at June 30, 2021. The Company’s impairment recovery reflects the full prior year impairment net of the related depletion expense impact.

There were no indicators of impairment at December 31, 2022.

Capitalized Overhead

During the year ended December 31, 2022, the Company capitalized $3.1 million of general and administrative costs and $2.3 million of share-based compensation costs directly attributable to acquisition and development activities ($1.2 million and $0.2 million, respectively, for the year ended December 31, 2021).

LUCERO ENERGY CORP.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2022 and December 31, 2021
(in $000's of Canadian dollars, unless otherwise noted)

8. Senior Credit Facility

On November 30, 2022, the Company redetermined its reserves-based revolving credit facility at US$180.0 million. The US$180.0 million is comprised of a US$165.0 million syndicated facility and a US$15.0 million non-syndicated operating facility (together, the "Senior Credit Facility"). As at December 31, 2022, the net amount drawn under the Senior Credit Facility was US$35.9 million representing US$39.0 million of borrowings under the Senior Credit Facility less US$3.1 million of cash on hand. Advances under the Senior Credit Facility are available by way of direct advances, bankers' acceptances, and standby letters of credit. Direct advances bear interest at the Canadian prime rate, US base rate or SOFR rate, as elected by the Company, plus a margin ranging from 1.75% to 5.25%, which is dependent on the Company's Senior Debt to EBITDA ratio. The Senior Credit Facility is secured by a fixed and floating charge debenture on substantially all the Company's assets.

The Senior Credit Facility borrowing base is subject to redetermination on a periodic basis, no later than May 31 and November 30 annually, based primarily on producing oil and gas reserves, as estimated by the Company's independent third-party reserve evaluators, and using commodity prices established by the lender as well as other factors. The next borrowing base redetermination is scheduled for May 31, 2023 with a term out date on the same day, at which point, the facility can be extended at the option of the lenders or converted to a one-year term loan expiring and requiring repayment one year from the term out date. If a decrease in the borrowing base is determined by the senior lenders in the future, it could potentially result in a reduction to the credit facility, which may require a repayment to the lenders within 60 days, if the drawn amount exceeds the borrowing base. The Company was in compliance with terms of the Senior Credit Facility at December 31, 2022. For the year ended December 31, 2022, the effective interest rate on the outstanding borrowings under the Senior Credit Facility was 5.6% (5.6% for the year ended December 31, 2021).

9. Decommissioning Obligations

	As at December 31, 2022	As at December 31, 2021
Balance, beginning of year	**$7,971**	$6,250
Obligations incurred	**589**	601
Obligations acquired	**73**	-
Obligations settled - cash	**-**	(120)
Change in estimated future cash flows	**(3,205)**	1,036
Accretion	**174**	208
Effect of foreign currency rate changes	**391**	(4)
Balance, end of year	**$5,993**	$7,971

Lucero's decommissioning obligation consists of remediation obligations resulting from the Company's ownership interests in petroleum and natural gas assets. The total obligation is estimated based on the Company's net working interest in wells and related facilities, estimated costs to return these sites to their original condition, costs to plug and abandon wells and the estimated timing of the costs to be incurred in future years.

The Company has estimated the net present value of its total decommissioning provision to be $6.0 million at December 31, 2022 ($8.0 million at December 31, 2021) based on a total undiscounted and uninflated liability of $10.3 million ($7.1 million at December 31, 2021). Management estimates that these payments are expected to be made over the next 50 years based in part on estimates prepared by independent third-party reserve evaluators. As at December 31, 2022, a risk-free interest rate of 4.0% (1.9% at December 31, 2021) and an inflation rate of 2.3% (2.3% at December 31, 2021) were used to calculate the present value of the decommissioning obligation.

(in $000's of Canadian dollars, unless otherwise noted)

10. Preferred Shares

	Number of shares	Liability component	Equity component
Balance at December 31, 2020	75,000	97,048	7,510
Paid in-kind dividends	-	6,290	-
Accretion	-	683	-
Loss on modification of preferred shares	-	-	27,400
Conversion of preferred shares to common shares	(75,000)	(102,752)	(34,910)
Effect of foreign currency rate changes	-	(1,269)	-
Balance at December 31, 2021	**-**	**-**	**-**

In January 2018, the Company's wholly owned subsidiary (the "Subsidiary Issuer") issued 75,000 preferred shares to First Reserve (the "Investor") at a price of US$1,000 per share for gross proceeds of US$75 million. The preferred shares had a maturity date of January 25, 2023, which could be extended at the option of the Investor by one year. The preferred shares entitled the Investor to a cumulative annual dividend of 9.0% per annum, payable quarterly.

The Company recognized a $27.4 million non-cash loss on modification of preferred shares in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2021. The loss is representative of the difference between the originally prescribed exchange price of $2.40 per share and the subsequently agreed upon exchange price of $0.60 per share, in respect of the number of common shares to be issued on conversion, using a common share valuation as of March 30, 2021.

11. Share Capital

Private placements

On February 2, 2022, the Company closed a non-brokered private placement of units of Lucero (the "Units") for gross proceeds of $9.5 million (the "Non-Brokered Private Placement") and a brokered private placement of common shares of Lucero for gross proceeds of $45.0 million (the "Brokered Private Placement", and combined with the Non-Brokered Private Placement, the "Private Placements").

Pursuant to the Non-Brokered Private Placement, Lucero issued 23,750,000 Units at a price of $0.40 per Unit for total proceeds of $9.5 million. Each Unit is comprised of one common share of Lucero and one warrant entitling the holder to purchase one common share at a price of $0.475 per common share for a period of five years from the issuance date.

Pursuant to the Brokered Private Placement, the Company issued 112,500,000 common shares at a price of $0.40 per common share for gross proceeds of $45.0 million. Through the Private Placements, Lucero raised total gross proceeds of $54.5 million.

The Company's two largest shareholders, FR XIII PetroShale Holdings L.P. and M. Bruce Chernoff, waived their respective rights to participate in the Private Placements in order to maintain their ownership positions and did not acquire any common shares or warrants as part of the Company's Private Placements.

(continued)

(in $000's of Canadian dollars, unless otherwise noted)

Warrants

As part of the Non-Brokered Private Placement, warrants were issued that entitles the holder to acquire one common share at a price of $0.475, subject to the following conditions:

- one-third of the warrants may be exercised after the Company's trading price (the "Trading Price") exceeds $0.67,
- one-third of the warrants may be exercised after the Company's Trading Price exceeds $0.83, and
- one-third of the warrants may be exercised after the Company's Trading Price exceeds $0.95.

The Trading Price is defined as the 20-day weighted average trading price.

At December 31, 2022, 15.8 million warrants had vested, which represents the first two thirds of the total warrants issued. In the year ended December 31, 2022, no warrants were exercised. All remaining warrants outstanding or exercisable will expire on February 1, 2027.

The following table reflects the Company's outstanding warrants as at December 31, 2022:

(thousands, except number of warrants)	Number of warrants	Warrants ($)
Balance at December 31, 2021	-	-
Private placements	23,750,000	2,342
Balance at December 31, 2022	**23,750,000**	**$2,342**

The warrants issued in connection with the Non-Brokered Private Placement were allocated a fair value of $2.3 million. The fair value was estimated using the Black-Scholes pricing model with the following assumptions: expected life of five years; volatility of 65%; risk-free interest rate of 1.61%; and a dividend yield of 0%. The warrants will provide aggregate cash proceeds of approximately $11.3 million to the Company, if fully vested and exercised by the holders. Consideration paid to the Company on the exercise of the warrants along with the fair value of the warrants will be credited to share capital.

(continued)

(in $000's of Canadian dollars, unless otherwise noted)

Common shares

The Company's authorized share capital consists of unlimited voting common shares, unlimited non-voting common shares, and unlimited Class A preferred shares, issuable in series, of which one series (being the special voting shares) have been authorized for issuance. As at December 31, 2022, the Company had 662,410,687 voting common shares (523,387,831 at December 31, 2021), no non-voting common shares, and no special voting preferred shares outstanding.

The following table reflects the Company's outstanding common shares as at December 31, 2022:

(thousands, except number of common shares)	Common shares	Share capital
Balance at December 31, 2020	188,528,453	$198,925
Settlement of restricted and performance share bonus awards	2,383,580	833
Settlement of stock options	200,000	39
Recapitalization agreement	332,275,798	166,933
Balance at December 31, 2021	523,387,831	366,730
Settlement of restricted and performance share bonus awards	2,772,856	1,913
Private placements	136,250,000	52,158
Share issue costs	-	(2,235)
Balance at December 31, 2022	**662,410,687**	**$418,566**

Share bonus awards

The Company has granted restricted share bonus awards and performance share bonus awards (collectively, the "share bonus awards") to certain directors, officers, and employees. Share bonus awards granted according to the plan vest over three years from the date of grant and expire before the end of the third year from the date of grant. Performance share bonus awards are valued on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2.0 times based on relative performance. The share bonus awards may be settled by the Company, in its sole discretion, in cash and or common shares of the Company. The estimated fair value of the share bonus awards is determined based on the current market value of the Company's common shares at the dates of grant and considering anticipated forfeiture rates. For purposes of valuing performance share bonus awards, the Company assumes a multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations and comprehensive loss over the vesting period with a corresponding increase to contributed surplus.

	Restricted share bonus awards	Performance share bonus awards	Total awards	Estimated fair value price ($)
Balance at December 31, 2020	3,301,027	4,242,740	7,543,767	$0.41
Granted	1,778,571	5,554,853	7,333,424	0.20
Settled	(2,464,506)	(1,590,748)	(4,055,254)	0.75
Forfeited and expired	(317,220)	(403,759)	(720,979)	0.19
Balance at December 31, 2021	2,297,872	7,803,086	10,100,958	0.36
Granted	7,878,555	24,211,833	32,090,388	0.62
Settled	(2,355,073)	(2,196,411)	(4,551,484)	0.30
Forfeited and expired	(596,324)	(4,661,921)	(5,258,245)	0.19
Balance at December 31, 2022	**7,225,030**	**25,156,587**	**32,381,617**	**$0.66**

LUCERO ENERGY CORP.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2022 and December 31, 2021
(in $000's of Canadian dollars, unless otherwise noted)

12. Revenue

The following table details the Company's sales by product:

	Year ended December 31, 2022	2021
Tight oil	**$297,373**	$210,337
Shale gas	**26,432**	8,799
Natural gas liquids	**18,777**	10,204
	$342,582	$229,340

The Company sells production pursuant to variable-priced contracts. The transaction price is based on the relevant commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The Company has several different commodity sales as well as transportation and processing contracts related to production from its properties. To the extent control of the relevant commodity is transferred to the purchaser prior to transportation or processing fees are incurred, such fees are netted against the relevant revenue in the consolidated statement of operations and comprehensive loss. To the extent control of the relevant commodity is transferred to a purchaser after transportation or processing fees are incurred, such fees are reflected as transportation expense and as operating expense, respectively in the consolidated statement of operations and comprehensive income (loss).

13. Net Income (Loss) per Common Share

Earnings per share amounts are calculated by dividing the net income (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

(thousands, except number of common shares and per share amounts)	Year ended December 31, 2022	2021
Net income (loss) for the year	**$80,519**	($828)
Basic weighted average number of common shares	**648,842,077**	431,950,365
Diluted weighted average number of common shares	**672,009,827**	431,950,365
Basic and diluted net income (loss) per common share	**$0.12**	-

In computing diluted earnings for the year ended December 31, 2022, 11,625,673 performance share bonus awards, 7,994,394 warrants and 3,547,683 restricted share bonus awards were added to the basic weighted average common shares outstanding.

In computing diluted earnings for the year ended December 31, 2021, the diluted number of shares is equivalent to the basic number of shares due to antidilutive performance and restricted awards. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

14. Finance Expense

	Year ended December 31, 2022	2021
Senior credit facility interest	**$7,081**	$10,838
Preferred share dividends	**-**	4,171
Preferred share accretion, net	**-**	683
Decommissioning obligation accretion	**174**	208
Operating lease	**73**	92
Total finance expense	**$7,328**	$15,992

(in $000's of Canadian dollars, unless otherwise noted)

15. Income taxes

Deferred tax expense (recovery)

The components of income tax expense (recovery) are as follows:

	Year ended December 31, 2022	2021
Current tax expense		
Canada	**-**	-
United States	**-**	-
Total current tax expense	**-**	-
Deferred tax expense		
Canada	**-**	-
United States	**29,748**	-
Total deferred tax expense	**29,748**	-
Total income tax expense	**$29,748**	-

The provision for income taxes recorded in the consolidated financial statements varies from the amount that would be computed by applying the Canadian statutory rate of 23.0%. The reasons for the difference are as follows:

	Year ended December 31, 2022	2021
Net income (loss) before income taxes		
Canada	**($8,433)**	($2,929)
United States	**118,700**	2,101
Total net income (loss) before income taxes	**110,267**	(828)
Statutory income tax rate	**23.0%**	23.0%
Expected income tax expense (recovery)	**25,361**	(190)
Add (deduct):		
Foreign and statutory rate differences	**2,470**	710
Non-deductible expenses	**10**	1,001
Impact of rate change and other	**1,448**	(80)
Adjustment to preferred shares equity component	**-**	(1,670)
Disallowed loss on modification of preferred shares	**-**	6,325
Change in valuation allowance	**459**	(6,096)
Deferred income tax expense	**$29,748**	-

(continued)

LUCERO ENERGY CORP.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2022 and December 31, 2021
(in $000's of Canadian dollars, unless otherwise noted)

Deferred tax asset (liability)

The following table summarizes the continuity of the deferred tax asset (liability):

	As at Dec 31, 2020	Recognized in Earnings	Recognized in Equity	As at Dec 31, 2021
Deferred income tax liabilities				
Property, plant and equipment	(21,854)	(9,968)	(103)	($31,925)
Preferred shares	(1,868)	1,877	(9)	-
Deferred income tax assets				
Net operating losses	23,722	1,333	112	25,167
Stock compensation	-	201	-	201
Accrued bonuses	-	350	-	350
Decommissioning obligations	-	2,007	-	2,007
Other	-	4,200	-	4,200
Total deferred income tax liability	-	-	-	-

	As at Dec 31, 2021	Recognized in Earnings	Recognized in Equity	As at Dec 31, 2022
Deferred income tax liabilities				
Property, plant and equipment	($31,925)	(23,367)	(631)	($55,923)
Deferred income tax assets				
Net operating losses	25,167	(2,426)	(66)	22,675
Stock compensation	201	51	1	253
Accrued bonuses	350	255	7	612
Decommissioning obligations	2,007	(490)	(13)	1,504
Other	4,200	(3,771)	(103)	326
Total deferred income tax liability	-	(29,748)	(805)	(30,553)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	As at December 31, 2022	As at December 31, 2021
Property, plant and equipment	**$412**	$428
Debt issuance costs	**23**	763
Non-capital losses/net operating losses	**20,218**	17,496
Capital losses	**1,478**	1,478
Other	**27**	-
	$22,158	$20,165

The Company has a non-capital loss balance of C$20.2 million for Canadian tax purposes which expires between 2031 and 2042. For US tax purposes, the Company has a net operating loss balance of US$67.2 million, US$50.4 million of which will expire between 2034 and 2037 and US$16.8 which do not expire. As at December 31, 2022, the Company had recorded a basis of approximately C$1.0 million and US$261.9 million in depletable and depreciable assets for tax purposes.

(in $000's of Canadian dollars, unless otherwise noted)

16. Key management personnel compensation

Key management personnel include the directors and officers of the Company and is summarized below:

	Year ended December 31, 2022	2021
Salaries and other short-term benefits	**$4,256**	$2,150
Share-based compensation	**5,127**	618
Total compensation	**$9,383**	$2,768

In 2022, the Company appointed seven new officers (the "New Officers"). The New Officers replaced four officers that presided over the Company in 2021 (the "Former Officers"). The total compensation for the year ended December 31, 2022 includes compensation for both the New Officers and the Former Officers, for their respective tenures during the year at the Company, and also includes severance and accelerated share-based compensation paid to the Former Officers.

17. Financial Instruments and Risk Management

Financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, senior credit facility, financial derivative assets and liabilities, and lease liabilities. Financial derivatives are measured at fair value through profit or loss. The Company's remaining financial instruments are measured at amortized cost. The fair value of cash and cash equivalents, accounts receivable, restricted cash and accounts payable approximate their carrying amount due to the highly liquid or short-term nature of these instruments. The fair value of the senior credit facility approximates the carrying amount due to the floating rate of interest and the margin charged by the lending syndicate being indicative of current spreads.

The following table summarizes the Company's financial instruments that are carried at fair value as a financial derivative liability on the Consolidated Statements of Financial Position:

	As at December 31, 2022	As at December 31, 2021
Fixed price swaps	-	($4,480)
Costless collars	-	(11,064)
Total	-	($15,544)

Derivatives and hedging activity

The Company's commodity derivative financial instruments are measured at fair value and are included in the statements of financial position as financial derivative assets or liabilities. Unrealized gains and losses are recorded based on the changes in the fair values of the derivative instruments. Both the unrealized and realized gains and losses resulting from the contract settlement of derivatives are recorded in the statement of operations.

The amount of unrealized gain recognized in the consolidated statement of operations and comprehensive income (loss) related to the Company's derivative financial instruments was $16.3 million for the year ended December 31, 2022 ($5.2 million unrealized loss for the year ended December 31, 2021). As at December 31, 2022, the Company did not have any outstanding derivative instruments.

(continued)

(in $000's of Canadian dollars, unless otherwise noted)

Risk management activities

Commodity price risk

Lucero may use financial derivative instruments such as swaps, collars, and options to mitigate the impact of commodity price volatility and enhance the predictability of cash flows for a portion of its future oil, gas, and natural gas liquids production. The Company does not enter derivative instruments for speculative purposes. While these instruments mitigate the cash flow risk associated with future decreases in commodity prices, they may also curtail benefits from future increases in commodity prices.

Credit and contract risk

Credit and contract risk represent the economic loss that Lucero would suffer if a counterparty in a transaction fails to meet its obligations in accordance with agreed terms.

Essentially all the Company’s accounts receivable is from the production of tight oil and shale gas and joint operations receivables. Sales of tight oil and shale gas production from the Company’s operated properties are made to large, credit-worthy industry purchasers. Three purchasers account for approximately 55% of thee Company's 2022 revenue (2021 - 49%). Joint operations receivables are from participants in the tight oil and shale gas sector and collection of outstanding balances is dependent on industry factors including commodity price fluctuations. The Company has not experienced any material credit losses on the collection of accounts receivable.

The use of financial derivative instruments also exposes the Company to credit and contract risk. The Company has entered into derivative instruments only with counterparties that are also lenders in the Senior Credit Facility and have been deemed an acceptable credit risk. As the Company’s counterparties are participants in Senior Credit Facility, which is secured by substantially all assets of the Company, the Company is not required to post collateral.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they become due. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions, without incurring unacceptable losses. As at December 31, 2022, the Company had a net adjusted working capital deficit (current assets less current liabilities excluding derivatives) of $25.0 million. The financial liabilities in the consolidated statement of financial position consist of accounts payable and accrued liabilities, which are all considered due within one year, and the senior credit facility and lease liability. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities as they come due. The Company prudently manages liquidity by forecasting its cash flows from operating activities and its available capacity under its revolving credit facilities. The Company’s accounts payable and accrued liabilities balance at December 31, 2022 was approximately $58.7 million (December 31, 2021 - $56.0 million). It is the Company’s general practice to pay suppliers within 60 days.

The following are the contractual maturities of the Company’s debt and anticipated timing of settlements of its other financial liabilities at December 31, 2022:

($ thousands)	**Total**	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	**$58,662**	$58,662	-	-	-
Lease obligations	**1,053**	440	310	303	-
Senior credit facility	**52,862**	-	52,862	-	-
Total	**$112,577**	$59,102	$53,172	$303	-

(continued)

(in $000's of Canadian dollars, unless otherwise noted)

Interest rate risk

Lucero is exposed to interest rate risk on bank credit facilities to the extent of changes in market interest rates. Based on the Company's floating rate debt position at December 31, 2022, a 1 percent increase or decrease in the interest rate on floating rate debt would amount to an impact on income before tax of $1.1 million for the year ended December 31, 2022 ($2.0 million for the year ended December 31, 2021). This assumes that the change in interest rate is effective from the beginning of the year and the amount of floating rate debt is the average senior credit facility balance for the year ended December 31, 2022.

Capital management

Lucero's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on the Company's capital expenditure program, which includes expenditures on oil and gas activities which may or may not be successful. Therefore, Lucero monitors the level of risk incurred in the Company's capital expenditures to balance the proportion of debt and equity in the Company's capital structure.

Lucero manages the Company's capital structure and makes adjustments by continually monitoring its business conditions, including: current economic conditions; the risk characteristics of the Company's petroleum and natural gas assets; the Company's investment opportunities; current and forecasted net debt levels; current and forecasted commodity prices; and other factors that influence realized commodity prices and cash flow from operations such as quality and basis differential, royalties, operating costs and transportation and processing costs. The Company considers its capital structure to include working capital, any debt, and shareholders' equity. The Company monitors capital based on current cash flow from operations compared to forecasted capital and operating requirements.

In order to maintain or adjust the capital structure, Lucero will consider: the Company's forecasted cash flow from operations while investing an acceptable capital expenditure program which may include acquisition opportunities; the current level of credit available from its lenders; the level of credit that may become available from its lenders as a result of petroleum and natural gas reserve growth; the availability of other sources of debt with different characteristics than bank debt; the sale of assets; limiting the size of the capital expenditure program and new equity issuances if available on favorable terms. Access to any bank credit facility is determined by the lenders and is generally based upon the lenders' borrowing base models which are based upon the Company's petroleum and natural gas reserves.

18. Supplemental cash flow disclosures

Changes in non-cash working capital is compromised of the following:

	Year ended December 31,	
	2022	**2021**
Source (use) of cash:		
Accounts receivable	**$11,197**	($22,385)
Prepaid expenses and deposits	**(1,137)**	(61)
Accounts payable and accrued liabilities	**2,648**	27,687
	12,708	5,241
Related to operating activities	**18,358**	(3,350)
Related to investing activities	**(7,044)**	10,992
Accrued interest	**59**	(2,379)
Difference due to foreign exchange	**1,335**	(22)
	12,708	5,241
Interest paid	**$7,096**	$11,188