Lucero

ENERGY CORP.

Management's Discussion and Analysis

For the three and nine months ended

September 30, 2023 and 2022

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. ("Lucero" or the "Company") on November 10, 2023. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2023 and the audited consolidated financial statements as at and for the year ended December 31, 2022. 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 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 provided by (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 September 30,		**Nine months ended September 30,**	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Additions to property, plant and equipment	**$16,861**	$25,657	**$79,503**	$45,675
Capitalized general and administrative expenses	**(792)**	(709)	**(2,318)**	(2,311)
Exploration and development expenditures	**$16,069**	$24,948	**$77,185**	$43,364

Capital Expenditures (Proceeds)

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 provided by (used in) investing activities. The reconciliation between cash provided by (used in) investing activities, as defined by IFRS, and capital expenditures, as defined herein, is as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Cash (provided by) used in investing activities	**$24,585**	$19,025	**($26,740)**	$61,214
Change in non-cash investing working capital	**(7,724)**	6,839	**(7,000)**	(6,681)
Capitalized share-based compensation	**851**	751	**2,878**	1,498
Decommissioning obligations	**(582)**	(426)	**(2,039)**	(3,312)
Deferred Proceeds pursuant to the Disposition	**-**	-	**(6,644)**	-
Gain on disposition	**-**	-	**450**	-
Capital expenditures (proceeds)	**$17,130**	$26,189	**($39,095)**	$52,719

Funds Flow and Adjusted Funds Flow

Funds flow represents cash provided by operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations, including cash finance expenses. Adjusted funds flow represents cash provided by operating activities prior to changes in non-cash working capital, settlement of decommissioning obligations 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 and service its debt. Transaction related costs are incurred during asset acquisitions or dispositions, 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 September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Cash provided by operating activities	**$26,396**	$47,791	**$104,497**	$130,667
Finance expenses - cash	**270**	(1,715)	**(2,683)**	(5,444)
Settlement of decommissioning obligations	**304**	-	**304**	-
Changes in non-cash operating working capital	**5,890**	(4,595)	**1,914**	(15,163)
Funds flow	**$32,860**	$41,481	**$104,032**	$110,060
Transaction related costs	**-**	-	**2,454**	2,100
Adjusted funds flow	**$32,860**	$41,481	**$106,486**	$112,160

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 September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Cash provided by operating activities	**$26,396**	$47,791	**$104,497**	$130,667
Changes in non-cash operating working capital	**5,890**	(4,595)	**1,914**	(15,163)
Adjusted EBITDA	**$32,286**	$43,196	**$106,411**	$115,504

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 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 September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Petroleum and natural gas revenues	**$57,030**	$86,857	**$195,521**	$266,436
Royalties	**(9,200)**	(16,159)	**(33,219)**	(50,077)
Operating expenses	**(7,739)**	(9,093)	**(27,431)**	(25,257)
Production taxes	**(4,224)**	(7,323)	**(15,073)**	(20,712)
Transportation expenses	**(1,467)**	(1,872)	**(4,956)**	(5,485)
Operating netback prior to hedging	**$34,400**	$52,410	**$114,842**	$164,905
Realized loss on financial derivatives	**-**	(7,334)	**-**	(41,911)
Operating netback	**$34,400**	$45,076	**$114,842**	$122,994

Working Capital (Net Debt)

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

	As at September 30, 2023	As at December 31, 2022	As at September 30, 2022
Total current assets	**$92,093**	$34,098	$38,519
Total liabilities	**(92,054)**	(149,123)	(171,661)
Decommissioning obligations	**3,726**	5,993	5,288
Deferred tax liability	**47,801**	30,553	24,134
Financial derivative liability	**-**	-	3,350
Lease liability	**1,072**	1,053	1,178
Working capital (net debt)	**$52,638**	($77,426)	($99,192)

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 Adjusted Funds Flow 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. Adjusted funds flow per share basic and diluted is calculated as adjusted funds flow divided by weighted average basic and diluted shares outstanding, respectively. Funds flow and adjusted funds flow are non-GAAP financial measures. Lucero believes that funds flow per share basic and diluted and adjusted funds flow 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).

(continued)

"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).

"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).

"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).

"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, 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 the Company's expectation to receive the full amount of the Deferred Proceeds (as defined herein).

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, Middle East 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; the failure to receive the full amount of the Deferred Proceeds in the time frames anticipated, or at all; 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.sedarplus.ca) 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

Financial *($ thousands, except share amounts)*	**Three months ended September 30, 2023**	**2022**	**Nine months ended September 30, 2023**	**2022**
Petroleum and natural gas revenues	**$57,030**	$86,857	**$195,521**	$266,436
Cash provided by operating activities	**$26,396**	$47,791	**$104,497**	$130,667
Net income	**$13,319**	$29,812	**$42,390**	$61,524
Per share - basic	**$0.02**	$0.05	**$0.06**	$0.10
Per share - diluted	**$0.02**	$0.04	**$0.06**	$0.09
Funds flow (1)	**$32,860**	$41,481	**$104,032**	$110,060
Per share - basic (3)	**$0.05**	$0.06	**$0.16**	$0.17
Per share - diluted (3)	**$0.05**	$0.06	**$0.15**	$0.17
Adjusted funds flow (1)	**$32,860**	$41,481	**$106,486**	$112,160
Per share - basic (3)	**$0.05**	$0.06	**$0.16**	$0.17
Per share - diluted (3)	**$0.05**	$0.06	**$0.16**	$0.17
Adjusted EBITDA (1)	**$32,286**	$43,196	**$106,411**	$115,504
Per share - basic (3)	**$0.05**	$0.07	**$0.16**	$0.18
Per share - diluted (3)	**$0.05**	$0.06	**$0.16**	$0.17
Exploration and development expenditures (1)	**$16,069**	$24,948	**$77,185**	$43,364
Working capital (net debt) (1)	**$52,638**	($99,192)	**$52,638**	($99,192)
Number of common shares outstanding				
Shares outstanding, end of period	**651,091,067**	662,410,687	**651,091,067**	662,410,687
Weighted average - basic	**658,521,478**	662,403,238	**661,100,038**	644,269,506
Weighted average - diluted	**681,139,970**	672,833,652	**673,730,699**	666,013,550
Operating				
Daily production (2)				
Tight oil (Bbls)	**5,527**	6,385	**6,355**	6,644
Shale gas (Mcf)	**11,841**	13,991	**12,248**	11,866
Natural gas liquids (Bbls)	**2,406**	2,187	**2,495**	2,206
Barrels of oil equivalent	**9,907**	10,904	**10,891**	10,828
Average realized price:				
Tight oil ($/Bbls)	**$110.73**	$123.06	**$105.14**	$127.26
Shale gas ($/Mcf)	**$1.06**	$6.90	**$2.83**	$6.14
Natural gas liquids ($/Bbls)	**($1.94)**	$28.56	**$5.38**	$26.16
Barrels of oil equivalent ($/Boe)	**$62.57**	$86.58	**$65.76**	$90.14
Operating netback ($ per Boe) (3)				
Petroleum and natural gas revenues	**$62.57**	$86.58	**$65.76**	$90.14
Royalties	**($10.09)**	($16.11)	**($11.17)**	($16.94)
Operating expenses	**($8.49)**	($9.06)	**($9.23)**	($8.54)
Production taxes	**($4.63)**	($7.30)	**($5.07)**	($7.01)
Transportation expenses	**($1.61)**	($1.87)	**($1.67)**	($1.86)
Operating netback prior to hedging (1)	**$37.75**	$52.24	**$38.62**	$55.79
Realized loss on financial derivatives	**-**	($7.31)	**-**	($14.18)
Operating netback (1)	**$37.75**	$44.93	**$38.62**	$41.61

(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. 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 1024, 222 - 3rd Avenue SW, Calgary, Alberta T2P 0B4 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

Property Disposition

On June 15, 2023, Lucero closed a disposition of certain non-operated oil and gas properties within the Company's North Dakota Bakken/Three Forks play (the "Disposition") for a sale price of $140.2 million before closing adjustments. As customary, at the time of closing, the purchase and sale agreement provides that receipt of $6.6 million of the cash consideration is to be deferred subject to any bona fide indemnity claims made by the purchaser (the "Deferred Proceeds"). If no such indemnity claims exist, the Deferred Proceeds are to be fully paid to Lucero on or before June 15, 2024. The Company believes it is more likely than not that the $6.6 million in Deferred Proceeds will be received in full. To date, no indemnity claim has been made by the purchaser. The effective date of the Disposition is January 1, 2023 and after closing adjustments, net cash proceeds are estimated to be $126.2 million including receipt of the Deferred Proceeds. The proceeds from the property disposition exceed the net book value of the properties disposed, resulting in a gain of $0.5 million.

Purchase price	$140,173
Closing adjustments	(12,883)
Foreign exchange impact	(1,064)
Proceeds from property disposition (including deferred proceeds of $6.6 million)	$126,226
Net book value of properties disposed, net of decommissioning obligations	125,776
Gain on disposition	$450

Results of Operations

Production

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Tight oil (Bbl per day)	**5,527**	6,385	**6,355**	6,644
Shale gas (Mcf per day)	**11,841**	13,991	**12,248**	11,866
Natural gas liquids (Bbl per day)	**2,406**	2,187	**2,495**	2,206
Total (Boe per day)	**9,907**	10,904	**10,891**	10,828
Liquids percentage of total	**80%**	79%	**81%**	82%

Total production during the three and nine months ended September 30, 2023 decreased 9% and increased 1%, respectively, compared to the three and nine months ended September 30, 2022 (the "Corresponding Periods"). The decrease in the three months ended September 30, 2023 is primarily due to reduced non-operated production as a result of the Disposition. The increase in the nine months ended September 30, 2023 is due to new production from operated wells drilled and completed during the past year, partly offset by natural production declines and reduced non-operated production resulting from the Disposition.

Pricing

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Average Benchmark Prices (US$):				
Crude oil - WTI (per Bbl)	**$82.18**	$91.64	**$77.38**	$98.14
Natural gas - HH spot (per Mcf) (1)	**$2.59**	$7.72	**$2.52**	$6.51
Average Differential (US$):				
Crude oil - (per Bbl)	**$0.37**	$2.55	**$0.75**	$1.03
Natural gas - (per Mcf) (1)	**($1.80)**	($2.44)	**($0.42)**	($1.73)
Average Realized Prices (US$):				
Tight oil (per Bbl)	**$82.55**	$94.19	**$78.13**	$99.17
Shale gas (per Mcf)	**$0.79**	$5.28	**$2.10**	$4.78
Natural gas liquids (per Bbl)	**($1.44)**	$21.86	**$4.00**	$20.38
Average Realized Prices (C$):				
Tight oil (per Bbl)	**$110.73**	$123.06	**$105.14**	$127.26
Shale gas (per Mcf)	**$1.06**	$6.90	**$2.83**	$6.14
Natural gas liquids (per Bbl)	**($1.94)**	$28.56	**$5.38**	$26.16

(1) Includes conversion from Mmbtu to Mcf.

The Company’s average differential for crude oil narrowed during the three and nine months ended September 30, 2023. 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 and nine months ended September 30, 2023 decreased compared to the Corresponding Periods, as North American and global supply/demand fundamentals subsided. NGL prices in the three and nine months ended September 30, 2023 reflected the significant decrease in domestic demand combined with an oversupply of the domestic liquids market.

Revenues and Royalties

($ thousands, except where noted)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Tight oil	**$56,306**	$72,257	**$182,408**	$230,738
Shale gas	**1,152**	8,871	**9,451**	19,944
Natural gas liquids	**(428)**	5,729	**3,662**	15,754
Petroleum and natural gas revenues	**$57,030**	$86,857	**$195,521**	$266,436
Less: royalties	**(9,200)**	(16,159)	**(33,219)**	(50,077)
Petroleum and natural gas revenues, net	**$47,830**	$70,698	**$162,302**	$216,359
Royalties as a percentage of revenues	**16%**	19%	**17%**	19%
Per Boe amounts:				
Petroleum and natural gas revenues	**$62.57**	$86.58	**$65.76**	$90.14
Less: royalties	**(10.09)**	(16.11)	**(11.17)**	(16.94)
Petroleum and natural gas revenues, net	**$52.48**	$70.47	**$54.59**	$73.20

Revenues in the three and nine months ended September 30, 2023 decreased 34% and 27%, respectively, compared to the Corresponding Periods. The decreases were primarily due to lower realized commodity prices.

The Company’s royalty rate as a percentage of revenues decreased for the three and nine months ended September 30, 2023, compared to the Corresponding Periods. The decreases were due to the Disposition, as the non-operated properties incurred higher royalty rates than the Company's operated properties, and increased production from operated assets that benefit from lower royalty rates in the current periods.

Realized Loss and Unrealized Gain on Financial Derivatives

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Realized loss on financial derivatives	**-**	($7,334)	**-**	($41,911)
Realized loss on financial derivatives per Boe	**-**	($7.31)	**-**	($14.18)
Unrealized gain on financial derivatives	**-**	$13,007	**-**	$13,036
Unrealized gain on financial derivatives per Boe	**-**	$12.97	**-**	$4.41

Operating Expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, unless otherwise noted)	**2023**	**2022**	**2023**	**2022**
Operating expenses	**$7,739**	$9,093	**$27,431**	$25,257
Operating expenses per Boe	**$8.49**	$9.06	**$9.23**	$8.54

Operating expenses on a total and per Boe basis, decreased for the three months ended September 30, 2023 and increased for the nine months ended September 30, 2023, compared to the Corresponding Periods. The decrease in the three months ended September 30, 2023 was primarily due to the Disposition, as the non-operated properties incurred higher operating expenses per Boe than the Company's operated properties. The increase in the nine months ended September 30, 2023 was primarily due to operating cost inflation, largely related to non-operated properties, which impacted two full quarters prior to the Disposition.

Production Taxes

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, unless otherwise noted)	**2023**	**2022**	**2023**	**2022**
Production taxes	**$4,224**	$7,323	**$15,073**	$20,712
Production taxes per Boe	**$4.63**	$7.30	**$5.07**	$7.01
Production taxes - % of petroleum and natural gas revenues, net	**9%**	10%	**9%**	10%

Production taxes are determined by the State of North Dakota, and depending on prevailing crude oil prices, can range between 8% and 11% of the Company’s gross value of after-royalty volumes produced at the wellhead, after certain allowable exemptions. In the three and nine months ended September 30, 2023, production taxes, as a percentage of petroleum and natural gas revenues, net, were consistent with the Corresponding Periods.

Transportation Expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, unless otherwise noted)	**2023**	**2022**	**2023**	**2022**
Transportation expenses	**$1,467**	$1,872	**$4,956**	$5,485
Transportation expenses per Boe	**$1.61**	$1.87	**$1.67**	$1.86

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. Transportation expenses per Boe in the three and nine months ended September 30, 2023 were relatively consistent compared to the Corresponding Periods.

Operating Netback

($ per Boe, unless otherwise noted)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Petroleum and natural gas revenues	**$62.57**	$86.58	**$65.76**	$90.14
Royalties	**(10.09)**	(16.11)	**(11.17)**	(16.94)
Operating expenses	**(8.49)**	(9.06)	**(9.23)**	(8.54)
Production taxes	**(4.63)**	(7.30)	**(5.07)**	(7.01)
Transportation expenses	**(1.61)**	(1.87)	**(1.67)**	(1.86)
Operating netback prior to hedging [1]	**$37.75**	$52.24	**$38.62**	$55.79
Realized loss on financial derivatives	**-**	(7.31)	**-**	(14.18)
Operating netback [1]	**$37.75**	$44.93	**$38.62**	$41.61

(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")

($ thousands)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
General and administrative expenses	**$2,602**	$2,589	**$7,991**	$7,701
Capitalized general and administrative expenses	**(792)**	(709)	**(2,318)**	(2,311)
Net general and administrative expenses	**$1,810**	$1,880	**$5,673**	$5,390
Net general and administrative expenses per Boe	**$1.99**	$1.87	**$1.91**	$1.82

Net G&A expenses were relatively consistent, on both a dollar and per Boe basis, for the three and nine months ended September 30, 2023, compared to the Corresponding Periods.

Transaction Related Costs

($ thousands)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Transaction related costs	**-**	-	**$2,454**	$2,100
Transaction related costs per Boe	**-**	-	**$0.83**	$1.08

Transaction related costs in the nine months ended September 30, 2023 are a one-time cost related to the Disposition. Transaction related costs in the nine months ended September 30, 2022 related to severance costs and one-time administrative costs incurred to transition a new management team.

Depletion and Depreciation Expenses

($ thousands)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Depletion and depreciation expenses	**$12,611**	$12,457	**$39,327**	$35,865
Depletion and depreciation expenses per Boe	**$13.84**	$12.42	**$13.23**	$12.13

Depletion and depreciation expenses for the three and nine months ended September 30, 2023 on a per Boe basis increased, compared to the Corresponding Periods, primarily due to the removal of reserves and future development costs related to the Disposition, as well as the weakening of the Canadian dollar, relative to the US dollar.

Finance Expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Senior credit facility interest and amortized financing costs	**$663**	$1,698	**$3,711**	$5,388
Interest income	**(947)**	-	**(1,071)**	-
Decommissioning obligations accretion	**38**	46	**130**	126
Lease interest	**14**	17	**43**	56
Total finance expenses, net	**($232)**	$1,761	**$2,813**	$5,570

In the three months ended September 30, 2023, interest income exceeded interest expenses as a result of the Company's cash balance during the quarter. In the nine months ended September 30, 2023, finance expenses were lower compared to the Corresponding Period, reflecting the increase in interest income on the Company's cash balance in the third quarter combined with the lower average drawn amount on the senior credit facility in the first two quarters of 2023.

Share-Based Compensation Expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Gross share-based compensation expenses	**$2,425**	$2,141	**$8,206**	$4,272
Capitalized share-based compensation expenses	**(851)**	(751)	**(2,878)**	(1,498)
Net share-based compensation expenses	**$1,574**	$1,390	**$5,328**	$2,774
Net share-based compensation expenses per Boe	**$1.73**	$1.39	**$1.79**	$0.94

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 generally 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 over the vesting period with a corresponding increase to contributed surplus in the consolidated statement of financial position.

In the three and nine months ended September 30, 2023, net share-based compensation expenses were higher than the Corresponding Periods largely due to Share Bonus Awards granted to new management and employees in the first half of 2022, as well as the impact of the multiplier on Performance Share Bonus Awards.

Foreign Currency Gain (Loss) and Translation Adjustment

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Foreign currency translation rates - C$/US$				
Average period exchange rate	**$1.3414**	$1.2768	**$1.3457**	$1.2717
Ending period exchange rate	**$1.3520**	$1.2873	**$1.3520**	$1.2873

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. In the three and nine months ended September 30, 2023 the Company recorded a currency translation gain of $10.3 million and a loss of $0.5 million, respectively (Corresponding Periods: currency translation gain of $31.0 million and $37.7 million, respectively).

Taxes

For the three and nine months ended September 30, 2023, the Company recorded deferred income tax expense of $5.3 million and $17.3 million, respectively (Corresponding Periods: expense of $10.8 million and $22.8 million, respectively). The decrease in the three months ended September 30, 2023 compared to the Corresponding Period is consistent with the decrease in net income before income taxes.

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, if any, 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 reducing the Company's drilling and completion activity on its operated properties, by not consenting to participate in additional drilling proposed by the operators of its non-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.

The senior credit facility was undrawn at September 30, 2023 (drawn US$39.0 million at December 31, 2022). In June 2023, as a result of the Disposition, the available borrowing base of the senior credit facility was redetermined at US$160.0 million (US$180.0 million at December 31, 2022) with the next borrowing base review scheduled to be completed by November 30, 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 and nine months ended September 30, 2023, cash flow provided by operating activities was $26.4 million and $104.5 million, respectively, compared to $47.8 million and $130.7 million, respectively in the Corresponding Periods. The decreases are due to lower realized commodity prices and the Disposition, as the non-operated properties realized a lower netback than the properties operated by the Company.

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 September 30, 2023, the Company had no derivative contracts outstanding.

Capital Expenditures

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Cash:				
Drilling, completions and optimizations	**$13,412**	$24,621	**$68,966**	$40,788
Equipment and facilities	**203**	213	**5,755**	2,051
Land retention costs	**2,429**	90	**2,419**	313
Administrative assets	**25**	24	**45**	212
Exploration and development expenditures [1]	**$16,069**	$24,948	**$77,185**	$43,364
Capitalized G&A	**792**	709	**2,318**	2,311
Exploration and development expenditures, including capitalized G&A	**$16,861**	$25,657	**$79,503**	$45,675
Proceeds from the Disposition	**-**	-	**(119,582)**	-
Acquisitions	**-**	207	**6,339**	8,858
Total capital expenditures (proceeds) - cash items	**$16,861**	$25,864	**($33,740)**	$54,533
Non-cash:				
Deferred Payment related to the Disposition	**-**	-	**($6,644)**	-
Gain on disposition	**-**	-	**450**	-
Capitalized share-based compensation	**851**	751	**2,878**	1,498
Decommissioning obligations	**(582)**	(426)	**(2,039)**	(3,312)
Total capital expenditures (proceeds) [1]	**$17,130**	$26,189	**($39,095)**	$52,719

(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 nine months ended September 30, 2023, were funded from operating cash flows. During the nine months ended September 30, 2023, in addition to various well optimizations, the Company completed six (5.5 net) operated wells and drilled five (4.3 net) operated wells.

Senior Credit Facility

The Company maintains a senior revolving credit facility which is referred to as the senior credit facility in the interim consolidated statement of financial position. In June 2023, as a result of the Disposition, the borrowing capacity was redetermined at US$160.0 million with the existing lending syndicate. The term out date is May 31, 2024, 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 review is scheduled for the end of November 2023. If a decrease in the borrowing base is determined by the 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 September 30, 2023. The credit facility has no financial covenants.

As at November 10, 2023, there was no balance drawn under the Senior Credit Facility.

Share Capital

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Weighted average outstanding common shares:				
Basic	**658,521,478**	662,403,238	**661,100,038**	644,269,506
Diluted	**681,139,970**	672,833,652	**673,730,699**	666,013,550
Outstanding Securities:				
Common shares	**651,091,067**	662,410,687	**651,091,067**	662,410,687
Restricted share bonus awards	**7,027,392**	7,225,030	**7,027,392**	7,225,030
Performance share bonus awards	**24,230,308**	25,156,587	**24,230,308**	25,156,587
Warrants	**23,750,000**	23,750,000	**23,750,000**	23,750,000
Fully diluted common shares	**706,098,767**	718,542,304	**706,098,767**	718,542,304

On June 15, 2023, Lucero announced the approval of the Company's Normal Course Issuer Bid (the "NCIB") to purchase for cancellation, up to a maximum of 33.1 million common shares of the Company over a twelve month period commencing June 19, 2023. As of September 30, 2023, 19.1 million common shares were repurchased by Lucero under the NCIB and subsequently cancelled, at an average cost of $0.63 per common share. Subsequent to September 30, 2023, the Company purchased and cancelled 0.3 million shares under the NCIB.

As at November 10, 2023, the Company had 650,781,567 common shares issued and outstanding, 24,230,308 performance share bonus awards outstanding, 23,750,000 warrants outstanding and 7,027,392 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 September 30, 2023:

($ thousands)	**Total**	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	**$39,455**	$39,455	-	-	-
Lease liability	**1,072**	109	354	482	127
Total	**$40,527**	$39,564	$354	$482	$127

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:

(continued)

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 cash generating unit ("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 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.

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:

- Available cash on hand;
- 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 into 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 into 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.

(continued)

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 attempts 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.

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.

On June 26, 2023, the International Sustainability Standards Board (“ISSB”) issued IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 “Climate-related Disclosures”. IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after January 1, 2024. The sustainability standards as issued by the ISSB provide for transition relief in IFRS S1 that allow a reporting entity to report only on climate-related risks and opportunities, as set out in IFRS S2, in the first year of reporting under the sustainability standards.

The Canadian Securities Administrators (“CSA”) are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standards, including the effective annual reporting dates. The CSA issued proposed National Instrument (“NI 51-107 – Disclosure of Climate-related Matters”) in October 2021. The CSA has indicated it will consider the ISSB sustainability standards and developments in the United States in its decisions related to developing climate-related disclosure requirements for reporting issuers in Canada. The CSA will involve the Canadian Sustainability Standards Board (“CSSB”) for their combined review of the ISSB issued sustainability standards for their suitability for adoption in Canada. Until such time as the CSA and CSSB make decisions on sustainability standard adoption here in Canada, there is no requirement for public companies in Canada to adopt the sustainability standards. The Company is actively evaluating the potential effects of the ISSB issued sustainability standards; however, at this time, the Company is not able to determine the impact on future financial statements, nor the potential costs to comply with these sustainability standards.

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.sedarplus.ca).

Additional Information

Additional information can be obtained by contacting the Company at Lucero Energy Corp., Suite 1024, 222 - 3rd Avenue SW, Calgary, Alberta T2P 0B4 or by email at info@lucerocorp.com. Additional information is also available on www.sedarplus.ca or www.lucerocorp.com.

Summary of Quarterly and Annual Results

(in $000's of dollars, except per share amounts)	**Q3 2023**	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Petroleum and natural gas revenues, net of royalties	**47,830**	53,876	60,596	62,865	70,698	76,661	69,000	59,098
Net income	**13,319**	10,602	18,469	18,995	29,812	25,824	5,888	25,065
Per share – basic	**0.02**	0.02	0.03	0.03	0.05	0.04	0.01	0.05
Per share – diluted	**0.02**	0.02	0.03	0.03	0.04	0.04	0.01	0.05
Funds flow (2)	**32,860**	31,263	39,909	37,015	41,481	35,017	33,601	19,962
Per share – basic (3)	**0.05**	0.05	0.06	0.06	0.06	0.05	0.06	0.04
Per share – diluted (3)	**0.05**	0.05	0.06	0.06	0.06	0.05	0.05	0.04
Adjusted funds flow (2)	**32,860**	33,717	39,909	37,015	41,481	35,017	35,701	19,962
Per share – basic (3)	**0.05**	0.05	0.06	0.06	0.06	0.05	0.06	0.04
Per share – diluted (3)	**0.05**	0.05	0.06	0.06	0.06	0.05	0.06	0.04
Cash provided by operating activities	**26,396**	43,183	34,918	41,903	47,791	44,634	38,242	17,449
Per share – basic (4)	**0.04**	0.07	0.05	0.07	0.07	0.07	0.06	0.03
Per share – diluted (4)	**0.04**	0.06	0.05	0.07	0.07	0.07	0.06	0.03
Total assets	**589,413**	581,970	627,411	612,527	623,220	571,535	569,159	558,035
Senior credit facility	**-**	-	52,820	52,862	78,575	100,175	127,715	180,393
Working capital (net debt) (2)	**52,638**	49,751	(69,608)	(77,426)	(99,192)	(107,451)	(121,092)	(196,067)

(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 [3]	**0.23**	0.15	0.26
Per share – diluted [3]	**0.22**	0.15	0.25
Cash provided by operating activities	**172,570**	72,230	69,991
Per share – basic [4]	**0.27**	0.17	0.37
Per share – diluted [4]	**0.26**	0.16	0.36
Total assets	**612,527**	558,035	502,877
Senior credit facility	**52,862**	180,393	221,915
Working capital (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) 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 funds flow. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(4) Cash provided by operating activities per share basic and diluted are supplementary financial measures calculated as cash provided by operating activities, which is determined in accordance with IFRS and includes changes in non-cash working capital, divided by basic and diluted shares outstanding, respectively.

Revenues in the third quarter of 2023 decreased 12% over the second quarter of 2023 due to decreased production volumes as a result of the Disposition, partially offset by production from recently completed wells and increases in realized oil prices. Cash flow provided by operating activities decreased in the third quarter of 2023 versus the prior quarter due to changes in non-cash working capital and reduced production volumes as a result of the Disposition.

Revenues in the second quarter of 2023 decreased 12% over the first quarter of 2023 due primarily to a decrease in realized oil prices, partly offset by an increase in production volumes. Additionally, the Company closed the Disposition on June 15, 2023, commensurately reducing production volumes and associated revenues.

Revenues in the first quarter of 2023 decreased 3% over the fourth quarter of 2022 due primarily to a decrease in realized oil prices, partly offset by an increase in production volumes. Cash flow provided by operating activities decreased in the first quarter of 2023 versus the prior quarter primarily due to changes in non-cash working capital and lower realized commodity prices, partly offset by lower realized hedge losses in the quarter.

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.

Financial Statements

As at September 30, 2023

and for the three and nine months ended

September 30, 2023 and 2022

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

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

	Note	As at September 30, 2023	As at December 31, 2022
Assets			
Cash and cash equivalents		**$65,642**	$4,158
Accounts receivable		**17,949**	28,420
Deferred Proceeds pursuant to the Disposition	4	**6,644**	-
Prepaid expenses and deposits		**1,858**	1,520
Total current assets		**92,093**	34,098
Restricted cash		**216**	217
Right of use assets	3	**937**	901
Property, plant and equipment	4	**496,167**	577,311
Total non-current assets		**497,320**	578,429
Total assets		**$589,413**	$612,527
Liabilities			
Accounts payable and accrued liabilities		**$39,455**	$58,662
Lease liability	3	**348**	440
Total current liabilities		**39,803**	59,102
Senior credit facility	5	**-**	52,862
Lease liability	3	**724**	613
Decommissioning obligations	6	**3,726**	5,993
Deferred tax liability		**47,801**	30,553
Total non-current liabilities		**52,251**	90,021
Total liabilities		**$92,054**	$149,123
Shareholders' Equity			
Common shares	7	**$411,670**	$418,566
Warrants	7	**2,342**	2,342
Contributed surplus		**8,829**	9,888
Retained earnings		**47,410**	5,020
Accumulated other comprehensive income		**27,108**	27,588
Total equity		**497,359**	463,404
Total liabilities and equity		**$589,413**	$612,527

Subsequent event (note 7)

See accompanying notes to the interim consolidated financial statements

LUCERO ENERGY CORP.

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

	Note	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues					
Petroleum and natural gas revenues	8	**$57,030**	$86,857	**$195,521**	$266,436
Royalties		**(9,200)**	(16,159)	**(33,219)**	(50,077)
Petroleum and natural gas revenues, net of royalties		**47,830**	70,698	**162,302**	216,359
Realized loss on financial derivatives		**-**	(7,334)	**-**	(41,911)
Unrealized gain on financial derivatives		**-**	13,007	**-**	13,036
Petroleum and natural gas revenues, net of royalties and derivatives		**47,830**	76,371	**162,302**	187,484
Expenses					
Operating		**7,739**	9,093	**27,431**	25,257
Production taxes		**4,224**	7,323	**15,073**	20,712
Transportation		**1,467**	1,872	**4,956**	5,485
General and administrative		**1,810**	1,880	**5,673**	5,390
Transaction related costs		**-**	-	**2,454**	2,100
Finance	10	**(232)**	1,761	**2,813**	5,570
Share-based compensation		**1,574**	1,390	**5,328**	2,774
Depletion and depreciation	3, 4	**12,611**	12,457	**39,327**	35,865
Gain on disposition	4	**-**	-	**(450)**	-
		29,193	35,776	**102,605**	103,153
Income before income taxes		**18,637**	40,595	**59,697**	84,331
Deferred income tax expense		**5,318**	10,783	**17,307**	22,807
Net income		**$13,319**	$29,812	**$42,390**	$61,524
Currency translation adjustment		**10,324**	30,952	**(480)**	37,739
Comprehensive income		**$23,643**	$60,764	**$41,910**	$99,263
Net income per common share:					
Basic	9	**$0.02**	$0.05	**$0.06**	$0.10
Diluted	9	**$0.02**	$0.04	**$0.06**	$0.09

See accompanying notes to the interim consolidated financial statements

LUCERO ENERGY CORP.

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

	Common shares	Warrants	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at December 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	-	-	4,272	-	-	4,272
Issued pursuant to private placements	52,158	2,342	-	-	-	54,500
Share issue costs	(2,235)					(2,235)
Net income	-		-	61,524	-	61,524
Other comprehensive income	-	-	-	-	37,739	37,739
Balance at September 30, 2022	**$418,566**	**$2,342**	**$7,726**	**($13,975)**	**$36,900**	**$451,559**
Balance at December 31, 2022	$418,566	$2,342	$9,888	$5,020	$27,588	$463,404
Settlement of share bonus awards	5,141	-	(9,265)	-	-	(4,124)
Share-based compensation, gross	-	-	8,206	-	-	8,206
Repurchase of common shares	(12,037)	-	-	-	-	(12,037)
Net income	-		-	42,390	-	42,390
Other comprehensive loss	-	-	-	-	(480)	(480)
Balance at September 30, 2023	**$411,670**	**$2,342**	**$8,829**	**$47,410**	**$27,108**	**$497,359**

See accompanying notes to the interim consolidated financial statements

LUCERO ENERGY CORP.

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

	Note	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Operating activities					
Net income for the period		**$13,319**	$29,812	**$42,390**	$61,524
Depletion and depreciation	3, 4	**12,611**	12,457	**39,327**	35,865
Deferred income tax expense		**5,318**	10,783	**17,307**	22,807
Unrealized gain on financial derivatives		**-**	(13,007)	**-**	(13,036)
Share-based compensation		**1,574**	1,390	**5,328**	2,774
Gain on disposition	4	**-**	-	**(450)**	-
Finance expenses - non-cash	10	**38**	46	**130**	126
Finance expenses - cash	10	**(270)**	1,715	**2,683**	5,444
Settlement of decommissioning obligations	6	**(304)**	-	**(304)**	-
Change in non-cash working capital		**(5,890)**	4,595	**(1,914)**	15,163
Cash provided by operating activities		**26,396**	47,791	**104,497**	130,667
Investing activities					
Additions to property, plant and equipment	4	**(16,861)**	(25,657)	**(79,503)**	(45,675)
Acquisitions	4	**-**	(207)	**(6,339)**	(8,858)
Proceeds from property disposition	4	**-**	-	**119,582**	-
Change in non-cash working capital		**(7,724)**	6,839	**(7,000)**	(6,681)
Cash provided by (used in) investing activities		**(24,585)**	(19,025)	**26,740**	(61,214)
Financing activities					
Repayment to senior credit facility		**-**	(27,268)	**(52,112)**	(110,166)
Debt issuance costs		**-**	-	**-**	570
Net interest received (paid)		**403**	(1,683)	**(2,644)**	(5,696)
Payment of lease obligations	3	**(123)**	(120)	**(367)**	(424)
Repurchase of common shares	7	**(9,532)**	-	**(12,037)**	-
Proceeds from private placements		**-**	-	**-**	54,500
Settlement of share awards	7	**(4,124)**	(229)	**(4,124)**	(1,229)
Share issue costs		**-**	-	**-**	(2,235)
Cash used in financing activities		**(13,376)**	(29,300)	**(71,284)**	(64,680)
Change in cash and cash equivalents		**(11,565)**	(534)	**59,953**	4,773
Effect of foreign exchange rate changes		**1,502**	491	**1,531**	717
Cash and cash equivalents, beginning of period		**75,705**	5,873	**4,158**	340
Cash and cash equivalents, end of period		**$65,642**	$5,830	**$65,642**	$5,830

See accompanying notes to the interim consolidated financial statements

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements
As at September 30, 2023 and for the three and nine months ended September 30, 2023 and September 30, 2022
(unaudited)
(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. 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 1024, 222 - 3rd Avenue SW, Calgary, Alberta T2P 0B4 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

2. Basis of Presentation

Basis of measurement and statement of compliance

These interim 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 interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2022. Income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements were approved by the Company's Board of Directors on November 10, 2023.

Use of estimates, judgments and assumptions

The timely preparation of the interim 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 interim consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates, judgments, and assumptions.

3. 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, 2021	$1,006
Additions	338
Depreciation	(498)
Effect of foreign currency rate changes	55
Balance at December 31, 2022	$901
Additions	346
Depreciation	(308)
Effect of foreign currency rate changes	(2)
Balance at September 30, 2023	**$937**

(continued)

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

Lease liability

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
Additions	346
Payments	(367)
Lease interest expense	43
Effect of foreign currency rate changes	(3)
Balance at September 30, 2023	**$1,072**

4. Property, Plant and Equipment

	Developed and producing	Other	Total
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
Property acquisition	6,339	-	6,339
Property disposition	(128,169)	-	(128,169)
Additions to property, plant and equipment	79,458	45	79,503
Capitalized share-based compensation	2,878	-	2,878
Change in decommissioning obligations	354	-	354
Depletion and depreciation	(38,958)	(61)	(39,019)
Effect of foreign currency rate changes	(3,030)	-	(3,029)
Balance at September 30, 2023	**$495,995**	**$172**	**$496,167**

Property Disposition

On June 15, 2023, Lucero closed a disposition of certain non-operated oil and gas properties within the Company’s North Dakota Bakken/Three Forks play (the “Disposition”) for a sale price of $140.2 million before closing adjustments. As customary, at the time of closing, the purchase and sale agreement provides that receipt of $6.6 million of the cash consideration is to be deferred subject to any bona fide indemnity claims made by the purchaser (the “Deferred Proceeds”). If no such indemnity claims exist, the Deferred Proceeds are to be fully paid to Lucero on or before June 15, 2024. The Company believes it is more likely than not that the $6.6 million in Deferred Proceeds will be received in full. To date, no indemnity claim has been made by the purchaser. The effective date of the Disposition is January 1, 2023 and after closing adjustments, net cash proceeds are estimated to be $126.2 million including receipt of the Deferred Proceeds. The proceeds from the property disposition exceed the net book value of the properties disposed, resulting in a gain of $0.5 million.

Sale price	$140,173
Closing adjustments	(12,883)
Foreign exchange impact	(1,064)
Proceeds from property disposition (including deferred proceeds of $6.6 million)	$126,226
Net book value of properties disposed, net of decommissioning obligations	125,776
Gain on disposition	$450

(continued)

Depreciation, depletion and future development costs

Depletion and depreciation expense was $39.0 million (2022 - $35.5 million) for the nine months ended September 30, 2023, which reflected an estimated US$151.5 million (2022 - US$228.3 million) of future development costs associated with proved and probable oil and gas reserves.

Impairment

There were no indicators of impairment at September 30, 2023.

Capitalized Overhead

During the nine months ended September 30, 2023, the Company capitalized $2.3 million of general and administrative costs and $2.9 million of share-based compensation costs directly attributable to acquisition and development activities ($2.3 million and $1.5 million, respectively, for the nine months ended September 30, 2022).

5. Senior Credit Facility

On June 15, 2023, pursuant to the Disposition, the Company confirmed its reserves-based revolving credit facility at US$160.0 million (previously US$180.0 million), comprised of a US$145.0 million syndicated facility and a US$15.0 million non-syndicated operating facility (together, the “Senior Credit Facility”). Cash proceeds from the Disposition were used to repay all amounts drawn on the Senior Credit Facility and as at September 30, 2023, the Senior Credit Facility was undrawn. 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 November 30, 2023 with a term out date on May 31, 2024, 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 September 30, 2023.

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 September 30, 2023. The credit facility has no financial covenants.

As at November 10, 2023, the was no balance drawn under the Senior Credit Facility.

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements
As at September 30, 2023 and for the three and nine months ended September 30, 2023 and September 30, 2022
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

6. Decommissioning Obligations

	As at September 30, 2023	As at December 31, 2022
Balance, beginning of period	**$5,993**	$7,971
Obligations incurred	**549**	589
Obligations acquired	**90**	73
Obligations disposed	**(2,393)**	-
Obligations settled - cash	**(304)**	-
Change in estimated future cash flows	**(285)**	(3,205)
Accretion	**130**	174
Effect of foreign currency rate changes	**(54)**	391
Balance, end of period	**$3,726**	$5,993

Lucero's decommissioning obligations consist 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 $3.7 million at September 30, 2023 ($6.0 million at December 31, 2022) based on a total undiscounted and uninflated liability of $7.2 million ($10.3 million at December 31, 2022). 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 September 30, 2023, a risk-free interest rate of 4.7% (4.0% at December 31, 2022) and an inflation rate of 2.5% (2.3% at December 31, 2022) were used to calculate the present value of the decommissioning obligation.

7. Share Capital

Warrants

As part of private placements closed in February 2022, 23,750,000 warrants were issued, each entitling 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 September 30, 2023, 15.8 million warrants had vested (15.8 million at December 31, 2022), which represents the first two thirds of the total warrants issued. In the nine months ended September 30, 2023, no warrants were exercised. All remaining warrants outstanding or exercisable will expire on February 1, 2027.

(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 September 30, 2023, the Company had 651,091,067 voting common shares (662,410,687 at December 31, 2022), no non-voting common shares, and no Class A preferred shares outstanding.

The following table reflects the Company's outstanding common shares as at September 30, 2023:

(thousands, except number of common shares)	Common shares	Share capital
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
Settlement of restricted and performance share bonus awards	7,820,080	5,141
Repurchase of common shares under NCIB	(19,139,700)	(12,037)
Balance at September 30, 2023	**651,091,067**	**$411,670**

Normal course issuer bid ("NCIB")

On June 15, 2023, Lucero announced the approval of the Company's NCIB to purchase for cancellation, up to a maximum of 33.1 million common shares of the Company over a twelve month period commencing June 19, 2023. As of September 30, 2023, 19.1 million common shares had been repurchased and cancelled under the NCIB, at an average cost of $0.63 per common share.

Subsequent to September 30, 2023, the Company purchased and cancelled 0.3 million shares under the NCIB.

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

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 until the Board of Directors approves an annual multiplier. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations and comprehensive income over the vesting period with a corresponding increase to contributed surplus.

During the three months ended September 30, 2023, the Company settled certain vesting of share bonus awards by issuing common shares equivalent to the fair value of the vesting, net of payroll income taxes. Payroll income taxes are concurrently settled in cash by the Company on behalf of the share bonus award recipient. As a result, the number of common shares issued on settlement of share bonus awards is less than the number of corresponding share bonus awards settled.

	Restricted share bonus awards	Performance share bonus awards	Total awards	Estimated fair value price ($)
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
Granted	2,432,162	7,997,870	10,430,032	0.54
Granted pursuant to multiplier	-	2,905,460	2,905,460	0.61
Settled	(2,489,473)	(11,552,947)	(14,042,420)	0.59
Forfeited and expired	(140,327)	(276,662)	(416,989)	0.38
Balance at September 30, 2023	**7,027,392**	**24,230,308**	**31,257,700**	**$0.65**

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements
As at September 30, 2023 and for the three and nine months ended September 30, 2023 and September 30, 2022
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

8. Revenue

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

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Tight oil	**$56,306**	$72,257	**$182,408**	$230,738
Shale gas	**1,152**	8,871	**9,451**	19,944
Natural gas liquids	**(428)**	5,729	**3,662**	15,754
	$57,030	$86,857	**$195,521**	$266,436

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 income. 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.

9. Net Income per Common Share

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

(thousands, except number of common shares and per share amounts)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income for the period	**$13,319**	$29,812	**$42,390**	$61,524
Basic weighted average number of common shares	**658,521,478**	662,403,238	**661,100,038**	644,269,506
Diluted weighted average number of common shares	**681,139,970**	672,833,652	**673,730,699**	666,013,550
Basic net income per common share	**$0.02**	$0.05	**$0.06**	$0.10
Diluted net income per common share	**$0.02**	$0.04	**$0.06**	$0.09

In computing diluted earnings for the three months ended September 30, 2023, 12,081,884 performance share bonus awards, 6,863,871 warrants and 3,596,248 restricted share bonus awards were added to the basic weighted average common shares outstanding. In computing diluted earnings for the nine months ended September 30, 2023, 5,775,998 performance share bonus awards, 4,880,293 warrants and 1,974,370 restricted share bonus awards were added to the basic weighted average common shares outstanding.

In computing diluted earnings for the three months ended September 30, 2022, 4,748,987 warrants, 4,135,070 performance share bonus awards and 1,546,357 restricted share bonus awards were added to the basic weighted average common shares outstanding. In computing diluted earnings for the nine months ended September 30, 2022, 8,573,690 warrants, 10,058,319 performance share bonus awards and 3,112,035 restricted share bonus awards were added to the basic weighted average common shares outstanding.

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements
As at September 30, 2023 and for the three and nine months ended September 30, 2023 and September 30, 2022
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(in $000's of Canadian dollars, unless otherwise noted)

10. Finance Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Senior credit facility interest and amortized financing costs	**$663**	$1,698	**$3,711**	$5,388
Interest income	**(947)**	-	**(1,071)**	-
Decommissioning obligations accretion	**38**	46	**130**	126
Lease interest	**14**	17	**43**	56
Total finance expenses, net	**($232)**	$1,761	**$2,813**	$5,570

11. Risk Management

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.

The Company's cash is deposited with financial institutions and is subject to counterparty credit and contract risk. The Company mitigates this risk by only transacting with investment grade financial institutions with strong credit ratings.

The large majority of the Company's accounts receivable is from the production of tight oil and shale gas and joint operations receivables. Sales of tight oil, natural gas liquids and shale gas production from the Company's operated properties are made to large, credit-worthy industry purchasers. Three purchasers account for approximately 86% of the Company's revenue for the nine months ended September 30, 2023 (nine months ended September 30, 2022 - 57%). 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 deferred proceeds pursuant to the disposition is held with a large credit worthy counterparty whom Lucero completed the property disposition with on June 15, 2023. The maximum credit exposure is $6.6 million which is to be fully paid to Lucero on or before June 15, 2024, subject to no indemnity claims being made.

The use of financial derivative instruments also exposes the Company to credit and contract risk. The Company enters 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 the Senior Credit Facility, which is secured by substantially all assets of the Company, the Company is not required to post collateral.

(continued)

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

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. 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 September 30, 2023 was approximately $39.5 million (December 31, 2022 - $58.7 million). It is the Company's general practice to pay suppliers within 60 days.

The following are the anticipated timing of settlements of its financial liabilities at September 30, 2023:

($ thousands)	**Total**	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	**$39,455**	$39,455	-	-	-
Lease obligations	**1,072**	109	354	482	127
Total	**$40,527**	$39,564	$354	$482	$127

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.