Lucero
ENERGY CORP.

Management's Discussion and Analysis

For the three months and years ended

December 31, 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 March 21, 2024. This MD&A should be read in conjunction with the Company's audited consolidated financial statements as at December 31, 2023 and 2022 and for the years then ended. The reader should be aware that the operating results discussed below may not be indicative of future performance.

The financial data presented below has been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board, 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 month; 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 December 31,		**Year ended December 31,**	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Additions to property, plant and equipment	**$4,579**	$17,306	**$84,082**	$62,981
Capitalized general and administrative expenses	**(848)**	(746)	**(3,166)**	(3,057)
Exploration and development expenditures	**$3,731**	$16,560	**$80,916**	$59,924

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 December 31,		**Year ended December 31,**	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Cash provided by operating activities	**$32,235**	$41,903	**$136,732**	$172,570
Finance expenses - cash	**424**	(1,710)	**(2,259)**	(7,154)
Settlement of decommissioning obligations	**-**	-	**304**	-
Changes in non-cash operating working capital	**1,317**	(3,195)	**3,231**	(18,358)
Funds flow	**$33,976**	$36,998	**$138,008**	$147,058
Transaction related costs	**-**	-	**2,454**	2,100
Adjusted funds flow	**$33,976**	$36,998	**$140,462**	$149,158

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

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

		Three months ended December 31,		**Year ended December 31,**
($ thousands)	**2023**	**2022**	**2023**	**2022**
Cash provided by operating activities	**$32,235**	$41,903	**$136,732**	$172,570
Changes in non-cash operating working capital	**1,317**	(3,195)	**3,231**	(18,358)
Adjusted EBITDA	**$33,552**	$38,708	**$139,963**	$154,212

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 December 31,		**Year ended December 31,**
($ thousands)	**2023**	**2022**	**2023**	**2022**
Petroleum and natural gas revenues	**$58,680**	$76,146	**$254,201**	$342,582
Royalties	**(9,439)**	(13,281)	**(42,658)**	(63,358)
Operating expenses	**(8,163)**	(9,438)	**(35,594)**	(34,695)
Production taxes	**(4,390)**	(7,003)	**(19,463)**	(27,715)
Transportation expenses	**(1,426)**	(1,797)	**(6,382)**	(7,282)
Operating netback prior to hedging	**$35,262**	$44,627	**$150,104**	$209,532
Realized loss on financial derivatives	**-**	(4,055)	**-**	(45,966)
Operating netback	**$35,262**	$40,572	**$150,104**	$163,566

Working Capital (Net Debt)

Working capital (net debt) represents current assets less total liabilities (excluding decommissioning obligations, deferred tax liability, and lease 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 December 31, 2023	As at December 31, 2022
Total current assets	**$113,842**	$34,098
Total liabilities	**(89,689)**	(149,123)
Decommissioning obligations	**4,623**	5,993
Deferred tax liability	**52,865**	30,553
Lease liability	**950**	1,053
Working capital (net debt)	**$82,591**	($77,426)

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 December 31, **2023**	**2022**	Year ended December 31, **2023**	**2022**
Petroleum and natural gas revenues	**$58,680**	$76,146	**$254,201**	$342,582
Cash provided by operating activities	**$32,235**	$41,903	**$136,732**	$172,570
Net income	**$16,882**	$18,995	**$59,272**	$80,519
Per share - basic	**$0.03**	$0.03	**$0.09**	$0.12
Per share - diluted	**$0.03**	$0.03	**$0.09**	$0.12
Funds flow (1)	**$33,976**	$36,998	**$138,008**	$147,058
Per share - basic (3)	**$0.05**	$0.06	**$0.21**	$0.23
Per share - diluted (3)	**$0.05**	$0.06	**$0.21**	$0.22
Adjusted funds flow (1)	**$33,976**	$36,998	**$140,462**	$149,158
Per share - basic (3)	**$0.05**	$0.06	**$0.21**	$0.23
Per share - diluted (3)	**$0.05**	$0.06	**$0.21**	$0.22
Adjusted EBITDA (1)	**$33,552**	$38,708	**$139,963**	$154,212
Per share - basic (3)	**$0.05**	$0.06	**$0.21**	$0.24
Per share - diluted (3)	**$0.05**	$0.06	**$0.21**	$0.23
Exploration and development expenditures (1)	**$3,731**	$16,560	**$80,916**	$59,924
Working capital (net debt) (1)	**$82,591**	($77,426)	**$82,591**	($77,426)
Number of common shares outstanding				
Shares outstanding, end of period	**648,671,067**	662,410,687	**648,671,067**	662,410,687
Weighted average - basic	**649,983,980**	662,410,687	**658,298,182**	648,842,077
Weighted average - diluted	**674,271,401**	672,207,332	**672,763,201**	672,009,827
Operating				
Daily production (2)				
Tight oil (Bbls)	**5,630**	6,326	**6,172**	6,564
Shale gas (Mcf)	**11,980**	13,218	**12,180**	12,207
Natural gas liquids (Bbls)	**2,382**	2,480	**2,466**	2,275
Barrels of oil equivalent	**10,009**	11,009	**10,668**	10,874
Average realized price:				
Tight oil ($/Bbls)	**$107.26**	$114.49	**$105.63**	$124.12
Shale gas ($/Mcf)	**$1.51**	$5.34	**$2.50**	$5.93
Natural gas liquids ($/Bbls)	**$6.69**	$13.25	**$5.70**	$22.61
Barrels of oil equivalent ($/Boe)	**$63.73**	$75.18	**$65.28**	$86.32
Operating netback ($ per Boe) (3)				
Petroleum and natural gas revenues	**$63.73**	$75.18	**$65.28**	$86.32
Royalties	**($10.25)**	($13.11)	**($10.96)**	($15.96)
Operating expenses	**($8.86)**	($9.32)	**($9.14)**	($8.74)
Production taxes	**($4.77)**	($6.91)	**($5.00)**	($6.98)
Transportation expenses	**($1.55)**	($1.77)	**($1.64)**	($1.83)
Operating netback prior to hedging (1)	**$38.30**	$44.07	**$38.54**	$52.81
Realized loss on financial derivatives	**-**	($4.00)	**-**	($11.58)
Operating netback (1)	**$38.30**	$40.07	**$38.54**	$41.23

(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 of Deferred Proceeds will be received in full. Subsequent to December 31, 2023, $3.3 million of Deferred Proceeds have been received by the Company and no indemnity claim has been made by the purchaser. The effective date of the Disposition was January 1, 2023 and after closing adjustments, net cash proceeds were $130.5 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 $3.0 million.

Purchase price	$140,173
Closing adjustments	(8,656)
Foreign exchange impact	(1,064)
Proceeds from property disposition (including deferred proceeds of $6.6 million)	$130,453
Net book value of properties disposed, net of decommissioning obligations	127,454
Gain on disposition	$2,999

Results of Operations

Production

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Tight oil (Bbl per day)	**5,630**	6,326	**6,172**	6,564
Shale gas (Mcf per day)	**11,980**	13,218	**12,180**	12,207
Natural gas liquids (Bbl per day)	**2,382**	2,480	**2,466**	2,275
Total (Boe per day)	**10,009**	11,009	**10,668**	10,874
Liquids percentage of total	**80%**	80%	**81%**	81%

Total production during the three months and year ended December 31, 2023 decreased 9% and 2%, respectively, compared to the three months and year ended December 31, 2022 (the "Corresponding Periods"). The decreases are due to the Disposition, partially offset by new production from operated wells drilled and completed during the year.

Pricing

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Average Benchmark Prices (US$):				
Crude oil - WTI (per Bbl)	**$78.33**	$82.63	**$77.62**	$94.23
Natural gas - HH spot (per Mcf) (1)	**$2.84**	$5.94	**$2.84**	$6.37
Average Differential (US$):				
Crude oil - (per Bbl)	**$0.40**	$1.72	**$0.64**	$1.09
Natural gas - (per Mcf) (1)	**($1.73)**	($2.01)	**($0.99)**	($1.81)
Average Realized Prices (US$):				
Tight oil (per Bbl)	**$78.73**	$84.35	**$78.26**	$95.32
Shale gas (per Mcf)	**$1.11**	$3.93	**$1.85**	$4.56
Natural gas liquids (per Bbl)	**$4.91**	$9.76	**$4.22**	$17.37
Average Realized Prices (C$):				
Tight oil (per Bbl)	**$107.26**	$114.49	**$105.63**	$124.12
Shale gas (per Mcf)	**$1.51**	$5.34	**$2.50**	$5.93
Natural gas liquids (per Bbl)	**$6.69**	$13.25	**$5.70**	$22.61

(1) Includes conversion from Mmbtu to Mcf.

The Company's average premium differential for crude oil narrowed during the three months and year ended December 31, 2023. Crude oil pricing differentials are largely a function of global and regional supply/demand fundamentals as well as crude oil quality, transportation and inventories.

Henry Hub benchmark natural gas prices in the three months and year ended December 31, 2023 decreased compared to the Corresponding Periods, as North American and global supply/demand fundamentals subsided. NGL prices in the three months and year ended December 31, 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 December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Tight oil	**$55,554**	$66,635	**$237,962**	$297,373
Shale gas	**1,660**	6,488	**11,111**	26,432
Natural gas liquids	**1,466**	3,023	**5,128**	18,777
Petroleum and natural gas revenues	**$58,680**	$76,146	**$254,201**	$342,582
Less: royalties	**(9,439)**	(13,281)	**(42,658)**	(63,358)
Petroleum and natural gas revenues, net	**$49,241**	$62,865	**$211,543**	$279,224
Royalties as a percentage of revenues	**16%**	17%	**17%**	18%
Per Boe amounts:				
Petroleum and natural gas revenues	**$63.73**	$75.18	**$65.28**	$86.32
Less: royalties	**(10.25)**	(13.11)	**(10.96)**	(15.96)
Petroleum and natural gas revenues, net	**$53.48**	$62.07	**$54.32**	$70.36

Revenues in the three months and year ended December 31, 2023 decreased 23% and 26%, respectively, compared to the Corresponding Periods. The decreases were due to the Disposition and lower realized commodity prices.

The Company's royalty rate as a percentage of revenues decreased for the three months and year ended December 31, 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	December 31,	Year ended	December 31,
($ thousands)	**2023**	**2022**	**2023**	**2022**
Realized loss on financial derivatives	-	($4,055)	-	($45,966)
Realized loss on financial derivatives per Boe	-	($4.00)	-	($11.58)
Unrealized gain on financial derivatives	-	$3,282	-	$16,318
Unrealized gain on financial derivatives per Boe	-	$3.24	-	$4.11

Operating Expenses

	Three months ended	December 31,	Year ended	December 31,
($ thousands, unless otherwise noted)	**2023**	**2022**	**2023**	**2022**
Operating expenses	**$8,163**	$9,438	**$35,594**	$34,695
Operating expenses per Boe	**$8.86**	$9.32	**$9.14**	$8.74

Operating expenses on a total and per Boe basis, decreased for the three months ended December 31, 2023 and increased for the year ended December 31, 2023, compared to the Corresponding Periods. The decrease in the three months ended December 31, 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 year ended December 31, 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	December 31,	Year ended	December 31,
($ thousands, unless otherwise noted)	**2023**	**2022**	**2023**	**2022**
Production taxes	**$4,390**	$7,003	**$19,463**	$27,715
Production taxes per Boe	**$4.77**	$6.91	**$5.00**	$6.98
Production taxes - % of petroleum and natural gas revenues, net	**9%**	11%	**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 months and year ended December 31, 2023, production taxes, as a percentage of petroleum and natural gas revenues, net, were slightly lower than the Corresponding Periods, reflecting lower commodity prices.

Transportation Expenses

	Three months ended	December 31,	Year ended	December 31,
($ thousands, unless otherwise noted)	**2023**	**2022**	**2023**	**2022**
Transportation expenses	**$1,426**	$1,797	**$6,382**	$7,282
Transportation expenses per Boe	**$1.55**	$1.77	**$1.64**	$1.83

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 months and year ended December 31, 2023 were relatively consistent compared to the Corresponding Periods.

Operating Netback

($ per Boe, unless otherwise noted)	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Petroleum and natural gas revenues	**$63.73**	$75.18	**$65.28**	$86.32
Royalties	**(10.25)**	(13.11)	**(10.96)**	(15.96)
Operating expenses	**(8.86)**	(9.32)	**(9.14)**	(8.74)
Production taxes	**(4.77)**	(6.91)	**(5.00)**	(6.98)
Transportation expenses	**(1.55)**	(1.77)	**(1.64)**	(1.83)
Operating netback prior to hedging [1]	**$38.30**	$44.07	**$38.54**	$52.81
Realized loss on financial derivatives	**-**	(4.00)	**-**	(11.58)
Operating netback [1]	**$38.30**	$40.07	**$38.54**	$41.23

(1) 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. 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 December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
General and administrative expenses	**$2,558**	$2,610	**$10,549**	$10,311
Capitalized general and administrative expenses	**(848)**	(746)	**(3,166)**	(3,057)
Net general and administrative expenses	**$1,710**	$1,864	**$7,383**	$7,254
Net general and administrative expenses per Boe	**$1.86**	$1.84	**$1.90**	$1.83

Net G&A expenses were relatively consistent, on both a dollar and per Boe basis, for the three months and year ended December 31, 2023, compared to the Corresponding Periods.

Transaction Related Costs

($ thousands)	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Transaction related costs	**-**	-	**$2,454**	$2,100
Transaction related costs per Boe	**-**	-	**$0.63**	$0.53

Transaction related costs in the year ended December 31, 2023 are one-time costs related to the Disposition. Transaction related costs in the year ended December 31, 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 December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Depletion and depreciation expenses	**$12,559**	$12,892	**$51,886**	$48,757
Depletion and depreciation expenses per Boe	**$13.64**	$12.73	**$13.33**	$12.29

Depletion and depreciation expenses for the three months and year ended December 31, 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 (Income)

($ thousands)	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Senior credit facility interest and amortized financing costs	**$672**	$1,693	**$4,383**	$7,081
Interest income	**(1,113)**	-	**(2,184)**	-
Decommissioning obligations accretion	**39**	48	**169**	174
Lease interest	**17**	17	**60**	73
Total finance expenses (income), net	**($385)**	$1,758	**$2,428**	$7,328

In the three months ended December 31, 2023, interest income exceeded interest expenses as a result of the Company's cash balance during the quarter. In the year ended December 31, 2023, finance expenses were lower compared to the Corresponding Period, reflecting the increase in interest income on the Company's cash balance in the second half of 2023, combined with the lower average drawn amount on the senior credit facility in the first half of 2023.

Share-Based Compensation Expenses

($ thousands)	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Gross share-based compensation expenses	**$1,304**	$2,162	**$9,510**	$6,434
Capitalized share-based compensation expenses	**(457)**	(758)	**(3,335)**	(2,256)
Net share-based compensation expenses	**$847**	$1,404	**$6,175**	$4,178
Net share-based compensation expenses per Boe	**$0.92**	$1.39	**$1.59**	$1.05

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 months ended December 31, 2023, net share-based compensation expenses were lower than the Corresponding Period, reflecting forfeitures of Share Bonus Awards. In the year ended December 31, 2023, net share-based compensation expenses were higher than the Corresponding Period 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 December 31,		Year ended December 31,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Foreign currency translation rates - C$/US$				
Average period exchange rate	**$1.3624**	$1.3573	**$1.3497**	$1.3021
Ending period exchange rate	**$1.3226**	$1.3544	**$1.3226**	$1.3544

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 months and year ended December 31, 2023 the Company recorded a currency translation loss of $11.4 million and a loss of $11.8 million, respectively (Corresponding Periods: currency translation loss of $9.3 million and a gain of $28.4 million, respectively).

Taxes

For the three months and year ended December 31, 2023, the Company recorded deferred income tax expense of $6.2 million and $23.5 million, respectively (Corresponding Periods: expense of $6.9 million and $29.7 million, respectively).

Liquidity and Capital Resources

Summary

The Company's capital resources consist primarily of cash flow provided by operating activities, cash and cash equivalents and availability under the senior credit facility. The Company is dependent on cash on hand, operating cash flows and equity and/or debt issuances to finance capital expenditures and property acquisitions. Borrowings, 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 December 31, 2023 (drawn US$39.0 million at December 31, 2022). In November 2023 the available borrowing base of the senior credit facility was renewed at US$160.0 million (US$180.0 million at December 31, 2022) with the next borrowing base review scheduled to be completed by May 31, 2024. The Company has no other debt obligations.

Cash Flow Provided by Operating Activities

Cash flow provided by operating activities depends on several factors including commodity prices, royalty rates, production volumes, operating expenses, transportation expenses, and production taxes, as well as the impact of changes in non-cash working capital. During the three months and year ended December 31, 2023, cash flow provided by operating activities was $32.2 million and $136.7 million, respectively, compared to $41.9 million and $172.6 million, respectively in the Corresponding Periods. The decreases are primarily due to lower realized commodity prices and the Disposition.

Financial Derivatives and Hedging Activities

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

As at December 31, 2023, the Company had no derivative contracts outstanding.

Capital Expenditures

	Three months ended December 31,		Year ended December 31,	
($ thousands)	**2023**	**2022**	**2023**	**2022**
Drilling, completions and optimizations	**$3,598**	$16,216	**$72,564**	$57,004
Equipment and facilities	**127**	346	**5,882**	2,397
Land retention costs	**6**	(2)	**2,425**	311
Administrative assets	**-**	-	**45**	212
Exploration and development expenditures [(1)]	**$3,731**	$16,560	**$80,916**	$59,924
Capitalized G&A	**848**	746	**3,166**	3,057
Additions to property, plant and equipment	**$4,579**	$17,306	**$84,082**	$62,981
Proceeds from property disposition [(2)]	**(4,143)**	-	**(123,725)**	-
Acquisitions	**-**	-	**6,339**	8,858
Total capital expenditures (proceeds)	**$436**	$17,306	**($33,304)**	$71,839

(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) In addition to the $123.7 million of cash proceeds, in 2024 the Company expects to receive $6.6 million in deferred proceeds, of which $3.3 million has been collected subsequent to December 31, 2023.

Capital expenditures, consisting of capitalized development activity for the year ended December 31, 2023, were funded from operating cash flows. During the year ended December 31, 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 consolidated statement of financial position. In November 2023, the borrowing capacity was rewewed 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 May 2024. 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 December 31, 2023. The credit facility has no financial covenants.

As at March 21, 2024, there was no balance drawn under the Senior Credit Facility.

Share Capital

	Three months ended December 31, 2023	2022	Year ended December 31, 2023	2022
Weighted average outstanding common shares:				
Basic	**649,983,980**	662,410,687	**658,298,182**	648,842,077
Diluted	**674,271,401**	672,207,332	**672,763,201**	672,009,827
Outstanding Securities:				
Common shares	**648,671,067**	662,410,687	**648,671,067**	662,410,687
Restricted share bonus awards	**6,975,034**	7,225,030	**6,975,034**	7,225,030
Performance share bonus awards	**24,020,880**	25,156,587	**24,020,880**	25,156,587
Warrants	**23,750,000**	23,750,000	**23,750,000**	23,750,000
Fully diluted common shares	**703,416,981**	718,542,304	**703,416,981**	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 December 31, 2023, 21.6 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 December 31, 2023, the Company purchased and cancelled 2.1 million shares under the NCIB at an average cost of $0.56 per common share.

As at March 21, 2024, the Company had 646,527,567 common shares issued and outstanding, 24,020,880 performance share bonus awards outstanding, 23,750,000 warrants outstanding and 6,975,034 restricted share bonus awards outstanding.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations and Other Commercial Commitments

The following is a summary of the Company's contractual obligations and commitments as at December 31, 2023:

($ thousands)	**Total**	2024	2025	2026	Thereafter
Accounts payable and accrued liabilities	**$31,251**	$31,251	-	-	-
Lease liability	**950**	348	475	127	-
Total	**$32,201**	$31,599	$475	$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:

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 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 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 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)	**Q4 2023**	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Petroleum and natural gas revenues, net of royalties	**49,241**	47,830	53,876	60,596	62,865	70,698	76,661	69,000
Net income	**16,882**	13,319	10,602	18,469	18,995	29,812	25,824	5,888
Per share – basic	**0.03**	0.02	0.02	0.03	0.03	0.05	0.04	0.01
Per share – diluted	**0.03**	0.02	0.02	0.03	0.03	0.04	0.04	0.01
Funds flow (2)	**33,976**	32,860	31,263	39,909	36,998	41,481	35,017	33,601
Per share – basic (3)	**0.05**	0.05	0.05	0.06	0.06	0.06	0.05	0.06
Per share – diluted (3)	**0.05**	0.05	0.05	0.06	0.06	0.06	0.05	0.05
Adjusted funds flow (2)	**33,976**	32,860	33,717	39,909	36,998	41,481	35,017	35,701
Per share – basic (3)	**0.05**	0.05	0.05	0.06	0.06	0.06	0.05	0.06
Per share – diluted (3)	**0.05**	0.05	0.05	0.06	0.06	0.06	0.05	0.06
Cash provided by operating activities	**32,235**	26,396	43,183	34,918	41,903	47,791	44,634	38,242
Per share – basic (4)	**0.05**	0.04	0.07	0.05	0.07	0.07	0.07	0.06
Per share – diluted (4)	**0.05**	0.04	0.06	0.05	0.07	0.07	0.07	0.06
Total assets	**592,383**	589,413	581,970	627,411	612,527	623,220	571,535	569,159
Senior credit facility	**-**	-	-	52,820	52,862	78,575	100,175	127,715
Working capital (net debt) (2)	**82,591**	52,638	49,751	(69,608)	(77,426)	(99,192)	(107,451)	(121,092)

(footnotes on next page)

(in $000's of dollars, except per share amounts)	**Year ended Dec 31, 2023**	Year ended Dec 31, 2022	Year ended Dec 31, 2021 [1]
Petroleum and natural gas sales, net of royalties	**211,543**	279,224	186,641
Net income (loss)	**59,272**	80,519	(828)
Per share – basic	**0.09**	0.12	-
Per share – diluted	**0.09**	0.12	-
Funds flow [2]	**138,008**	147,058	64,742
Per share – basic [3]	**0.21**	0.23	0.15
Per share – diluted [3]	**0.21**	0.22	0.15
Cash provided by operating activities	**136,732**	172,570	72,230
Per share – basic [4]	**0.21**	0.27	0.17
Per share – diluted [4]	**0.21**	0.26	0.16
Total assets	**592,383**	612,527	558,035
Senior credit facility	**-**	52,862	180,393
Working capital (net debt) [2]	**82,591**	(77,426)	(196,067)

(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 fourth quarter of 2023 increased 3% over the third quarter of 2023 due to increased production volumes as a result of production from recently completed wells, partially offset by decreases in realized oil prices. Cash flow provided by operating activities increased in the fourth quarter of 2023 versus the prior quarter due to increased production volumes.

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, total assets and eliminating the existing debt.

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.

Financial Statements

As at and for the years ended

December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lucero Energy Corp.

Opinion

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

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

We draw attention to note 2, note 3 and note 7 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete D&P assets, to assess for indicators of impairment on the Entity's cash generating unit ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. The Entity has $477.4 million of D&P assets as at December 31, 2023. The Entity depletes its net carrying value of its D&P assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Depletion expense was $51.4 million for the year ended December 31, 2023.

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

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

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2023 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

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Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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We also:

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

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

The engagement partner on the audit resulting in this auditor's report is Jasmeet Kang.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 21, 2024

LUCERO ENERGY CORP.

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

	Note	**As at December 31, 2023**	As at December 31, 2022
Assets			
Cash and cash equivalents		**$88,765**	$4,158
Accounts receivable	5	**16,814**	28,420
Deferred Proceeds pursuant to the Disposition	7	**6,613**	-
Prepaid expenses and deposits		**1,650**	1,520
Total current assets		**113,842**	34,098
Restricted cash		**212**	217
Right of use assets	6	**798**	901
Property, plant and equipment	7	**477,531**	577,311
Total non-current assets		**478,541**	578,429
Total assets		**$592,383**	$612,527
Liabilities			
Accounts payable and accrued liabilities		**$31,251**	$58,662
Lease liability	6	**348**	440
Total current liabilities		**31,599**	59,102
Senior credit facility	8	**-**	52,862
Lease liability	6	**602**	613
Decommissioning obligations	9	**4,623**	5,993
Deferred tax liability	14	**52,865**	30,553
Total non-current liabilities		**58,090**	90,021
Total liabilities		**$89,689**	$149,123
Shareholders' Equity			
Common shares	10	**$410,184**	$418,566
Warrants	10	**2,342**	2,342
Contributed surplus		**10,133**	9,888
Retained earnings		**64,292**	5,020
Accumulated other comprehensive income		**15,743**	27,588
Total equity		**502,694**	463,404
Total liabilities and equity		**$592,383**	$612,527

Key management personnel compensation (note 15)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board

(signed)

Brett Herman
CEO, Director

(signed)

David Rain
Director

LUCERO ENERGY CORP.

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

	Note	Year ended December 31, 2023	2022
Revenues			
Petroleum and natural gas revenues	11	**$254,201**	$342,582
Royalties		**(42,658)**	(63,358)
Petroleum and natural gas revenues, net of royalties		**211,543**	279,224
Realized loss on financial derivatives		**-**	(45,966)
Unrealized gain on financial derivatives		**-**	16,318
Petroleum and natural gas revenues, net of royalties and derivatives		**211,543**	249,576
Expenses			
Operating		**35,594**	34,695
Production taxes		**19,463**	27,715
Transportation		**6,382**	7,282
General and administrative		**7,383**	7,254
Transaction related costs		**2,454**	2,100
Finance	13	**2,428**	7,328
Share-based compensation		**6,175**	4,178
Depletion and depreciation	6, 7	**51,886**	48,757
Gain on disposition	7	**(2,999)**	-
		128,766	139,309
Income before income taxes		**82,777**	110,267
Deferred income tax expense	14	**23,505**	29,748
Net income		**$59,272**	$80,519
Currency translation adjustment		**(11,845)**	28,427
Comprehensive income		**$47,427**	$108,946
Net income per common share:			
Basic and diluted	12	**$0.09**	$0.12

See accompanying notes to the consolidated financial statements

LUCERO ENERGY CORP.

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

	Common shares	Warrants	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	-	-	6,434	-	-	6,434
Issued pursuant to private placements	52,158	2,342	-	-	-	54,500
Share issue costs	(2,235)					(2,235)
Net income	-		-	80,519	-	80,519
Other comprehensive income	-	-	-	-	28,427	28,427
Balance at December 31, 2022	**$418,566**	**$2,342**	**$9,888**	**$5,020**	**$27,588**	**$463,404**
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	-	-	9,510	-	-	9,510
Repurchase of common shares	(13,523)	-	-	-	-	(13,523)
Net income	-		-	59,272	-	59,272
Other comprehensive loss	-	-	-	-	(11,845)	(11,845)
Balance at December 31, 2023	**$410,184**	**$2,342**	**$10,133**	**$64,292**	**$15,743**	**$502,694**

See accompanying notes to the consolidated financial statements

LUCERO ENERGY CORP.

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

	Note	Year ended December 31, 2023	2022
Operating activities			
Net income for the year		**$59,272**	$80,519
Depletion and depreciation	6, 7	**51,886**	48,757
Deferred income tax expense	14	**23,505**	29,748
Unrealized gain on financial derivatives		**-**	(16,318)
Share-based compensation		**6,175**	4,178
Gain on disposition	7	**(2,999)**	-
Finance expenses - non-cash	13	**169**	174
Finance expenses - cash	13	**2,259**	7,154
Settlement of decommissioning obligations	9	**(304)**	-
Change in non-cash working capital	17	**(3,231)**	18,358
Cash provided by operating activities		**136,732**	172,570
Investing activities			
Additions to property, plant and equipment	7	**(84,082)**	(62,981)
Acquisitions	7	**(6,339)**	(8,858)
Proceeds from property disposition	7	**123,725**	-
Change in non-cash working capital	17	**(12,500)**	(7,044)
Cash provided by (used in) investing activities		**20,804**	(78,883)
Financing activities			
Repayment to senior credit facility		**(52,112)**	(134,350)
Debt issuance costs		**-**	570
Net interest paid		**(2,222)**	(7,096)
Payment of lease obligations	6	**(493)**	(547)
Repurchase of common shares	10	**(13,523)**	-
Proceeds from private placements		**-**	54,500
Settlement of share awards	10	**(4,124)**	(1,229)
Share issue costs		**-**	(2,235)
Cash used in financing activities		**(72,474)**	(90,387)
Change in cash and cash equivalents		**85,062**	3,300
Effect of foreign exchange rate changes		**(455)**	518
Cash and cash equivalents, beginning of year		**4,158**	340
Cash and cash equivalents, end of year		**$88,765**	$4,158

See accompanying notes to the consolidated financial statements

LUCERO ENERGY CORP.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2023 and December 31, 2022
(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

(a) Basis of Measurement and Statement of Compliance

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

These consolidated financial statements were approved by the Company's Board of Directors on March 21, 2024.

(b) Principles of Consolidation

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

(c) Functional and Presentation Currency

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

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

(d) Use of Estimates, Judgments and Assumptions

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

(continued)

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

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

Impairment of property, plant and equipment

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

(e) Key Sources of Estimation Uncertainty

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

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

Reserve estimates

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

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

Decommissioning obligations

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

3. Material accounting policies

(a) Revenue Recognition

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

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

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

(i) Recognition and measurement

PP&E is measured at cost less accumulated depreciation and depletion and accumulated impairment losses.

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

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

(ii) Capitalized overhead

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

(continued)

(iii) Impairment

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

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

(iv) Subsequent costs

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

(c) Decommissioning Obligations

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

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

(d) Income Taxes

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

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

(continued)

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

(e) Share-based Compensation

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

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

(f) Financial Instruments

Non-derivative financial assets and liabilities

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

Derivative financial instruments

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

(g) Comprehensive Income

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

4. Determination of fair values

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

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

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

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

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and senior loan are estimated as the present value of related future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2023 and 2022, the fair value of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying value due to their short-term maturity.

Derivatives

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

Warrants

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

Senior credit facility

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

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

5. Accounts Receivable

	December 31, 2023	December 31, 2022
Accounts receivable - petroleum and natural gas	**$15,333**	$25,230
Accounts receivable - joint interest billing and other	**1,481**	3,190
Total accounts receivable	**$16,814**	$28,420

6. Right of Use Assets and Lease Liability

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

Right of use assets

Balance at December 31, 2021	$1,006
Additions	338
Depreciation	(498)
Effect of foreign currency rate changes	55
Balance at December 31, 2022	$901
Additions	346
Depreciation	(437)
Effect of foreign currency rate changes	(12)
Balance at December 31, 2023	**$798**

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	(493)
Lease interest expense	60
Effect of foreign currency rate changes	(16)
Balance at December 31, 2023	**$950**

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7. 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	(129,847)	-	(129,847)
Additions to property, plant and equipment	84,037	45	84,082
Capitalized share-based compensation	3,335	-	3,335
Change in decommissioning obligations	1,309	-	1,309
Depletion and depreciation	(51,366)	(83)	(51,449)
Effect of foreign currency rate changes	(13,549)	-	(13,549)
Balance at December 31, 2023	**$477,381**	**$150**	**$477,531**

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 of Deferred Proceeds will be received in full. Subsequent to December 31, 2023, $3.3 million of Deferred Proceeds have been received by the Company and no indemnity claim has been made by the purchaser. The effective date of the Disposition was January 1, 2023 and after closing adjustments, net cash proceeds were $130.5 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 $3.0 million.

Sale price	$140,173
Closing adjustments	(8,656)
Foreign exchange impact	(1,064)
Proceeds from property disposition (including deferred proceeds of $6.6 million)	$130,453
Net book value of properties disposed, net of decommissioning obligations	127,454
Gain on disposition	$2,999

Depreciation, depletion and future development costs

Depletion and depreciation expense was $51.4 million (2022 - $48.3 million) for the year ended December 31, 2023, which reflected an estimated US$207.7 million (2022 - US$257.9 million) of future development costs associated with proved and probable oil and gas reserves.

Impairment

There were no indicators of impairment at December 31, 2023.

Capitalized Overhead

During the year ended December 31, 2023, the Company capitalized $3.2 million of general and administrative costs and $3.3 million of share-based compensation costs directly attributable to acquisition and development activities ($3.1 million and $2.3 million, respectively, for the year ended December 31, 2022).

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8. 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 December 31, 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 May 31, 2024 with a term out date on the same day, at which point, the facility can be extended at the option of the lenders or converted to a one-year term loan expiring and requiring repayment one year from the term out date. If a decrease in the borrowing base is determined by the senior lenders in the future, it could potentially result in a reduction to the credit facility, which may require a repayment to the lenders within 60 days, if the drawn amount exceeds the borrowing base. The Company was in compliance with terms of the Senior Credit Facility at December 31, 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 December 31, 2023. The credit facility has no financial covenants.

9. Decommissioning Obligations

	As at December 31, 2023	As at December 31, 2022
Balance, beginning of year	**$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	**670**	(3,205)
Accretion	**169**	174
Effect of foreign currency rate changes	**(151)**	391
Balance, end of year	**$4,623**	$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 $4.6 million at December 31, 2023 ($6.0 million at December 31, 2022) based on a total undiscounted and uninflated liability of $7.7 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 December 31, 2023, a risk-free interest rate of 4.0% (4.0% at December 31, 2022) and an inflation rate of 2.2% (2.3% at December 31, 2022) were used to calculate the present value of the decommissioning obligation.

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

10. 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 December 31, 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 year ended December 31, 2023 and 2022, no warrants were exercised. All remaining warrants issued or exercisable will expire on February 1, 2027.

Common shares

The Company’s authorized share capital consists of unlimited voting common shares, unlimited non-voting common shares, and unlimited Class A preferred shares, issuable in series, of which one series (being the special voting shares) have been authorized for issuance. As at December 31, 2023, the Company had 648,671,067 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 December 31, 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	(21,559,700)	(13,523)
Balance at December 31, 2023	**648,671,067**	**$410,184**

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 December 31, 2023, 21.6 million common shares had been repurchased and cancelled under the NCIB, at an average cost of $0.63 per common share.

Subsequent to December 31, 2023, the Company purchased and cancelled 2.1 million shares under the NCIB at an average cost of $0.56 per common share.

(continued)

(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 year ended December 31, 2023, the Company settled vestings of share bonus awards by issuing 7.8 million common shares from treasury, which is net of payroll income taxes equivalent to 6.2 million common shares. Payroll income taxes are concurrently settled in cash by the Company on behalf of the share bonus award recipient.

	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	(192,685)	(486,090)	(678,775)	0.50
Balance at December 31, 2023	**6,975,034**	**24,020,880**	**30,995,914**	**$0.65**

11. Revenue

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

	Year ended December 31,	
	2023	**2022**
Tight oil	**$237,962**	$297,373
Shale gas	**11,111**	26,432
Natural gas liquids	**5,128**	18,777
	$254,201	$342,582

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.

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12. Net Income per Common Share

Basic earnings per common 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. Diluted earnings per common share reflect the maximum possible dilution from other securities, if dilutive.

(thousands, except number of common shares and per share amounts)	**Year ended December 31, 2023**	**2022**
Net income for the year	**$59,272**	$80,519
Basic weighted average number of common shares	**658,298,182**	648,842,077
Diluted weighted average number of common shares	**672,763,201**	672,009,827
Basic and diluted net income per common share	**$0.09**	$0.12

In computing diluted earnings for the year ended December 31, 2023, 6,762,394 performance share bonus awards, 5,417,421 warrants and 2,285,204 restricted share bonus awards were added to the basic weighted average common shares outstanding.

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

13. Finance Expenses

	Year ended December 31, 2023	**2022**
Senior credit facility interest and amortized financing costs	**$4,383**	$7,081
Interest income	**(2,184)**	-
Decommissioning obligations accretion	**169**	174
Lease interest	**60**	73
Total finance expenses, net	**$2,428**	$7,328

14. Income taxes

Deferred tax expense

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

	Year ended December 31, 2023	**2022**
Current tax expense		
Canada	**-**	-
United States	**-**	-
Total current tax expense	**-**	-
Deferred tax expense		
Canada	**-**	-
United States	**23,505**	29,748
Total deferred tax expense	**23,505**	29,748
Total income tax expense	**$23,505**	$29,748

(continued)

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

	Year ended December 31, 2023	**2022**
Net income (loss) before income taxes		
Canada	**($10,677)**	($8,433)
United States	**93,454**	118,700
Total net income before income taxes	**82,777**	110,267
Statutory income tax rate	**23.0%**	23.0%
Expected income tax expense	**19,039**	25,361
Add (deduct):		
Foreign and statutory rate differences	**1,978**	2,470
Non-deductible expenses	**26**	10
Impact of rate change and other	**447**	1,448
Change in valuation allowance	**2,015**	459
Deferred income tax expense	**$23,505**	$29,748

Deferred tax asset (liability)

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

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

	As at Dec 31, 2022	Recognized in Earnings	Recognized in Equity	As at Dec 31, 2023
Deferred income tax liabilities				
Property, plant and equipment	($55,923)	($22,788)	$1,866	($76,845)
Other	-	(58)	1	(57)
Deferred income tax assets				
Net operating losses	22,675	(943)	(511)	21,221
Stock compensation	253	57	(8)	302
Accrued bonuses	612	119	(17)	714
Disallowed interest	-	448	47	495
Decommissioning obligations	1,504	(315)	(28)	1,161
Other	326	(25)	(157)	144
Total deferred income tax liability	($30,553)	($23,505)	$1,193	($52,865)

(continued)

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

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

	As at December 31, 2023	As at December 31, 2022
Property, plant and equipment	**$314**	$412
Debt issuance costs	**1,350**	23
Non-capital losses/net operating losses	**27,700**	20,218
Capital losses	**1,478**	1,478
Other	**79**	27
	$30,921	$22,158

The Company has a non-capital loss balance of C$27.7 million for Canadian tax purposes which expires between 2031 and 2043. For US tax purposes, the Company has a net operating loss balance of US$64.5 million, US$47.6 million of which will expire between 2031 and 2037 and US$16.9 million which do not expire. As at December 31, 2023, the Company had recorded a basis of approximately C$1.0 million and US$129.6 million in depletable and depreciable assets for tax purposes.

15. Key management personnel compensation

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

	Year ended December 31,	
	2023	**2022**
Salaries and other short-term benefits	**$3,875**	$4,256
Share-based compensation	**7,120**	5,127
Total compensation	**$10,995**	$9,383

16. Risk Management

<u>Risk management activities</u>

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.

(continued)

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

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, a portion of which is comprised of short-term deposits, 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 88% of the Company's revenue for the year ended December 31, 2023 (2022 - 55%). 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 on December 31, 2023, was $6.6 million which is to be fully paid to Lucero on or before June 15, 2024, subject to no indemnity claims being made. Subsequent to December 31, 2023, $3.3 million of deferred proceeds have been received by the Company.

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.

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 December 31, 2023 was approximately $31.3 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 December 31, 2023:

($ thousands)	**Total**	2024	2025	2026	Thereafter
Accounts payable and accrued liabilities	**$31,251**	$31,251	-	-	-
Lease obligations	**950**	348	475	127	-
Total	**$32,201**	$31,599	$475	$127	-

(continued)

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

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, if any, 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.

17. Supplemental cash flow disclosures

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

	Year ended December 31, 2023	2022
Source (use) of cash:		
Accounts receivable	**$11,606**	$11,197
Prepaid expenses and deposits	**(130)**	(1,137)
Accounts payable and accrued liabilities	**(27,411)**	2,648
	(15,935)	12,708
Related to operating activities	**(3,231)**	18,358
Related to investing activities	**(12,500)**	(7,044)
Accrued interest	**37**	59
Difference due to foreign exchange	**(241)**	1,335
	($15,935)	$12,708
Interest paid	**$2,222**	$7,096