Lucero Energy Corp. Announces Fourth Quarter And Year-end 2022 Financial & Operating Results

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Highlighted By Record Funds Flow And Net Income, And Reports Year-end 2022 Reserves

CALGARY, March 9, 2023 - Lucero Energy Corp. ("Lucero" or the "Company") (TSXV: LOU) (OTCQB: PSHIF) is pleased to announce financial and operating results for the three months and year ended December 31, 2022, and to provide 2022 year-end reserves information. The associated Management's Discussion and Analysis ("MD&A") and audited financial statements as at and for the year ended December 31, 2022 can be found at www.sedar.com or www.lucerocorp.com. All dollar amounts in this news release are stated in Canadian dollars unless otherwise noted.

Highlights	Three months ended			Year ende
(in thousands, except per share data)	December 31	September 30	December 31	December
	2022	2022	2021	2022
Financial				
Funds flow (1)	$37,015	$41,498	$19,961	$147,131
Per share basic	$0.06	$0.06	$0.04	$0.23
Per share diluted	$0.06	$0.06	$0.04	$0.22
Funds flow, excluding transaction related costs (1)	$37,015	$41,498	$19,961	$149,231
Per share basic	$0.06	$0.06	$0.04	$0.23
Per share diluted	$0.06	$0.06	$0.04	$0.22
Adjusted EBITDA (1)	$38,708	$43,196	$22,408	$154,212
Per share basic	$0.06	$0.07	$0.04	$0.24
Per share diluted	$0.06	$0.06	$0.04	$0.23
Cash provided by operating activities	$41,903	$47,791	$17,448	$172,570
Net income (loss)	$18,995	$29,812	$25,065	$80,519
Per share basic	$0.03	$0.05	$0.05	$0.12
Per share diluted	$0.03	$0.04	$0.05	$0.12

Exploration and development expenditures [1]	$16,560	$24,948	$29,547	$59,924
Property acquisitions	-	$207	-	$8,858
Net debt [1]	$77,426	$99,192	$196,067	$77,426
Common shares				
Shares outstanding, end of period	662,411	662,411	523,388	662,411
Weighted average shares (basic)	662,411	662,403	521,800	648,842
Weighted average shares (diluted)	672,207	667,169	532,491	672,010
Operations				
Production				
Tight oil (Bbls per day)	6,326	6,385	7,342	6,564
Shale gas (Mcf per day)	13,218	13,991	11,615	12,207
Natural gas liquids (Bbls per day)	2,480	2,187	1,628	2,275
Barrels of oil equivalent (Boepd, 6:1)	11,009	10,904	10,906	10,874
Average realized price				
Tight oil ($ per Bbl)	$114.49	$123.06	$94.72	$124.12
Shale gas ($ per Mcf)	$5.34	$6.90	$4.71	$5.93
Natural gas liquids ($ per Bbl)	$13.25	$28.56	$25.81	$22.61
Barrels of oil equivalent ($ per Boe, 6:1)	$75.18	$86.58	$72.64	$86.32
Operating netback per Boe (6:1)				
Operating netback [1]	$40.07	$44.93	$23.77	$41.23
Operating netback (prior to hedging) [1]	$44.07	$52.24	$43.74	$52.81
Funds flow per Boe (6:1)				
Including transaction related costs [1]	$36.55	$41.37	$19.90	$37.07
Excluding transaction related costs [1]	$36.55	$41.37	$19.90	$37.60

(1) Management uses these non-GAAP financial measures to analyze operating perfor investing activity. These measures do not have a standardized meaning under GAA be comparable with the calculation of similar measures for other companies. See N within this document for additional information.

MESSAGE TO SHAREHOLDERS

Lucero had a transformative year in 2022, which commenced with the appointment of a new management team (the "New Management Team"), who brought a proven track record of value creation for shareholders along with a refreshed strategy and corporate recapitalization. The New Management Team is sharply focused on disciplined capital allocation and a balanced pace of development, while prioritizing EBITDA generation, financial flexibility and long-term sustainability.

Several operational achievements were realized through the year, including the safe and efficient execution of the Company's 2022 capital program, which was successfully completed within the previously announced budget and guidance range. In support of continued sustainability and the responsible development of

Lucero's high-quality, North Dakota Bakken asset base, the Company took intentional measures to moderate the production decline profile, which was maintained at an average of approximately 30%. Lucero's operational success was also demonstrated by strong capital efficiencies across the reserves base both in 2022 and over the trailing three-year average, during which the Company's finding and development costs and recycle ratios helped drive underlying corporate profitability.

Within a favourable commodity price environment, Lucero successfully generated record funds flow in 2022, which contributed to further debt reduction and demonstrated Lucero's ongoing commitment to profitability and capital discipline while setting the stage to capitalize on future growth opportunities. The Company's strong financial performance through the year was aided by stronger Bakken pricing differentials due to excess local pipeline capacity arising from regional Bakken production that was muted despite strong pricing for crude oil delivered to the U.S. Gulf Coast. Lucero continues to monitor such market trends with the view to adapting operations, marketing and other elements of the business to optimally respond to changing macro-economics and other broader industry conditions.

Lucero also continued to prioritize strong Environmental, Social, and Governance ("ESG") principles across the organization, which translated into ongoing safe operations, responsible environmental stewardship, and a focus on people, culture and the team. The Company's ESG commitment and actions will be highlighted and reported to Stakeholders within Lucero's inaugural Sustainability Report which is expected to be issued before the end of April 2023.

Looking ahead, the New Management Team is confident in Lucero's long-term growth prospects and committed to delivering value for all Stakeholders.

2022 HIGHLIGHTS

Lucero's achievements in the fourth quarter and year-ended December 31, 2022 include the following:

Fourth quarter:

- 11,009 Boepd average production compared to 10,904 Boepd in Q3 2022 and 10,906 Boepd in Q4 2021;
- $37.0 million of funds flow[1], compared to $41.5 million in the previous quarter and $20.0 million in Q4 2021;
- $0.06 per share of funds flow[1], consistent with Q3 2022 and 50% higher than $0.04 per share generated in the same quarter of 2021;
- $44.07 per Boe average operating netback[1] prior to hedging, compared to $52.24 per Boe in the previous quarter and $43.74 per Boe in Q4 2021;
- $16.6 million of exploration and development ("E&D") expenditures[1], allocated to drilling six (2.7 net) wells and completing two (1.98 net) operated wells, representing a conservative payout ratio[1] of 45% on funds flow[1] of $37.0 million; and
- $77.4 million of net debt[1] at December 31, 2022, reflecting a 22% decrease from $99.2 million at September 30, 2022, and 61% lower than $196.1 million at December 31, 2021.

Full year:

- 10,874 Boepd of average production, 3% higher than 10,548 Boepd in 2021;
- $147.1 million of funds flow[1], a 127% increase over $64.7 million in 2021;
- $52.81 per Boe average operating netback prior to hedging[1], a 52% increase over $34.74 per Boe in 2021;
- $59.9 million of E&D expenditures[1], allocated to the successful drilling of five (4.95 net) operated wells and an additional 1.8 net non-operated wells, along with the completion of three (2.48 net) operated wells, enabling Lucero to exit the year with nine (4.70 net) wells that were drilled but uncompleted ("DUCs"); and
- $80.5 million of net income ($0.12 per share basic and diluted), a record for the Company, and significantly higher than the net loss of $0.8 million recorded in 2021.

Year-end Reserves:

- 30.9 MMboe of proved developed producing ("PDP") reserves, consistent with 31.0 MMboe at year-end 2021;

- 53.9 MMboe of proved reserves ("TP") compared to 55.6 MMboe at year-end 2021;
- 73.5 MMboe of proved plus probable ("P+P") reserves, an increase from 72.0 MMboe at year-end 2021;
- 13.2 years P+P reserve life index;
- $16.76 per Boe PDP finding, development & acquisition costs ("FD&A") (including future development costs or "FDC"), which drove a recycle ratio of 3.1 times (based on the Company's 2022 operating netback prior to hedging); and
- $13.70 per Boe P+P FD&A (including FDC) resulted in a recycle ratio of 3.9 times.

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[1] See "Non-GAAP Measures" within this press release.

OPERATIONAL UPDATE

Throughout the year, the Company sought to enhance the sustainability of Lucero's business model by prudently moderating the pace of development. With average production volumes of 10,874 Boepd in 2022, the Company exited the year with fourth quarter production averaging 11,009 Boepd, setting the stage for continued execution and balanced growth in 2023. Due to this more measured production growth profile, the Company's overall corporate production decline rate improved meaningfully, which is expected to be further reduced in 2023 to approximately 28%. Flattening this decline curve has a direct impact on sustainability by reducing the level of capital required to keep production volumes constant.

With $59.9 million of capital invested in E&D activities during 2022, Lucero drilled five (4.95 net) operated wells and an additional 1.8 net non-operated wells. In addition, the Company completed three (2.48 net) operated wells in 2022, and set the stage for continued development in 2023 by exiting the year with nine (4.70 net) DUCs, which affords Lucero operational development flexibility in the future. All of the wells the Company brought on production exhibited strong results. Lucero also invested in important infrastructure that can help drive future efficiencies and reduce greenhouse gas emissions.

The combination of steady production volumes and strong operating netbacks led to Lucero generating $147.1 million of funds flow[1] during 2022, of which $59.9 million was invested in E&D expenditures[1] resulting in an annual payout ratio[1] of 41%. The Company invested an additional $8.9 million to acquire various working interests in the Company's operated assets which are scheduled for near-term development in 2023. The balance of the funds flow was directed to debt repayment and continued strengthening of the balance sheet. As a result, Lucero exited 2022 with net debt[1] of $77.4 million, a 61% decrease from year-end 2021, and 22% lower than the previous quarter end, providing significant financial flexibility to execute on future growth opportunities. The Company's net debt to funds flow ratio[1] improved from 3.0x in 2021, to 0.5x in 2022.

RESERVES

In this press release, all references to reserves are to gross Company reserves, meaning Lucero's working interest reserves before deductions of royalties and before consideration of Lucero's royalty interests. The reserves were evaluated by Netherland, Sewell & Associates, Inc. ("NSAI") in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101") effective December 31, 2022. Lucero's Annual Information Form for the year ended December 31, 2022 (the "AIF") will contain Lucero's reserves data and other oil and natural gas information as mandated by NI 51-101. Lucero expects to file the AIF on SEDAR by March 31, 2023.

The following tables are a summary of Lucero's petroleum and natural gas reserves, as evaluated by NSAI, effective December 31, 2022. As a reporting issuer in Canada, Lucero is required to report its reserves and net present value estimates using forecast pricing and costs, as stipulated under NI 51-101. The forecast prices reflected in the net present values are based on an average of the price decks of three independent engineering firms (GLJ Ltd., Sproule Associates Limited and McDaniel & Associates Consultants Ltd.). It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of our crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. It is important to note that the recovery and reserves estimates provided herein are estimates only. Actual reserves may be greater or less than the estimates provided herein. Reserves information may not add due to rounding.

Reserves Summary

	Tight Oil (Mbbl)	Shale Gas (MMcf)	NGLs (Mbbl)	Total Oil Equivalent (Mboe)
Proved				
Developed Producing	17,569	38,067	6,996	30,910
Developed Non-Producing	490	949	276	923
Undeveloped	16,737	15,898	2,648	22,034
Total Proved	34,796	54,913	9,920	53,868
Probable	12,328	20,618	3,883	19,647
Total Proved plus Probable	47,124	75,531	13,802	73,515

Net Present Value of Future Net Revenue (in Canadian dollars)

	Before Future Income Tax Expenses and Discounted at				
	0 % (C$MM)	5 % (C$MM)	10 % (C$MM)	15 % (C$MM)	20 % (C$MM)
Proved					
Developed Producing	1,325	887	671	546	465
Developed Non-Producing	37	27	21	18	16
Undeveloped	1,028	652	465	356	285
Total Proved	2,390	1,566	1,157	919	765
Probable	953	543	364	269	211
Total Proved plus Probable	3,343	2,109	1,521	1,188	976

Values have been converted to Canadian dollars using the year-end 2022 exchange rate of US$1.00 = C$1.3544

Net Present Value of Future Net Revenue (in US dollars)

	Before Future Income Tax Expenses and Discounted at				
	0 %	5 %	10 %	15 %	20 %
	(US$MM)	(US$MM)	(US$MM)	(US$MM)	(US$MM)
Proved					
Developed Producing	979	655	495	403	343
Developed Non-Producing	28	20	16	13	12
Undeveloped	759	481	343	263	210
Total Proved	1,765	1,156	854	679	565
Probable	704	401	269	199	156
Total Proved plus Probable	2,468	1,557	1,123	877	721

Capital Expenditures and Finding, Development, and Acquisition Costs

	Finding, Development & Acquisition ("FD&A")[1]			Finding & Development ("F&D") [1]		
	PDP	Total Proved	Total Proved plus Probable	PDP	Total Proved	Total Proved Plus Probable
Capital Costs (C$000s)						
Capital expenditures	59,924	59,924	59,924	59,924	59,924	59,924
Acquisitions	8,858	8,858	8,858	-	-	-
Change in future development capital ("FDC")	(3,146)	(33,869)	6,716	(3,401)	(43,258)	(5,313)
Total FD&A / F&D costs	65,636	34,913	75498	56,523	16,666	54,611
Reserves Additions (Mboe)						
Net change in reserve volumes	(525)	(3,054)	(266)	(525)	(3,054)	(266)
Add back production	3,969	3,969	3,969	3,942	3,942	3,942
Reserves associated with acquisitions	471	1,366	1,807	-	-	-
Total additions	3,915	2,281	5,510	3,417	888	3,676
F&D (C$/Boe)	16.77	15.31	13.70	16.54	18.77	14.86
Three year F&D (C$/Boe) [2]	9.86	5.45	4.55	9.61	4.14	3.71
Recycle ratio[3]	3.1	3.4	3.9	3.2	2.8	3.6

(1) The calculation of F&D and FD&A costs incorporates the change in FDC required to bring proved undeveloped and probable reserves into production. The FDC was converted to Canadian dollars using the average 2022 exchange rate of US$1.00 = C$1.3544.

(2) Calculation of the three year FD&A and F&D costs per Boe reflect the sum of capital costs and net reserve additions for the years 2020 through 2022.

(3) Recycle ratio is defined as 2022's operating netback prior to hedging, divided by F&D or FD&A costs, as applicable, on a per Boe basis. Operating netback prior to hedging is calculated as revenue (excluding realized gain or loss on financial derivatives) minus royalties, operating expenses, production taxes and transportation expenses. Lucero's operating netback prior to hedging in 2022 averaged $52.79 per Boe. See also "Non-GAAP Measures".

Net Asset Value per Share as at December 31, 2022

(C$ millions except share and per share amounts)	
Proved Plus Probable Reserve Value NPV10 (before tax)	1,521
Net Debt	(77)
Total Net Assets (basic)	1,444
Basic Common Shares Outstanding (MM)	662
Estimated NAV per Basic Common Share	$2.18

INAUGURAL SUSTAINABILITY REPORT

Lucero intends to release an inaugural Sustainability Report before the end of April 2023, which will profile the Company's commitment to ESG principles and foundations, while aligning with recognized sustainability frameworks. Management and the Board are proud to report on the Company's excellent health, safety, governance and environmental performance through 2022, highlighted by significant reductions in Scope 1 emission and emissions intensity year over year, along with a flawless safety record. Within the report, Lucero will also articulate a roadmap outlining how the Company will continue to uphold high levels of responsibility and accountability throughout the sustainability journey. This report will be made available on the Company's website on or before April 30, 2023.

CAPITAL BUDGET AND PRODUCTION GUIDANCE

Lucero's 2023 capital program is budgeted at US$70 million (C$95 million) and is expected to be primarily directed to light oil development projects, with over 75% planned to be allocated to drilling, completions and tie-ins, with the remainder to infrastructure and optimization development initiatives that are designed to enhance production efficiencies and continued environmental performance.

With a strong underlying production base, Lucero anticipates that the Company's 2023 capital program will drive annual average production of approximately 11,500 Boepd (80% weighted to light oil and natural gas liquids) with an exit production rate of approximately 12,000 Boepd (80% light oil and natural gas liquids). This annual average volume expansion represents year-over-year production growth of 9% while maintaining a corporate production decline rate of less than 30%.

OUTLOOK AND SUSTAINABILITY

Lucero has established a unique position among Canadian-listed, growth-oriented exploration and production companies. With 100% exposure to U.S. light oil-weighted assets, Lucero offers a solid growth platform of lower-risk, high-impact development opportunities in the heart of the prolific North Dakota Bakken/Three Forks play. As current and future benchmark oil prices remain high due to the supply/demand imbalance, the Company remains well positioned to realize stable production rates, high estimated recoveries, and robust operating netbacks, all of which are key contributors to generating compelling rates of return and creating shareholder value. With a corporate production decline profile forecast at less than 30% for 2023 combined with a supportive pricing environment, Lucero's assets are expected to yield significant free funds flow.

Building on the Company's high quality asset base, management is focused on creating value through a disciplined long-term growth strategy supported by free funds flow, creating financial flexibility which ultimately positions Lucero to capitalize on further potential growth initiatives.

The Company is proud to highlight the following key operational and financial attributes:

Production Guidance	2023E Average: 11,500 boepd (~80% light oil and natural gas liquids) 2023E Exit: 12,000 boepd (~80% light oil and natural gas liquids)
Total Proved plus Probable Reserves(1)	~74 MMboe (83% light oil and liquids)
Development Inventory	>40 net undrilled locations
Corporate Production Decline	~28% (2023E)
2023 Capital Program(2)	US$70 million (C$95 million)
Net Debt[1] as at December 31, 2022	C$77.4 million
Common Shares Outstanding (basic)	662 million

(1) All reserves information in this press release are gross Company reserves, meaning Lucero's working interest reserves before deductions of royalties and before consideration of Lucero's royalty interests. The reserve information for Lucero in the foregoing table is derived from the independent engineering report effective December 31, 2022 prepared by Netherland, Sewell & Associates, Inc. ("NSAI") evaluating the oil, NGL and natural gas reserves attributable to all of the Company's properties.

(2) Assumes a foreign exchange rate of US$1.00 = C$1.35.

READER ADVISORIES

Forward Looking Statements

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to the Company's plans, strategy, business model, focus, objectives and other aspects of Lucero's anticipated future operations and financial, operating and drilling and development plans and results, including, expected future production, production mix, reserves, drilling inventory, net debt, funds flow, operating netbacks, decline rate and decline profile, product mix, capital expenditure program, capital efficiencies, and commodity prices. In addition, and without limiting the generality of the foregoing, this press release contains forward-looking information regarding: Lucero's expectation to reduce corporate decline rates in 2023 to approximately 28% compared to over 30% in 2021; the Company's intention that its ESG commitment and actions will be highlighted and reported to Stakeholders within Lucero's inaugural Sustainability Report which is expected to be issued before the end of April 2023; Lucero's expectation on it long-term growth prospects and its commitment to delivering profitable, sustainable value for all Stakeholders; Lucero's 2023 capital program budgeted of US$70 million (C$95 million) which is expected to be primarily directed to light oil development projects, with over 75% planned to be allocated to drilling, completions and tie-ins, with the remainder to infrastructure and optimization development initiatives that are designed to enhance production efficiencies and continued environmental performance; Lucero's anticipation that the Company's 2023 capital program will drive annual average production of approximately 11,500 Boepd (80% weighted to light oil and natural gas liquids) with an exit production rate of approximately 12,000 Boepd (80% light oil and natural gas liquids) and matters set forth under "Outlook and Sustainability"; Lucero's anticipation of delivering on 2023 capital budget and production guidance; anticipated average and exit production rates, available free funds flow, management's view of the characteristics and quality of the opportunities available to the Company; the Company's intention to allocate free funds flow to debt repayments; and other matters ancillary or incidental to the foregoing.

Forward-looking information typically uses words such as "anticipate", "believe", "project", "target", "guidance", "expect", "goal", "plan", "intend" or similar words suggesting future outcomes, statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future. The forward-looking information is based on certain key expectations and assumptions made by Lucero's management, including expectations concerning prevailing commodity prices, exchange rates, interest rates, applicable royalty rates and tax laws; capital efficiencies; decline rates; future production rates and estimates of operating costs; performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the timing, location and extent of future drilling operations; the state of the economy and the exploration and production business; effects of inflation and other cost escalations results of operations; performance; business prospects and opportunities; the availability and cost of financing, labor and services; the impact of increasing competition; the impact of inflation on costs and expenses; ability to market oil and natural gas successfully and Lucero's ability to access capital. Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Lucero can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide security holders with a more complete perspective on Lucero's future operations and such information may not be appropriate for other purposes. Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect Lucero's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). These forward-looking statements are made as of the date of this press release and Lucero disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Non-GAAP Measures

This document includes non-GAAP measures and ratios commonly used in the oil and natural gas industry. These non-GAAP measures and ratios do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS", or alternatively, "GAAP") and therefore may not be comparable with the calculation of similar measures by other companies. For additional details, descriptions and reconciliations of these and other non-GAAP measures, see the Company's Management's Discussion and Analysis ("MD&A") for the three months and year ended December 31, 2022.

"Funds flow" represents cash from operating activities prior to changes in non-cash operating working capital, including cash finance expenses, and is a measure of the Company's ability to generate funds to service its debt and other obligations and to fund its 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. "Funds flow, excluding transaction related costs" represents funds flow prior to transaction related costs."Funds flow netback per Boe" represents funds flow divided by production volumes for the corresponding period, and is presented including and excluding transaction related costs."Funds flow per share" represents funds flow divided by the basic weighted average shares outstanding for the corresponding period. The reconciliation between cash provided by operating activities, as defined by IFRS, and funds flow as well as funds flow, excluding transaction related costs, is as follows:

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

"Adjusted EBITDA" 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. "Adjusted EBITDA per share basic and diluted" is a non-GAAP ratio that includes adjusted EBITDA, a non-GAAP measure. The Company calculates adjusted EBITDA per share basic and diluted as adjusted EBITDA divided by weighted average basic and diluted shares outstanding, respectively. Lucero believes that adjusted EBITDA and 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. The reconciliation between cash flow from operating activities, as defined by IFRS, and adjusted EBITDA, as defined herein, is as follows:

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

"Net debt" represents total liabilities, excluding decommissioning obligation, deferred tax liability, lease liability and financial derivative liability, less current assets, excluding financial derivative assets. Lucero believes net debt is a key measure to assess the Company's liquidity position at a point in time. Net debt is not a standardized measure and may not be comparable with similar measures for other entities. Net debt is also expressed as a ratio to funds flow, referred to as "net debt to funds flow ratio", and is calculated as the net debt at the end of a period divided by the funds flow in the same period. The reconciliation between total liabilities, as defined by IFRS, and net debt, as defined herein, is as follows:

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

"Operating netback" represents petroleum and natural gas revenue, 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. "Operating netback" and "Operating netback prior to hedging" is also presented on a per Boe basis by dividing by production volumes for the corresponding period. Lucero believes that in addition to net income (loss) and cash provided by operating activities, operating netback and operating netback prior to hedging are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage, and liquidity. Operating netback is commonly used by investors to assess performance of oil and gas properties and the possible impact of future commodity price changes on energy producers. "Operating netback per BOE" is a non-GAAP ratio that represents operating netback, a Non-GAAP measure, divided by production volumes for the corresponding period, and is presented including and excluding any realized gain or loss on financial derivatives. The table below discloses Lucero's operating netback and operating netback prior to hedging, including the reconciliation to the Company's most closely comparable GAAP measure, petroleum and natural gas revenues:

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

"Exploration and development expenditures" represents additions to property, plant and equipment in the cash flow used in investing activities, less capitalized general and administrative expenses. Exploration and development expenditures is a measure of the Company's investments in property, plant and equipment. The most directly comparable GAAP measure to exploration and development expenditures is additions to property, plant and equipment in the cash flow used in investing activities. The reconciliation between additions to property, plant and equipment, as defined by IFRS, and exploration and development expenditures, as defined herein, is as follows:

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

"Free funds flow" represents funds flow, less exploration and development expenditures. Management considers this measure to be useful in determining its available discretionary cash to fund capital expenditures, acquisitions or returns of capital to shareholders.

"Payout ratio" is a non-GAAP ratio that represents exploration and development expenditures as a percentage of funds flow.

Oil and Gas Disclosures

The term "boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 Mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are derived from the reserves evaluation prepared by NSAI as of December 31, 2022 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates prepared by a qualified reserves evaluator based on Lucero's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves. Of the 40 net drilling locations identified herein, 20 are proved locations, 10 are probable locations and 10 are unbooked locations. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that Lucero will drill all unbooked drilling locations and, if drilled, there is no certainty that such locations will result in additional oil and gas reserves or production. The drilling locations on which we actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been derisked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and, if drilled, there is more uncertainty that such wells will result in additional oil and gas reserves or production.

SOURCE Lucero Energy Corp.

Contact
Brett Herman, President and Chief Executive Officer, Lucero Energy Corp., Telephone: (877) 573-0181, Email: info@lucerocorp.com; Marvin Tang, Vice President, Finance and Chief Financial Officer, Lucero Energy Corp., Telephone: (877) 573-0181, Email: info@lucerocorp.com