ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of the Company's financial condition and results of operations is based on and should be read in conjunction with the interim unaudited condensed consolidated financial statements and the accompanying notes included in Part I. Item 1. Financial Statements of this Quarterly Report (the "Financial Statements") and our consolidated financial statements and the accompanying notes included in Part II. Item 8. Financial Statements and Supplementary Data of the Company's annual report on Form 10-K for the year ended December 31, 2022 (the "Annual Report").

Our discussion and analysis includes forward-looking information that involves risks and uncertainties and should be read in conjunction with "Forward-Looking Statements" within this Quarterly Report, as well as Part 1. Item 1A Risk Factors of the Annual Report and the section for information about the risks and uncertainties that could cause our actual results to be materially different than our forward-looking statements.

Amounts are stated in US dollars unless otherwise noted.

OVERVIEW AND HIGHLIGHTS

The Company is a U.S. oil and natural gas development company focused on maximizing return on equity. The Company has focused its drilling activity in two main areas, the Austin Chalk and Eagle Ford formations in the Giddings Field in Austin, Fayette, Lee, Robertson and Washington Counties, TX (the "Giddings Assets") and the Hawkville Field in Webb and LaSalle Counties, TX (the "Hawkville Assets").

For future periods, the Company plans to continue to develop its existing and adjacent footprint over the next several years while also evaluating additional development projects that fit its investment criteria.

Recent developments and highlights for the three months ended March 31, 2023:

- Oil and natural gas sales (net of royalties) of $30.0 million for the three months ended March 31, 2023 (March 31, 2022 - $35.0 million).
- Reported net income and comprehensive income of $10.5 million for the three months ended March 31, 2023 (March 31, 2022 – loss of $7.9 million). Adjusted EBITDA (defined below) of $16.6 million for the same period (March 31, 2022 - $26.3 million).
- Reported net income attributable to the Company's shareholders of $6.5 million for the three months ended March 31, 2023 (March 31, 2022 - loss of $10.0 million).
- Four new wells were brought onto production.
- Average net production per day of 14,478 BOE during the three months ended March 31, 2023 an increase of 129.8% year over year due to extensive drilling activity.
- Completed a restructuring of the Company's debt, where the corporate credit facility was converted into a term loan and the repayment terms of the ABS Facility were amended.
- Announced the engagement of Stephens Inc. as its financial advisor to pursue a sale of various strategic assets of the Company.
- During March 2023, all commodity hedges were monetized, with net proceeds used to pay down first lien indebtedness.

Subsequent Event Highlights

- Three new wells were brought onto production in April 2023. Further drilling and development activity will be paused until the sales process is complete.
- The Company received a "force majeure" notice in May 2023 from the Company's major midstream provider in South Texas. The prolonged downtime may have a significant impact on the Company's results in the second quarter of 2023.

OPERATIONAL AND FINANCIAL RESULTS

Net Oil and Gas Revenues

For the three months ended March 31,	2023	2022
Oil	**$ 14,807,620**	$ 25,589,855
Natural gas	**12,157,116**	4,222,333
NGLs	**3,081,185**	5,146,573
Total	**$ 30,045,921**	$ 34,958,761
% of total oil and gas revenue by product type:		
Oil weighting	**49.3%**	73.2%
Natural gas weighting	**40.5%**	12.1%
NGL weighting	**10.2%**	14.7%

Our revenues vary from period to period primarily as a result of changes in commodity prices and production volumes. When comparing the three months ended March 31, 2023 to the same period in 2022, oil and gas revenues decreased by $4,912,840, a decrease of 14.1%, reflecting that while production volumes increased by 129.8% this was offset by a 62.6% decrease in the average per BOE realized selling price, excluding the effect of commodity derivatives as discussed below.

Production volumes:

The higher production in the first three months of 2023 is a result of the addition of 16 wells since the comparable period in 2022, with a primary focus on Hawkville gas wells attributing to the change in sales mix.

The production for the three months ended March 31, 2023 and 2022, reflecting the Company's working interests and net of royalties, are as follows:

For the three months ended March 31,	2023	2022	% Change
Production:			
Oil (bbl)	**202,287**	275,650	-26.6%
Natural gas (Mcf)	**6,018,353**	967,418	522.1%
NGLs (bbl)	**121,993**	140,764	-13.3%
Total BOE[1]	**1,327,339**	577,650	129.8%
Average Daily Production:			
Oil (bbl/d)	**2,248**	3,063	
Natural gas (Mcf/d)	**66,871**	10,749	
NGLs (bbl/d)	**1,355**	1,564	
Total BOE[1] per day	**14,748**	6,417	
Production Weighting on a BOE basis:			
Oil	**15.2%**	47.7%	
Natural gas	**75.6%**	27.9%	
NGL	**9.2%**	24.4%	

[1] *Natural gas is converted to a barrel of oil equivalent ("BOE") at the rate of one barrel equaling six Mcf (defined as one thousand cubic feet) based upon the approximate relative energy content of oil and natural gas, which is not necessarily indicative of the relationship of oil and natural gas prices.*

Average sales price:

On a per-BOE basis, the Company's average realized price for the three months ended March 31, 2023 decreased compared to the same period of 2022 by $37.88 per BOE, reflecting a 62.6% decrease. The decrease in sales prices is primarily due to the decrease in the commodity price indices for oil, natural gas, and NGL. However, the realized average sales price per BOE also reflects the increased production of natural gas and NGL at a lower overall per BOE price.

The average realized sales prices for the three months ended March 31, 2023 and 2022, are as follows:

For the three months ended March 31,	2023	2022	% Change
Oil - Bbl	**$ 73.20**	$ 92.83	-21.1%
Natural gas - Mcf	**$ 2.02**	$ 4.36	-53.7%
NGLs - Bbl	**$ 25.26**	$ 36.56	-30.9%
Average sales price per BOE	**$ 22.64**	$ 60.52	-62.6%

Commodity Derivative Instruments

The future results of the Company's oil and natural gas operations will be affected by market prices of oil and natural gas which is affected by numerous factors beyond the control of the Company, including weather, imports, marketing of competitive fuels, proximity and capacity of oil and natural gas pipelines and other transportation facilities, any oversupply or undersupply of oil, natural gas and natural gas liquid products, economic disruptions, the regulatory environment, the economic environment, and other regional and political events, none of which can be predicted with certainty.

The Company has and may enter into various commodity price derivative instruments to manage the price risk attributable to part of its future production. As the Company's derivatives are not designated for hedge accounting, the changes in fair value of the derivatives are recognized in income (loss) each period, creating earnings volatility in connection with outstanding derivatives. As commodity prices increase or decrease, such changes will have the opposite effect on the fair value of the derivatives.

During the three months ended March 31, 2023 the Company had closed out all of its open commodity derivative positions, realizing a net gain of $18,469,658 (March 31, 2022 – loss of $22,601,045). There were no remaining open derivative positions as at March 31, 2023.

Refer to Note 19 of the Financial Statements for additional details.

Management of cash flow variability is an integral component of the Company's business strategy. Business conditions are monitored regularly and reviewed by the Company to establish risk management guidelines in carrying out the Company's strategic risk management program.

Expenses

The following table summarizes the Company's operating expenses and other income (expenses) for the periods indicated:

For the three months ended March 31,	2023	2022
Operating Expenses:		
Production costs and transportation	**$ 10,297,192**	$ 5,500,322
General and administrative	**3,441,595**	4,476,687
Depreciation, depletion, and amortization	**18,106,581**	9,191,057
Asset retirement obligation accretion	**9,227**	7,976
Total operating expenses	**31,854,595**	19,176,042
Operating Income	**16,660,984**	(6,818,326)
Other income (expenses)		
Finance and interest expense, net	**(6,137,113)**	(1,097,190)
Income (loss) before income taxes	**10,523,871**	(7,915,516)
Deferred income tax provision (benefit)	**-**	-
Net income (loss) and comprehensive income (loss)	**10,523,871**	(7,915,516)
Net income attributable to redeemable non-controlling interest	**283,326**	7,130,296
Net income (loss) attributable to non-controlling interest	**3,726,852**	(5,066,647)
Net income (loss) attributable to the Company	**$ 6,513,693**	$ (9,979,165)

Select Expenses per BOE:				
Production costs and transportation	**$**	**7.76**	$	9.52
General and administrative	**$**	**2.59**	$	7.75
Depreciation, depletion, and amortization	**$**	**13.64**	$	15.91
Finance and interest expense, net	**$**	**4.62**	$	1.90

Production and Transportation Costs

Total production and transportation costs for the three months ended March 31, 2023, increased by $4,796,870, an increase of 87% when compared to the same period of 2022, primarily due to the overall increased production noted above. On a per BOE basis, the production and transportation costs decreased by $1.76, a decrease of 19%. The decrease is mainly due to the Company receiving an exemption on production taxes for certain wells starting in 2023, partially offset by the higher operating costs for wells brought online. The higher operating costs related to higher water disposal, fuel, and trucking costs, as well as overall market increases for service costs, due to inflation and market availability.

General and Administrative Costs

General and administrative costs for the three months ended March 31, 2023 decreased by $1,035,092, a decrease of 23% when compared to the same period of 2022. This decrease was primarily due to lower stock based compensation expense and employee salaries and benefits of $1,870,430, and partially offset by an increase in professional, legal and advisory costs of $433,035, as well as increases in other items such as software, office and administration, and lease expenses. From a per BOE perspective, the general and administrative costs reduced by $5.16 per BOE, a reduction of 67%, as a result of increased production levels noted above.

Depreciation, Depletion, and Amortization

The depreciation, depletion, and amortization expense consist of depletion on the Company's evaluated oil and gas properties. Depletion expense increased for the three months ended March 31, 2023, by $8,915,524, an increase of 97% as compared to the same period of 2022 due to an increase in production, as well as an increase in the evaluated properties that are part of the depletion base. Depletion expense on a BOE basis decreased by $2.27 per BOE, a decrease of 14%, reflecting changes in estimates and changes in the reserve base.

Finance and Interest Expense, Net

Finance and interest expense, net for the three months ended March 31, 2023, increased by $5,039,923, an increase of 459%, as compared to the same period of 2022 due to the increase in overall borrowings. The main increase relates to the financing and interest costs on the ABS Facility, as well as the corporate credit facility, as described in the Financial Statements, as well as debt restructuring fees incurred in March 2023. On a per BOE basis, the finance and interest expense has increased by $2.72 per BOE, an increase of 143%.

Income Tax Expense (Benefit)

The Company's effective income tax rates (benefits) for the three months ended March 31, 2023 and 2022 was 0.00%. For the three months ended March 31, 2023, and 2022, the Company recorded income tax expense (benefit) of $nil.

The difference in the Company's income tax provision calculated using its effective tax rates (benefits), from the amounts calculated by applying the U.S. federal income tax rate of 21% to its pretax income (loss) from operations were primarily due to income (loss) not subject to corporate income taxes, non-controlling interests, as well as the valuation allowance.

Additionally, the Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes that recovery is more likely than not, it does not establish a valuation allowance reserve against the recorded net deferred tax assets. As of March 31, 2023, the Company continued to record a valuation allowance on its net deferred tax assets. Refer to Note 16 in the Financial Statements.

Non-GAAP Financial Measures:

Within this Quarterly Report, references are made to terms which are not recognized under GAAP. Specifically, "field operating netbacks", "adjusted EBITDA", and measurements "per commodity unit" and "per BOE" do not have any standardized meaning as prescribed by GAAP and are regarded as non-GAAP measures. These non-GAAP measures may not be comparable to the calculation of similar amounts for other entities and readers are cautioned that use of such measures to compare enterprises may not be valid. The Company's management uses these non-GAAP supplemental measures to benchmark operations against prior periods and peer group companies and believes they provide useful supplemental information that can be used by investors, lenders, analysts and other parties to analyze the Company's performance and financial results.

Field Operating Netbacks

Field operating netbacks are used by management to assess operational performance of assets. Field operating netbacks are calculated by deducting the impact of depreciation, depletion, and amortization, and commodity derivatives from the gross margin and is presented on a per BOE basis.

The Field Operating Netback for the three months ended March 31, 2023 and 2022 are as follows:

For the three months ended March 31,		**2023**		2022
Oil and gas revenues	**$**	**30,045,921**	$	34,958,761
Gain/(loss) on derivative instruments		**18,469,658**		(22,601,045)
Less: Production costs and transportation		**(10,297,192)**		(5,500,322)
Less: Depreciation, depletion, and amortization		**(18,106,581)**		(9,191,057)
Gross margin		**20,111,806**		(2,333,663)
Remove: Gain/(loss) on derivative instruments		**(18,469,658)**		22,601,045
Remove: Depreciation, depletion, and amortization		**18,106,581**		9,191,057
Field operating netback - total	**$**	**19,748,729**	$	29,458,439
Field operating netback - per BOE	**$**	**14.88**	$	51.00

For the three months ended March 31, 2023, the Field Operating Netback per BOE decreased by $36.12, a decrease of 71%, when compared with the same period in 2022. This reflects the change in sales mix and the reduction in the average realized sales price per BOE of $37.88, partially offset by a $1.76 per BOE reduction in production costs and transportation.

Adjusted EBITDA

Adjusted earnings before interest, taxes, depletion and amortization ("Adjusted EBITDA"), is a non-GAAP measure that is used to supplement the Company's reported financial performance or position. The Company believes that Adjusted EBITDA, considered along with net earnings (loss), is a relevant indicator of trends relating to its operating performance and provides management and investors with additional information for comparison of its operating results to the operating results of other companies. All figures presented do not reflect any potential impact of non-controlling interests or redeemable non-controlling interests. The Company's calculation of Adjusted EBITDA is net income/(loss) adding back finance and interest expense, net, depreciation, depletion and amortization, impairment, gains/losses on commodity derivatives, and non-recurring costs.

The following table provides a reconciliation of net income/(loss) before redeemable non-controlling interests and non-controlling interests to Adjusted EBITDA:

Year three months ended March 31,		**2023**		2022
Net income/(loss):	**$**	**10,523,871**	$	(7,915,516)
(+) Depreciation, depletion, and amortization expense		**18,106,581**		9,191,057
(+) Finance and interest expense, net		**6,137,113**		1,097,190
(+) Stock based compensation expense		**328,993**		1,290,143
(+) Derivative commodity contract (gains)/losses		**(18,469,658)**		22,601,045
Adjusted EBITDA	**$**	**16,626,900**	$	26,263,919

FINANCING, LIQUIDITY AND CAPITAL RESOURCES

Companies operating in the upstream oil and gas industry require sufficient cash in order to fund capital programs that maintain and increase production and reserves, to acquire strategic oil and gas assets, to repay current liabilities and debt and ultimately to provide a return to shareholders. The Company's capital programs are funded by existing working capital, various lending facilities and redeemable non-controlling interests (discussed below) and cash provided from operating activities. Fluctuations in commodity prices, product demand, interest rates and various other risks may impact capital resources and capital expenditures.

During the first quarter of 2023, the main financing related transactions included the following:

- **Asset backed securitization facility (the "ABS Facility"):**

  In 2022, the Company entered into two tranches of borrowings under the ABS Facility, for a total size of $135 million.

  On April 27, 2022, Tranche 1 of the ABS Facility was drawn for $80 million and carries an interest rate of LIBOR+6% (with a 1% LIBOR floor) for the initial year, LIBOR +12% (with a 1% LIBOR floor) for the second year. Tranche 1 had an initial maturity date of one year, with the Company having the option to extend an additional year to an ultimate maturity date of April 2024, if certain conditions are met.

  On September 12, 2022, Tranche 2 of the ABS Facility was drawn for an additional $55 million and carries an interest rate of LIBOR+8% (with a 1% LIBOR floor) for the initial year, LIBOR +14% (with a 1% LIBOR floor) for the second year. Tranche 2 has an initial maturity date of one year, with the Company having the option to extend an additional year to an ultimate maturity date of September 2024, if certain conditions are met.

  All borrowings under the ABS Facility are secured by working interests in a subset of the Company's producing assets.

  In March 2023, the ABS Facility was modified to waive certain covenants until July 1, 2023, amend the principal repayment schedules, and extend the Tranche 1 initial maturity date to July 1, 2023. Additionally, part of Tranche 1 was repaid using the proceeds from the early settlement of the commodity derivatives.

  The Company incurred third party transaction costs of $598,986 due to the modification, which were recognized as finance expense.

  As at March 31, 2023, the Company had $84,640,028 of principal outstanding under the ABS Facility.

- **Corporate credit facility:**

  During the first quarter of 2022, the Company replaced its previous credit facility, which had a $12,500,000 borrowing capacity. The new corporate credit facility had a borrowing capacity of $30,000,000, which was subsequently increased in October 2022 to $65,000,000, subject to quarterly borrowing base determinations by the lender. The facility charges interest at the greater of 5.00% and prime +1.75% and had a one-year maturity. A subset of certain Company working interests in producing assets have been secured in connection with the corporate credit facility.

  In March 2023, the corporate credit facility was modified, where the drawn principal was converted to a term loan due on July 1, 2023. Under the modified terms, the fees and transaction costs of $78,453 were deferred and are amortized over the term of the loan, and the Company will pay an exit fee of $135,000 at the time the loan is repaid.

  As at March 31, 2023, the Company had $54,038,462 of principal outstanding under this borrowing.

- **Development Partnerships:**

  The Company utilizes Development Partnerships as a mechanism to partially finance its development projects and activities. As part of the Development Partnerships, investors will provide funding to be used for the development of specific wells, in return, the investors will receive partnership units that provide a specified return, plus participation in the residual of those wells that can be realized via redemption.

  Due to the redemption feature, the Development Partnership interests issued to external investors are accounted for as redeemable non-controlling interest.

  For the three months ended March 31, 2023, the redeemable non-controlling interests provided cash inflows of $2,573,145 (three months ended March 31, 2022 - $35,701,365), and cash outflows for the distribution and settlement of $3,596,163 (three months March 31, 2022 - $475,000). Of the total redeemable non-controlling interest that received distributions and/or was settled, the remaining non-cash balance related to settlements via the issuance of redeemable non-controlling interests for a new Development Partnership, via non-controlling interest shares, or via oil and gas property dispositions.

As at March 31, 2023, the redemption value of the redeemable non-controlling interest was $104,001,441.

Working Capital and Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due.

At March 31, 2023 the Company had a working capital deficit of $226,314,535, compared to a deficit of $162,980,101 as at December 31, 2022. Current assets decreased by $14,166,822 compared to December 31, 2022, primarily due to a decrease in accounts receivables, due to a reduction in oil and gas revenues from the preceding three months, which primarily is due to a reduction in the average realized sales prices and continued changes to the sales mix weighting heavier to natural gas, as well as a decrease in restricted cash and derivative assets. Further, current liabilities increased by $49,167,612 primarily due to increases in accounts payable and accrued liabilities, due to increased capital expenditures on oil and natural gas properties, as well as the Company's borrowings under the ABS Facility being reclassified to current, reflecting expectations that the term extension options may not be exercised.

Due to the working capital deficit, the Company does not currently have the cash resources to meet its current liabilities for the next twelve months. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to generate sufficient cash flows from operations, as well as its ability to obtain financing via an asset sale and/or the issuances of debt and/or equity in the short term. While the Company believes it has sufficient forecasted funds to meet foreseeable obligations, there can be no assurance that the Company will be successful in its efforts to raise additional funds in the short term and its ability to generate sufficient operating cash flows.

Due to these factors, the Company may be unable to continue as a going concern. The Financial Statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, and such adjustments could be material.

In an effort to increase liquidity, the Company has during and subsequent to the three months ended March 31, 2023: (i) continued its drilling program to bring certain wells online and to increase cash flows from operating activities, (ii) ceased additional drilling activities for new wells, and (iii) is pursuing a potential sale of certain oil and gas properties, (iv) commenced the suspension of monthly dividends starting March 2023, and (v) restructured the corporate credit facility and the ABS Facility.

Sources and Uses of Cash

The Company's sources and uses of cash are summarized as follows:

For the three months ended March 31,	**2023**	**2022**
Net cash from operating activities	**$ 46,541,379**	$ (18,221,358)
Net cash used for investing activities	**(28,992,460)**	(14,778,026)
Net cash from financing activities	**(18,316,294)**	35,853,268
Net change in cash and cash equivalents and restricted cash	**$ (767,375)**	$ 2,853,884

Cash Flows from Operating Activities

The net cash from operating activities in the three months ended March 31, 2023 increased by $64,762,737 from the same period in 2022. The increase was driven by the increase in production, as well as changes to working capital and timing of cash receipts and disbursements.

Cash Flows used for Investing Activities

During the three months ended March 31, 2023, the Company's cash flows used for investing activities increased by $14,214,434 when compared to the same period in 2022, due to increased drilling and development of its oil and gas properties. For the evaluated oil and gas properties, the majority of the activity related to the drilling of horizontal wells in the Giddings and Hawkville Fields. The expenditures on unevaluated properties focused on the acquisition, exploration and development of those unevaluated assets.

The cash flows used in investing activities reflects actual cash spending, which can lag several months from when the related costs were incurred. As a result, the Company's actual cash spending is not always reflective of current levels of development activity.

Cash Flows from Financing Activities

During the three months ended March 31, 2023, cash used in financing activities increased by $54,169,562 when compared to the cash from financing activities for the same period in 2022, primarily due to the $25,342,648 partial pay down of the ABS Facility, and partially offset by additional borrowings under the corporate credit facility.

Further, the cash used in financing activities for the three months ended March 31, 2023 also reflects the payment of dividends of $3,438,638 to both the Company's shareholders and non-controlling interest holders, as well as the use of $972,354 in cash to repurchase and cancel the Company's subordinate voting shares under the Company's normal course issuer bid.

Refer to the condensed consolidated statements of cash flows of the Financial Statements for further details.

Off-Balance-Sheet Arrangements

The Company does not have any special-purpose entities nor is it a party to any arrangements that would be excluded from the interim condensed consolidated balance sheet.

CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND POLICIES

The Company's Financial Statements require management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, cash flows from operations, income or loss and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

The Company's most critical accounting policies and estimates, involving significant judgment or estimates, are consistent with those disclosed in the Annual Report, as outlined in Note 2 to the Financial Statements contained in this Form 10-Q.

2023 OBJECTIVES AND OUTLOOK

During 2023, the Company plans on continuing to manage production of its primary assets in the Giddings and Hawkville fields. The Company brought seven wells onto production through April, 2023, with a pause in drilling activity until the sale process is complete.

Concurrently, the Company is pursuing a potential sale of various strategic assets of the Company. The Board has formed a special committee, led by independent directors of the Company, to lead discussions with the various stakeholders of the Company as it assesses alternatives following the conclusion of the sales process.

The Company received a "force majeure" notice in May 2023 from its major midstream provider in South Texas. The prolonged downtime may have a significant impact on the Company's results in the second quarter of 2023.

SUBSEQUENT EVENTS

On April 21, 2023, the Company announced the departure of Chris Nilan as Senior Managing Director of Capital Markets.

On May 10, 2023, the Company announced that it had received notice of a "force majeure" from its major midstream provider in South Texas, which began on April 13, 2023 and continues to restrict production. The force majeure event is attributed to unplanned outages at facilities downstream of the system, with the result that capacity on the system has been limited and the Company's allocated volumes in that area have been reduced by approximately 70%. The notice did not provide a timeline for resolution of this issue. Although the midstream provider anticipates that these downstream matters will be resolved shortly, the prolonged downtime will have a significant impact on the Company’s production.