MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (the "MD&A") as provided by the management of Lycos Energy Inc. ("Lycos" or the "Company") is dated August 24, 2023 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2023 (the "Interim Financial Statements") and the audited consolidated financial statements for the year ended December 31, 2022 and the notes thereto (the "Annual Financial Statements", and together with the Interim Financial Statements, the "Financial Statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are referenced in Canadian dollars unless otherwise stated. Additional information relating to Lycos, including Lycos' Annual Information Form for the year ended December 31, 2022, is available on SEDAR+ at www.sedarplus.ca and the Company's website at www.lycosenergy.com. The MD&A should also be read in conjunction with Lycos' disclosure under "Forward-Looking Information and Statements" below.

Unless otherwise indicated, all production information presented herein have been presented on a gross basis, which is the Company's working interest prior to deduction of royalties and without including any royalty interests. Readers are cautioned that the MD&A should be read in conjunction with disclosures in the sections entitled "Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures".

Certain figures included in this MD&A have been rounded for ease of presentation. Percentage figures included in this MD&A have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this MD&A may vary slightly from those obtained by performing the same calculations using the figures in Lycos' unaudited condensed interim consolidated financial statements or in the associated text. Certain other amounts that appear in this MD&A may similarly not sum due to rounding.

Description of the Business

Lycos is a Calgary based Canadian resource company engaged in the exploration for and development of petroleum and natural gas production in western Canada. Lycos currently has operations in the Gull Lake area of southwest Saskatchewan and heavy oil assets in Lloydminster, Saskatchewan and Alberta.

On December 12, 2022, Lycos (formerly Samoth Oilfield Inc. or "Samoth") and Chronos Resources Ltd. (formerly "Chronos") completed an amalgamation (the "Transaction") pursuant to a definitive agreement dated November 7, 2022, between Samoth and Chronos. The amalgamation was treated as a reverse takeover transaction ("RTO") for accounting purposes. In accordance with IFRS 3, Samoth did not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination, but instead a share-based payment to acquire Samoth's listing status, with Chronos being the continuing entity from an accounting perspective.

On February 28, 2023, Lycos purchased its former partner's equity interest in the Company's limited partnership ("the CDLP Acquisition"), Chronos Duvernay LP ("the Partnership"). The purchase price consisted of $50.0 million cash and the grant of a 2.345% gross overriding royalty ("GORR") to the former partner on any newly drilled wells on the acquired lands. The strategic CDLP Acquisition provides the Company with 100% percent working interest in certain lands and heavy oil producing wells in the Lloydminster area of Alberta.

On May 1, 2023, Lycos amalgamated with the Partnership, Chronos Duvernay GP Ltd., Chronos Duvernay Ltd., Chronos Duvernay MIS Ltd. and Chronos Duvernay Sub Co. Ltd by way of a vertical amalgamation.

Subsequent Event

On August 24, 2023, Lycos entered into a definitive agreement (the "Acquisition Agreement") to acquire Wyatt Resources Ltd., a privately-held, heavy oil producer, for total consideration of $8.8 million, consisting of $6.5 million in cash and $2.3 million of equity (collectively, the "Wyatt Acquisition"). The acquisition builds on Lycos' position of heavy oil assets in the Lloydminster and Frog Lake areas of Alberta.

Q2 2023 Highlights

Highlights for the three months ended June 30, 2023 include:

- Generated average second quarter production of 2,908 boe/d (99% crude oil), representing a 222% increase from the second quarter of 2022 of 903 boe/d (99% crude oil) and a 50% increase from the first quarter of 2023 of 1,940 boe/d (99% crude oil). The increase is the result of a full quarter of production results from the CDLP Acquisition and the successful drilling programs in the fourth quarter of 2022 and first quarter of 2023. The second quarter typically has lower activity due to spring breakup and the Company expects the production contributions from the Q2 capital expenditures to be reflected in our Q3 results.
- Adjusted funds flow from operations[1] was $7.0 million representing a 199% increase from $2.3 million in the second quarter of 2022 and a 167% increase from $2.6 million in the first quarter of 2023.
- Achieved net operating expenses[1] per boe of $24.49 representing a 57% decrease from $56.40 in the second quarter of 2022 and a 17% decrease from $29.55 in the first quarter of 2023. The reduction in net operating costs is the result of operational efficiencies from the CDLP Acquisition and capital investment in infrastructure.
- Executed an $11.9 million capital expenditure program bringing onstream 2 multi-lateral wells at the end of the quarter and commenced 4 drills (one multi-lateral and three multi-leg fishbone wells) that were completed and brought onstream in the third quarter. The Company added approximately 23,000 net acres of crown and freehold lands to the Company's undeveloped land base and continued its investment in injection and disposal infrastructure to reduce operating costs.
- On May 24, 2023, Lycos entered into its first amending agreement with the Lender (as defined herein) whereby it increased the revolving credit facility from $20.0 million to $35.0 million. The next borrowing base review is expected to be completed on or about November 30, 2023. There were no amounts owing on the credit facility at June 30, 2023.

[1] See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

Second Quarter Operational and Financial Highlights

	Three months ended June 30,			Six months ended June 30,		
($ in thousands, except per share)	**2023**	2022	% change	**2023**	2022	% change
Total petroleum and natural gas sales, net of blending[1]	**17,475**	9,040	93%	**27,762**	16,843	65%
Cash flow from (used in) operating activities	**9,022**	(769)	1273%	**5,598**	1,318	325%
Per share - basic	**$ 0.03**	$ (0.01)	389%	**$ 0.02**	$ 0.02	5%
Per share - diluted	**$ 0.03**	$ (0.01)	375%	**$ 0.02**	$ 0.02	0%
Adjusted funds flow from operations[1]	**7,004**	2,342	199%	**9,626**	4,768	102%
Net income	**36**	1,626	(98)%	**21,848**	2,973	635%
Per share - basic	**$ 0.00**	$ 0.02	(99)%	**$ 0.07**	$ 0.04	81%
Per share - diluted	**$ 0.00**	$ 0.02	(99)%	**$ 0.06**	$ 0.04	71%
Capital expenditures - exploration & development	**11,909**	1,089	994%	**23,596**	1,580	1393%
Capital expenditures - net acquisitions & dispositions	**-**	-	0%	**50,000**	(185)	27127%
Adjusted working capital (net debt)[1]	**(10,319)**	2,199	(569)%	**(10,319)**	2,199	(569)%
Weighted average shares outstanding *(thousands)*						
Basic	**318,148**	78,499	305%	**318,148**	78,499	305%
Diluted	**335,227**	78,499	327%	**336,909**	78,499	329%
Average daily production:						
Crude oil (bbls/d)	**2,890**	892	224%	**2,407**	894	169%
Natural gas (mcf/d)	**110**	67	63%	**119**	56	111%
Total (boe/d)	**2,908**	903	222%	**2,427**	903	169%
Realized prices:						
Crude oil ($/bbl)[2]	**65.71**	107.85	(39)%	**62.09**	99.64	(38)%
Natural gas ($/mcf)	**2.14**	7.00	(69)%	**2.47**	6.00	(59)%
Total ($/boe)	**65.37**	107.03	(39)%	**61.70**	98.98	(38)%
Operating netback ($/boe)						
Petroleum and natural gas revenues[2]	**65.37**	107.03	(39)%	**61.70**	98.98	(38)%
Realized gain on financial derivatives	**0.35**	-	100%	**0.21**	-	100%
Royalties	**(9.36)**	(15.82)	(41)%	**(9.27)**	(15.25)	(39)%
Net operating expenses[1]	**(24.49)**	(56.40)	(57)%	**(26.50)**	(48.82)	(46)%
Transportation expenses	**(0.85)**	(0.89)	(5)%	**(0.71)**	(0.79)	(10)%
Operating netback, including financial derivatives ($/boe)[1]	**31.02**	33.92	(9)%	**25.43**	34.12	(25)%
Adjusted funds flow from operations ($/boe) [1]	**26.47**	28.47	(7)%	**21.91**	29.16	(25)%

(1) See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

(2) Realized prices are based on revenue, net of blending expense

Results of Operations

Production

(6:1 boe conversion)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Daily production:						
Crude oil (bbls/d)	**2,890**	892	224%	**2,407**	894	169%
Natural gas (mcf/d)	**110**	67	63%	**119**	56	111%
Total (boe/d)	**2,908**	903	222%	**2,427**	903	169%
% Heavy oil	**99%**	99%	0%	**99%**	99%	0%

Production for the three and six months ended June 30, 2023 averaged 2,908 boe/d (99% crude oil) and 2,427 boe/d (99% crude oil), an increase of 222% and 169%, over production of 903 boe/d (99% crude oil) in the comparable periods of 2022. The increase in production is the result of the 1,500 boe/d CDLP Acquisition and production additions from the fourth quarter of 2022 and first quarter of 2023 capital expenditure programs, offset by natural declines on Lycos' base production.

Gas production is not a significant component of the Company's production.

Petroleum and Natural Gas Sales

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Crude oil	**22,593**	10,739	110%	**36,923**	19,797	87%
Blending expense	**5,317**	1,980	169%	**9,873**	3,674	169%
Crude oil, net of blending [1]	**17,276**	8,759	97%	**27,050**	16,123	68%
Natural gas	**22**	43	(49)%	**53**	61	(13)%
Total petroleum and natural gas revenues, net of blending [1]	**17,298**	8,802	97%	**27,103**	16,184	67%
Processing income	**177**	238	(26)%	**659**	659	0%
Total petroleum and natural gas sales, net of blending [1]	**17,475**	9,040	93%	**27,762**	16,843	65%

[1] See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

Total petroleum and natural gas revenues, net of blending for the three and six months ended June 30, 2023 was $17.3 million and $27.1 million, respectively, as compared to $8.8 million and $16.2 million in the comparable periods of 2022 due to higher production volumes, offset by a lower realized price consistent with the decrease in benchmark Western Canadian Select ("WCS") pricing.

Benchmark and Realized Prices

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Averaged realized prices:						
Crude oil ($/bbl)[(1)(3)]	**65.71**	107.85	(39)%	**62.09**	99.64	(38)%
Natural gas ($/mcf)[(1)]	**2.14**	7.00	(69)%	**2.47**	6.00	(59)%
Barrels of oil equivalent ($/boe)[(2)(3)]	**65.37**	107.03	(39)%	**61.70**	98.98	(38)%
Benchmark prices:						
WTI ($US/bbl)	**73.78**	108.41	(32)%	**74.95**	101.35	(26)%
WCS ($US/bbl)	**58.64**	95.65	(39)%	**54.95**	87.74	(37)%
WCS ($Cdn/bbl)	**78.76**	122.08	(35)%	**74.03**	111.56	(34)%
Condensate at Edmonton ($Cdn/bbl)	**93.25**	132.11	(29)%	**100.12**	127.18	(21)%
AECO ($/Mmbtu)	**2.43**	7.26	(67)%	**2.83**	6.01	(53)%
Exchange rate ($Cdn/$US)	**1.34**	1.28	5%	**1.35**	1.27	6%

(1) "Crude oil" refers to heavy crude oil and natural gas liquids combined. "Natural gas" refers to conventional gas combined
(2) Disclosure of production on a per boe basis in this MD&A consists of the constituent product types and their respective quantities disclosed in the "Product Type Information" section of this MD&A. Also refer to the "BOE Presentation" section of this MD&A
(3) Realized prices are based on revenue, net of blending expense

The Company takes all its working interest production "in kind" which is marketed and sold through various credit-worthy commodity purchasers. Lycos' crude oil is marketed under short-term (30 day) or fixed price contracts with crude oil marketers and through major North American crude oil purchasers. All the Company's natural gas is currently sold as spot gas through significant North American natural gas marketers.

The prices received for crude oil and natural gas production directly impact the Company's earnings, adjusted funds flow from operations and financial position.

Commodity prices are affected by both domestic and international factors that are beyond the control of the Company. Prices received for crude oil are determined by the quality of the crude oil compared to the benchmark price for WCS crude oil expressed in Canadian dollars, which is determined by the price for West Texas Intermediate light oil ("WTI"), the exchange rate between the Canadian dollar and the US dollar, the heavy oil differential between WTI and WCS denominated in US dollars, and field level price adjustments for quality of crude oil and diluent costs to blend oil to meet pipeline specifications. The Company's realized crude oil prices in southwest Saskatchewan are based on Fosterton oil prices at Regina. The Company's realized crude oil prices in Lloydminster are based on Lloyd Kerrobert which is gathered to the east and south of Lloydminster on the Manito Pipeline system for delivery to the Kerrobert station on Enbridge Pipeline Inc's mainline system.

The Company's realized crude oil price, net of blending, for the three and six months ended June 30, 2023 was $65.71/bbl and $62.09/bbl, respectively, as compared to $107.85/bbl and $99.64/bbl realized in the same periods of last year.

WTI pricing decreased for the three and six months ended June 30, 2023 as compared to the same periods of 2022 due to recessionary concerns in North America and lower forecast oil demand out of China. Lycos' discount to WCS widened from 2022 due to higher blending costs relative to WCS pricing. Lycos' blends with a lower quality condensate as compared to the benchmark condensate at Edmonton which results in a wider differential relative to WCS. WCS pricing was impacted by refinery outages in the United States Gulf Coast, increasing supply which weakened the underlying WCS price differential compared to the same periods of 2022. WCS differentials improved in the second quarter of 2023 averaging US$15/bbl as compared to the first quarter 2023 average of nearly US$25/bbl. Given the recent incremental OPEC+ production cuts, the global expansion of heavy crude refining capacity coupled with the upcoming completion of the Trans Mountain pipeline expansion, narrower heavy oil differentials appear to be supported by the overall supply-demand outlook.

Natural gas is not a significant component of the Company's revenue stream.

Risk Management

Financial Derivative Gains

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Realized gains	**92**	-	100%	**92**	**-**	100%
Unrealized gains	**11**	-	100%	**11**	**-**	100%
Financial derivative gains	**103**	-	100%	**103**	-	100%
Realized gains per boe ($)	**0.35**	-	100%	**0.21**	-	100%

The Company incurred a realized gain of $0.1 million on its crude oil commodity risk management contracts for the three and six months ended June 30, 2023 as the fixed price of the financial derivative commodity contracts exceeded the settlement price in the period. The unrealized gain is a result of the non-cash change in the mark-to-market values over the periods on the Company's outstanding financial derivative contracts.

Fixed Price and Financial Derivative Commodity Contracts

Lycos maintains an ongoing risk management program to reduce the volatility of revenues to fund operations and capital expenditures. As at June 30, 2023, the Company had the following fixed price physical sales contracts:

Option Traded	Term	Volume	Price/Unit
WCS	July 1, 2023 to December 31, 2023	9,000 bbl/month	US $45.25
LLK (Lloyd Kerrobert)	July 1, 2023 to July 31, 2023	200 bbl/d	CAD $90.50

As at June 30, 2023, the Company had the following financial derivative commodity contracts:

Option Traded	Term	Volume	Price/Unit	Fair value
WCS	July 1, 2023 to September 30, 2023	250 bbl/d	CAD $85.35	$ 166
WCS Differential	July 1, 2023 to September 30, 2023	500 bbl/d	CAD ($19.00)	$ (155)

Royalties

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Royalty expenses	**2,476**	1,301	90%	**4,073**	2,494	63%
Royalty rate [1]	**14.3%**	14.8%	(3)%	**15.0%**	15.4%	(2)%
Per boe ($)	**9.36**	15.82	(41)%	**9.27**	15.25	(39)%

[1] See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

Royalties are paid to provincial governments, freehold mineral rights owners and royalty contract owners and include the Saskatchewan resource surcharge. Royalties are calculated based on revenue less allowed costs of transportation and processing and are generally expressed as a percentage of revenue. Royalty rates can vary due to several factors including commodity prices, mix of production subject to each type of royalty, commodity produced, royalty contract terms, and royalty incentive schemes. Under the Alberta Modernized Royalty Framework ("MRF"), the Company will pay a flat royalty of 5% on a well's production until the well's total revenue exceeds the Drilling and Completion Cost Allowance (C*), then royalty rates increase on a sliding scale up to 40% depending on commodity reference pricing. The Government of Saskatchewan has a drilling incentive whereby qualifying incentive volumes of newly drilled oil wells are subject to a maximum royalty rate of 2.5% for Crown production and a maximum production tax rate of 0% for freehold production.

Royalties for the three months ended June 30, 2023 were $2.5 million or 14.3% royalty rate as compared to $1.3 million or 14.8% royalty rate in the comparable period. Year to date, royalties were $4.1 million or 15.0% royalty rate compared to $2.5 million or 15.4% royalty rate for the same period of 2022. On an absolute dollar basis, royalties increased over the comparable periods due to higher petroleum and natural gas revenues. On a royalty rate basis, royalties decreased slightly over the comparable periods due to the lower crude oil pricing environment and royalty incentives on newly drilled wells in Alberta and Saskatchewan.

Net Operating Expenses

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Operating expenses	**6,657**	4,877	36%	**12,299**	8,641	42%
Less: processing income	**177**	238	(26)%	**659**	659	0%
Total net operating expenses[1]	**6,480**	4,639	40%	**11,640**	7,982	46%
Per boe ($)	**24.49**	56.40	(57)%	**26.50**	48.82	(46)%

[1] See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

For the three and six months ended June 30, 2023, net operating expenses increased to $6.5 million and $11.6 million, respectively, from $4.6 million and $8.0 million in the comparable periods due to a significant increase in production volumes and inflationary pressures.

On a per boe basis, net operating expenses for the three and six months ended June 30, 2023, were $24.49 and $26.50, respectively, compared to $56.40 and $48.82 in the comparable periods. The overall decrease in net operating expenses per boe is due to a full quarter of results from the CDLP Acquisition assets which carry lower net operating expenses per boe than the Company's historical average and operational efficiencies given the acquired Partnership assets are directly adjacent to the Company's legacy Lloydminster assets, combined with capital expenditures on injection and disposal initiatives to lower operating costs requirements.

Transportation Expenses

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Transportation expenses	**224**	73	207%	**310**	129	139%
Per boe ($)	**0.85**	0.89	(5)%	**0.71**	0.79	(10)%

Transportation expenses include the cost of transporting natural gas and the cost to truck clean crude oil from the field to sales points and can fluctuate month to month depending on the product mix and the proximity of each well to a sales point. For the three and six months ended June 30, 2023, total transportation expenses increased compared to the comparable periods due to higher production volumes. On a per boe basis, transportation expenses decreased due to lower transportation costs associated with the CDLP Acquisition assets. Transportation expenses is not a significant expense for the Company.

Operating Netback

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Total petroleum and natural gas revenues, net of blending[1]	**17,298**	8,802	97%	**27,103**	16,184	67%
Royalties	**(2,476)**	(1,301)	90%	**(4,073)**	(2,494)	63%
Net operating expenses [1]	**(6,480)**	(4,639)	40%	**(11,640)**	(7,982)	46%
Transportation expenses	**(224)**	(73)	207%	**(310)**	(129)	(139)%
Operating netback[1]	**8,118**	2,789	191%	**11,080**	5,579	99%
Realized gains on financial derivatives	**92**	-	100%	**92**	-	100%
Operating netback[1], including financial derivatives	**8,210**	2,789	194%	**11,172**	5,579	100%

($/boe)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Total petroleum and natural gas revenues, net of blending[2]	**65.37**	107.03	(39)%	**61.70**	98.98	(38)%
Royalties	**(9.36)**	(15.82)	(41)%	**(9.27)**	(15.25)	(39)%
Net operating expenses[1]	**(24.49)**	(56.40)	(57)%	**(26.50)**	(48.82)	(46)%
Transportation expenses	**(0.85)**	(0.89)	(5)%	**(0.71)**	(0.79)	(10)%
Operating netback[1]	**30.67**	33.92	(10)%	**25.22**	34.12	(26)%
Realized gains on financial derivatives	**0.35**	-	100%	**0.21**	-	100%
Operating netback[1], including financial derivatives	**31.02**	33.92	(9)%	**25.43**	**34.12**	(25)%

[1] See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

[2] Realized prices are based on revenue, net of blending expense

For the three and six months ended June 30, 2023, operating netback per boe was lower primarily due to the lower realized price compared to the same periods of 2022, partially offset by lower royalties, net operating expenses and transportation expense. On an absolute basis, operating netback was higher than the comparable periods due to higher production, partially offset by lower realized price, higher royalties, higher net operating expenses and higher transportation expenses.

General and Administrative ("G&A") Expenses

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
G&A expenses	**1,806**	792	128%	**3,229**	1,479	118%
Capitalized G&A and overhead recoveries	**(606)**	(334)	81%	**(1,237)**	(652)	90%
Net G&A expenses	**1,200**	458	162%	**1,992**	827	141%
Per boe ($)	**4.53**	5.57	(19)%	**4.53**	5.06	(10)%

G&A expenses are primarily for personnel and office related expenses and are expected to increase as the overall size of the business expands; however, when measured on a per boe basis, the expense is expected to decrease as production volumes increase. The Company capitalizes salaries and overhead costs directly related to petroleum and natural gas exploration and development activities.

For the three and six months ended June 30, 2023, the Company incurred net G&A expenses of $1.2 million and $2.0 million, respectively, from $0.5 million and $0.8 million in the comparable periods due to employee related costs and professional fees associated with the planned growth resulting from the RTO Transaction and CDLP Acquisition. For the three and six months ended June 30, 2023, the Company increased capitalized G&A due to Lycos' higher capital expenditure program and technical staff additions as compared to the same periods of 2022. On a per boe basis, G&A expenses decreased as compared to the same periods of 2022 due to a significant increase in production over the periods.

Stock-based Compensation

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Stock options	**1,263**	**-**	100%	**1,608**	-	100%
Capitalized stock-based compensation	**(483)**	**-**	100%	**(615)**	-	100%
Stock-based compensation	**780**	**-**	100%	**993**	-	100%
Per boe ($)	**2.95**	-	100%	**2.26**	-	100%

During the three and six months ended June 30, 2023, the Company recorded gross stock-based compensation expense of $1.3 million and $1.6 million, respectively, compared to $nil million in the comparable periods of 2022. The Company capitalizes stock-based compensation expense related to petroleum and natural gas exploration and development activities. For the three and six months ended June 30, 2023, Lycos recorded capitalized stock-based compensation expense of $0.5 million and $0.6 million, respectively, compared to $nil million in the comparable periods of 2022.

There were no stock options of the Company issued or outstanding in 2022. On January 25, 2023, Lycos granted 15,935,000 stock options to certain directors, officers, employees and consultants. These stock options expire five years from the date of grant, are exercisable at a price of $0.55 per Common Share (as defined herein), and vest as to one-third on each of the first, second and third anniversary of the grant date. On May 15, 2023, Lycos granted 1,140,000 stock options to certain employees, directors, and officers. These stock options expire five years from the date of grant, are exercisable at a price of $0.45 per common share, and vest as to one-third on each of the first, second and third anniversary of the grant date.

The following table summarizes the changes in the outstanding stock options for the periods:

	Six months ended June 30, 2023		Year ended December 31, 2022	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Options outstanding, beginning of period	-	**$ -**	-	$ -
Granted	**17,075,000**	**$ 0.54**	-	$ -
Options outstanding, end of period	**17,075,000**	**$ 0.54**	-	$ -

The range of exercise price of stock options outstanding and exercisable as at June 30, 2023, is as follows:

Outstanding options			
Exercise price	**Number of Options Oustanding**	**Weighted average remaining term (years)**	**Weighted average exercise price**
$ 0.45 - $ 0.55	17,075,000	4.6	$ 0.54

At June 30, 2023, there are no exercisable options.

Depletion and Depreciation ("D&D")

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Depletion and depreciation	**5,641**	1,454	288%	**9,106**	2,760	230%
Per boe ($)	**21.32**	17.68	21%	**20.73**	16.88	23%

D&D per boe will fluctuate from one period to the next depending on the amount and type of capital spending, the recognition or reversal of impairments, the amount of reserves and future development costs added and production volumes.

Depletion of oil and gas assets is provided on the unit-of-production method based on total proved and probable petroleum and natural gas reserves, including future development costs, on a cash-generating unit ("CGU") basis. Depletion and depreciation expense for the three and six months ended June 30, 2023, was $5.6 million and $9.1 million, respectively, compared to $1.5 million and $2.8 million for the comparable periods. The increase in total D&D over the comparable periods is the result of the 2023 capital expenditures, the CDLP Acquisition, and the impact of the impairment reversal at December 31, 2022, which increased Lycos' depletable base as well as an increase to future development costs. On a per boe basis, D&D for the three and six months ended June 30, 2023, was $21.32 and $20.73, respectively, compared to $17.68 and $16.88 in the comparable periods of 2022 due to higher production.

Transaction Costs

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Transaction costs related to acquisitions	**-**	-	0%	**777**	-	100%
Transaction costs related to credit facilities	**-**	-	0%	**99**	-	100%
Transaction costs	**-**	**-**	0%	**876**	**-**	100%
Per boe ($)	**-**	-	0%	**1.99**	-	100%

For the six months ended June 30, 2023, Lycos incurred $0.8 million for certain professional fees associated with the CDLP Acquisition and $0.1 million for the upfront fee and legal costs related to the new revolving credit facility entered into on January 16, 2023 as compared to $nil in the comparative period.

Finance Expense

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Accretion of decommissioning liabilities	**220**	114	93%	**382**	201	90%
Interest expense	**51**	2	2450%	**57**	5	1040%
Interest on lease obligations	**13**	2	550%	**22**	4	450%
	284	118	141%	**461**	210	120%
Per boe ($)	**1.07**	1.44	(26)%	**1.04**	1.28	(19)%

Finance expense includes interest expense, interest on lease obligations and accretion on decommissioning liabilities. Accretion will fluctuate due to changes in inflation and risk-free rates.

The Company's finance expense for the three and six months ended June 30, 2023 was $0.3 million and $0.5 million compared to finance expense of $0.1 million and $0.2 million in the comparable periods. The increase in finance expense is due to accretion on the decommissioning liabilities associated with the CDLP Acquisition and newly drilled wells combined with interest expense and standby fees on the Company's credit facility.

Other Income

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Other income	**45**	210	(79)%	**503**	261	93%
Per boe ($)	**0.17**	2.55	(93)%	**1.15**	1.60	(28)%

Other income consists of interest income associated with interest earned on cash on hand, as well as government grants earned for well site rehabilitation. For the three and six months ended June 30, 2023, the Company recognized $45 thousand and $0.5 million of other income, respectively, compared to $0.2 million and $0.3 million in the comparative periods.

Taxes

The following table outlines the Company's estimated tax pools as at June 30, 2023:

($ in thousands)	June 30, 2023	Annual Deductibility
Undepreciated capital cost	5,588	Primarily 25% declining balance
Canadian exploration expense	11,237	100%
Canadian development expense	18,836	30% declining balance
Canadian oil and gas property expense	23,003	10% declining
Non-capital loss carry forward	77,767	100%
Share issue costs	3,073	20% straight line
Total	**139,504**	

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Deferred income tax (expense) recovery	**(325)**	-	100%	**12,173**	-	100%

Given the CDLP Acquisition and increases in commodity prices and various other factors, the Company has recognized a deferred income tax liability of approximately $0.4 million as at June 30, 2023 and recorded a corresponding deferred income tax expense of $0.3 million and a deferred income tax recovery of $12.2 million for the three and six months ended June 30, 2023, respectively, as compared to $nil in the comparative periods.

Cash flow from Operating Activities, Adjusted Funds Flow and Net Income

($ in thousands, except per share)	Three months ended June 30, 2023	2022	% change	Six months ended June 30, 2023	2022	% change
Cash flow from (used in) operating activities	**9,022**	$ (769)	1273%	**5,598**	1,318	325%
Adjusted funds flow from operations[(1)]	**7,004**	2,342	199%	**9,626**	4,768	102%
Net income	**36**	1,626	(98)%	**21,848**	2,973	635%
Per share - basic	**$ 0.00**	$ 0.02	(99)%	**$ 0.07**	$ 0.04	81%
Per share - diluted	**$ 0.00**	$ 0.02	(99)%	**$ 0.06**	$ 0.04	71%

(1) See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

The Company recorded net income of $36 thousand ($0.00 per basic and diluted share) and $21.8 million ($0.07 per basic and $0.06 per diluted share) for the three and six months ended June 30, 2023 compared to net income of $1.6 million ($0.02 per basic and diluted share) and $3.0 million ($0.04 per basic and diluted share) in the comparable periods. The decrease in net income for the three months ended June 30, 2023 as compared to the same period in 2022 is primarily due to higher depletion and depreciation, stock-based compensation, and nil share in profit of investment in associate as compared to the comparable period. The increase in net income for the six months ended June 30, 2023 as compared to the same period in 2022 is primarily due to the deferred income tax recovery and the gain on CDLP Acquisition recognized in the period combined with higher petroleum and natural gas sales, partially offset by higher royalties, operating expenses and depletion and depreciation.

Adjusted funds flow from operations for the three and six months ended June 30, 2023 was higher compared to the same periods in 2022. This was primarily due to an increase in revenue from additional production partially offset by lower realized commodity prices and higher operating expenses, royalties and G&A expenses.

Capital Expenditures

($ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% change	**2023**	2022	% change
Land and geological and geophysical	**1,955**	79	2375%	**2,975**	89	3243%
Drilling and completions	**7,242**	550	1217%	**15,484**	801	1833%
Equipping and facilities	**2,216**	430	415%	**4,145**	654	534%
Other	**496**	30	1554%	**992**	36	2656%
Exploration and development	**11,909**	1,089	994%	**23,596**	1,580	1393%
Business combination	**-**	-	0%	**50,000**	-	100%
Property dispositions	**-**	-	0%	**-**	(185)	(100)%
Total capital expenditures[1]	**11,909**	1,089	994%	**73,596**	1,395	5176%

[1] See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

Total capital expenditures for the three and six months ended June 30, 2023 were $11.9 million and $73.6 million, respectively, compared to $1.1 million and $1.4 million in the comparable periods of 2022. During the second quarter of 2023, the Company incurred $2.0 million on lease acquisitions and seismic, $7.2 million on drilling and completions, $2.2 million on equipping and facilities, and $0.5 million related to other costs. During the six months ended June 30, 2023, the Company incurred $50.0 million cash consideration on the CDLP Acquisition of core area assets in Lloydminster, $3.0 million on lease acquisitions and seismic, $15.5 million on drilling and completions, $4.1 million on equipping and facilities, and $1.0 million related to other costs. The Company's Q2 2023 capital program included the drilling and completion of two multi-lateral wells in the Lloydminster area that were brought onstream at the end of the quarter and four drills (one multi-lateral and three multi-leg "fishbone" wells) that were completed and onstream in the third quarter of 2023. The Company continued to invest in injection and disposal infrastructure for water handling purposes and recompletions and reactivation projects to bring on incremental production.

The following table summarizes the Company's drilling results (based on rig-released wells):

	Three months ended June 30,				Six months ended June 30,			
	2023		2022		**2023**		2022	
	Gross(2)	Net(2)	Gross	Net	Gross(1)	Net(1)	Gross	Net
Crude oil	3.0	3.0	-	-	6.0	6.0	-	-
Disposal	0.0	0.0	-	-	2.0	2.0	-	-
Total	**3.0**	**3.0**	-	-	**8.0**	**8.0**	-	-
Success rate	**100%**	**100%**	N/A	N/A	**100%**	**100%**	N/A	N/A

(1) Of the 6 (6.0 net) crude oil wells drilled during the six months ended June 30, 2023, 1 (1.0 net) well is scheduled to be converted to injection.
(2) Of the 3 (3.0 net) crude oil wells drilled during the three months ended June 30, 2023, 2 (2.0 net) wells were on production at June 30, 2023 and 1 (1.0 net) well was drilled and cased and completed and onstream in the third quarter of 2023.

Investment in Associate

Prior to the Company's purchase of the equity interest of its partner on February 28, 2023, the Company held a 21.85% working interest in the Partnership, which was primarily engaged in the development for and production of heavy oil in Lloydminster, Alberta. The Lloydminster assets were held by the Partnership and its general partner, a subsidiary of the Company. The operations of the assets were managed and operated by Lycos under a management advisory and service agreement.

On February 28, 2023, Lycos completed the CDLP Acquisition, acquiring the remaining 78.15% interest in the Partnership from its partner though a wholly owned subsidiary with purchase consideration equal to $50.0 million in cash and the GORR. This transaction was accounted for as a business combination through a step acquisition in accordance with IFRS 3. Accordingly, the Company remeasured its investment in the Partnership immediately before the acquisition date. The fair value of net assets acquired was estimated at $67.5 million (or $14.8 million for the Company's 21.85% share in the Partnership), resulting in a gain of $11.4 million when compared to the carrying value of the investment of $3.7 million (including the $0.3 million unrecognized portion of transaction costs). Lycos and the Partnership were subsequently amalgamated on May 1, 2023.

Summarized below is the financial information of the Partnership and Lycos' share of net assets.

		February 28, 2023		December 31, 2022
Current assets	**$**	**3,659**	$	3,801
Non-current assets		**90,344**		29,092
Current liabilities		**(5,325)**		(5,882)
Non-current liabilities		**(21,160)**		(11,750)
Net assets	**$**	**67,518**	$	15,261
Share of associate (percentage)		**21.85%**		21.85%
Share of net assets	**$**	**14,752**	$	3,335
Unrecognized portion of transaction costs (1)		**341**		341
Investment in associate before acquisition		**15,093**		3,676
Derecognition of investment in associate		**(15,093)**		-
Investment in associate	**$**	**-**	$	3,676

(1) The amount represented transaction costs incurred in 2018 and 2019 on the financing of the Partnership that are not included in the net assets of the associate.

Results of Operations for the Period Ended		**February 28, 2023**		December 31, 2022
Revenues	**$**	**4,858**	$	24,125
Expenses		**(3,624)**		(30,325)
Depletion		**(1,073)**		(4,451)
Net income (loss)	**$**	**161**	$	(10,651)
Share of investment in associate (weighted average percentage)		**21.85%**		21.8%
Share of profit (loss) of investment in associate	**$**	**35**	$	(2,327)

The Company's carrying amount of the investment in associate was as follows:

Investment in associate, December 31, 2021	$	6,931
Share of net loss from investment in associate		(2,327)
Adjustment related to Class D unit distribution [(1)]		(928)
Investment in associate, December 31, 2022	$	3,676
Share of net income from investment in associate		**35**
Gain on previously held investment in associate recognized in Consolidated Statement of Income and Comprehensive Income		**11,382**
Derecognition of investment in associate		**(15,093)**
Investment in associate, February 28, 2023	**$**	**-**

(1) During 2022, the Partnership paid a distribution to the holders of class D units, which were held by the Company's partner to the Partnership prior to the CDLP Acquisition.

Share Capital

Common Shares

The Company's authorized share capital consists of an unlimited number of common shares (the "Common Shares") and an unlimited number of preferred shares, issuable in series.

The following table summarizes the Company's issued and outstanding Common Shares for the periods:

	June 30, 2023			December 31, 2022		
	Number of Shares		**Amount**	Number of Shares		Amount
Balance, beginning of period	**318,147,806**	**$**	**177,032**	78,498,598	$	113,332
Shares issued as part of subscription receipt private placement	**-**		**-**	189,285,826		53,000
Shares issued as part of unit private placement	**-**		**-**	42,857,140		12,000
Shares issued as part of subscription receipt unit private placement - advisory fee	**-**		**-**	2,792,860		782
Acquired on reverse takeover	**-**		**-**	4,713,382		1,320
Share issue costs	**-**		**-**	-		(3,402)
Balance, end of period	**318,147,806**	**$**	**177,032**	318,147,806	$	177,032

Pursuant to the RTO transaction, each of the common shares of Chronos was exchanged for two and a half (2.5) Common Shares of Lycos. The Company did not issue any Common Shares in the three and six month period ended June 30, 2023.

Warrants

In connection with the RTO transaction and the related financing which closed in fourth quarter of 2022, the Company issued 45,650,018 warrants. Each warrant entitles the holder thereof to purchase one Common Share anytime on or prior to December 12, 2027 at an exercise of $0.28 per Common Share. The warrants vest and become exercisable as to one-third upon the 10-day weighted average trading price of Common Shares (the "Market Price") equalling or exceeding $0.42, an additional one-third upon the Market Price equaling or exceeding $0.49 and a final one-third upon the Market Price equaling or exceeding $0.56. The warrants are fully vested and exercisable.

Liquidity and Capital Resources

As at June 30, 2023, the Company had sufficient liquidity with net debt of $10.3 million and no drawn bank debt on its available credit facility. The Company has sufficient financial resources to undertake its planned activities in 2023. Lycos intends to use its cash flows from operations for acquisitions and exploration and development activities. To the extent that the Company's cash flow from operations is not sufficient, Lycos anticipates that it will make use of the credit facility discussed below. Alternatively, the Company may issue equity as consideration to complete any future acquisitions and undertake its exploration and development activities. Lycos maintains the flexibility to adjust its capital spending to manage working capital requirements.

Credit Facility

During the first quarter of 2023, the Company entered into an agreement with the National Bank of Canada ("the Lender") providing for an uncommitted demand revolving credit facilities for up to $20 million, of which $10.0 million is immediately available for general corporate purposes and additional $10.0 million is available at the discretion of the Lender.

On May 24, 2023, Lycos entered into its first amending agreement with the Lender, increasing the revolving credit facility from $20.0 million to $35.0 million available immediately. According to the agreement, if the revolving credit facility exceeds $10 million, Lycos is required to enter into and maintain commodity swap agreements covering not less than 50% of oil volumes on a rolling next 12-month basis. The next borrowing base review is expected to be completed on or about November 30, 2023. Subsequent to June 30, 2023, the Lender has waived the hedging requirement until the next borrowing base review.

During the period ended June 30, 2023, the Company drew and repaid $5.1 million to fund working capital requirements. There were no amounts owing on the credit facility at June 30, 2023.

The credit facilities are secured by a demand debenture in the amount of $100.0 million. The Company is subject to a financial covenant whereby the Company's ratio of adjusted working capital, including any undrawn availability under the revolving facility as a current asset, shall not be less than 1.00:1.00. Repayments of principal are not required until the Lender demands, provided that the borrowings do not exceed the authorized credit facility and the Company is in compliance with all covenants, representations and warranties.

Contractual Obligations and Commitments

Commitments exist under various agreements and operations in the normal course of the Company's business, none of which are expected to have a significant impact on the Company's financial statements or operations.

On November 24, 2022, Lycos entered into a head office sublease agreement for a period of two years and eight months, commencing on May 1, 2023. The Company took possession of the head office space in January of 2023. The sublease agreement includes variable operating costs, which are a non-lease component, and will be recorded directly to general and administrative costs as incurred. Future minimum payments relating to variable operating costs as of June 30, 2023 are as follows:

		June 30, 2023
Less than 1 year	$	528
1-2 years		912
Total commitments	**$**	**1,440**

2023 Guidance

Lycos is revising its 2023 guidance as released on April 3, 2023. The Company is increasing its 2023 acquisition expenditures[2] to $59.0 million and its 2023 exploration, development and other capital expenditures to $47.0 million from $50.0 million and $37.0 million, respectively. The additional capital expenditures will fund a two (2) well drilling program on the newly acquired properties as well as the acquisition of additional undeveloped acreage. As a result, we are increasing our anticipated 2023 annual average production to be 3,150 boe/d (99% crude oil) from 3,000 boe/d (99% crude oil), respectively. Lycos expects to fund these additional capital expenditures through its existing working capital and revolving credit facility which will result in a revised estimated Exit Adjusted Working Capital (Net Debt)[1] of ($10.0) million.

Subsequent Events

Subsequent to June 30, 2023, the Company entered into the following financial derivative contracts:

Option Traded	Term	Volume	Price/Unit
WCS	August 1, 2023 to August 31, 2023	250 bbl/d	CAD $84.85
WTI	September 1, 2023 to September 30, 2023	500 bbl/d	CAD $103.45
WCS	October 1, 2023 to December 31, 2023	250 bbl/d	CAD $80.15
WCS	October 1, 2023 to December 31, 2023	300 bbl/d	CAD $84.80
WCS Differential	January 1, 2024 to December 31, 2024	250 bbl/d	CAD ($20.00)
WTI	January 1, 2024 to March 31, 2024	250 bbl/d	CAD $106.50

Subsequent to June 30, 2023, Lycos plans to proceed with the consolidation of its Common Shares as previously approved by shareholders of the Company at the annual general and special meeting of shareholders held on June 14, 2023.

The Board of Directors of the Company intends to effect the consolidation (the “Consolidation”) on the basis of eight (8) pre-Consolidation Common Shares for each post-consolidation Common Share to promote increased liquidity and reduce volatility in the trading of the Common Shares.

On August 24, 2023, Lycos entered into the Acquisition Agreement to acquire Wyatt Resources Ltd., a privately-held, heavy oil producer, for total consideration of $8.8 million, consisting of $6.5 million in cash and $2.3 million of equity.

On August 24, 2023, the Lycos Board of Directors approved the grant of 410,000 stock options to a director and certain employees. The options expire five years from the date of the grant and are exercisable at a price of $0.45 per common share. The options vest as to one-third on each of the first, second and third anniversary of the grant date. In addition, subsequent to Q2 2023, the Company cancelled 410,000 unvested stock options.

(1) See Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures
(2) Revised acquisition expenditures is comprised of $56.7 million of cash and $2.3 million of equity

Quarterly Results

The following table summarizes the Company's key quarterly financial and operating results for the past eight quarters.

	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial *(thousands of dollars, except share data)*								
Total petroleum and natural gas sales, net of blending[1]	**17,475**	10,287	6,341	9,622	9,040	7,803	6,602	3,480
Cash flow from operating activities	**9,022**	(3,424)	910	3,164	(769)	2,087	2,214	1,459
Adjusted funds flow from operations [1]	**7,004**	2,622	(201)	1,385	2,342	2,426	938	1,496
Net income (loss)	**36**	21,812	(14,948)	15,646	1,626	1,347	11,737	1,827
Per share - basic	**$ 0.00**	$ 0.07	$ (0.12)	$ 0.20	$ 0.02	$ 0.02	$ 0.15	$ 0.02
Per share - diluted	**$ 0.00**	$ 0.06	$ (0.12)	$ 0.20	$ 0.02	$ 0.02	$ 0.15	$ 0.02
Adjusted working capital (net debt)[1]	**(10,319)**	(4,982)	56,835	636	2,199	887	(1,222)	(1,542)
Total capital expenditures [1]	**11,909**	61,687	5,489	2,924	1,089	306	171	1,290
Weighted average shares outstanding								
Basic	**318,148**	318,148	127,991	78,499	78,499	78,499	78,499	78,499
Diluted	**335,227**	338,403	127,991	78,499	78,499	78,499	78,499	78,499
Shares outstanding, end of period (thousands)								
Basic	**318,148**	318,148	318,148	78,499	78,499	78,499	78,499	78,499
Diluted	**335,227**	338,403	318,148	78,499	78,499	78,499	78,499	78,499
Operational								
Average daily production								
Crude oil (bbls/d)	**2,890**	1,919	1,109	1,075	892	895	910	574
Natural gas (mcf/d)	**110**	125	85	49	67	45	50	66
Total (boe/d)	**2,908**	1,940	1,123	1,083	903	903	918	585

[1] See Non-IFRS measures, Non-IFRS Financial Ratios and Capital Management Measures

December 2022 was a transformational period for Lycos following the RTO transaction, the Company's $65.0 million financing and the reconstitution of management and the Board of Directors. Exiting the year with $56.8 million of adjusted working capital and $59.6 million of cash on hand, the Company was well positioned for significant growth in 2023. Lycos continued its growth momentum in 2023 by completing the CDLP Acquisition consisting of heavy oil assets in its Lloydminster core area for cash consideration of $50.0 million and the GORR. For the 2022 fiscal year and Q4 2021, the Company drove most of its growth from the acquisition of its legacy Lloydminster assets, which the Company purchased at the end of Q3 2021. Capital expenditures over the 2022 year and during 2023 have been targeted toward proving up the Company's drilling technology associated with a multi-leg "fishbone" wells and multi-lateral wells. In addition, the Company pursued a reactivation program of previously shut-in wells and the associated equipping and facility expenditures to take advantage of the higher commodity price environment and optimization projects to reduce operating expenses. Lycos grew average daily production to 2,908 boe/d in the second quarter of 2023 from 585 boe/d in the third quarter of 2021. The recovery of crude oil prices and the increase in the Company's daily average production has resulted in an increase in sales and cash flow from operating activities over the periods.

Prior to Q4 2021, the Company's capital expenditures have been directed primarily towards the development of its assets in southwest Saskatchewan consisting of recompletion and reactivations, a waterflood pressure maintenance scheme and facilities to increase fluid handling capacity and optimization projects to reduce operating expenses.

Changes in Accounting Policies

There were no changes that had a material effect on the reported income or net assets of the Company.

Off-Balance Sheet Arrangements

All off-balance sheet arrangements are in the normal course of business. Refer to the commitments under the heading "Contractual Obligations and Commitments".

Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures

This document contains the terms "net operating expenses", "operating netback" and "total crude oil, petroleum and natural gas revenue, and total petroleum and natural gas sales, net of blending" and "royalty rate" which are non-IFRS financial measures, or ratios if calculated on a per boe or percentage basis. The Company uses these measures to help evaluate Lycos' performance. These non-IFRS financial measures and ratios do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This document also contains the capital management measures of "adjusted funds flow from operations", "adjusted working capital (net debt)", "exit adjusted working capital (net debt)" and "total capital expenditures". Management believes that the presentation of these non-IFRS, capital management and other financial measures provides useful information to shareholders and investors in understanding and evaluating the Company's ongoing operating performance.

Adjusted Funds Flow from Operations

Funds flow is calculated by taking cash flow from operating activities and adding back changes in non-cash working capital. Adjusted funds flow from operations is further calculated by adding back decommissioning costs incurred and transaction costs. Management considers adjusted funds flow from operations to be a key measure to assess the performance of the Company's oil and gas properties and the Company's ability to fund future capital investment. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of costs. Changes in non-cash working capital, decommissioning costs incurred and transaction costs vary from period to period and management believes that excluding the impact of these provides a useful measure of Lycos' ability to generate the funds necessary to manage the capital needs of the Company.

The Company reconciles adjusted funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS as follows:

($ in thousands)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Cash flow from (used in) operating activities	**9,022**	(769)	**5,598**	1,318
Changes in non-cash working capital	**(2,375)**	3,111	**2,688**	3,450
Funds flow from operations	**6,647**	2,342	**8,286**	4,768
Decommissioning costs incurred	**357**	-	**464**	-
Transaction costs	**-**	-	**876**	-
Adjusted funds flow from operations	**7,004**	2,342	**9,626**	4,768
Per boe ($)	**26.47**	28.47	**21.91**	29.16

Adjusted Working Capital (Net Debt)

Adjusted working capital (net debt) is a capital management measure which management uses to assess the Company's liquidity. The Company believes its presentation of adjusted working capital (net debt) is a useful supplemental measure because Management maintains the flexibility to adjust its decommissioning expenditures to manage working capital requirements and financial derivative assets/liabilities are subject to volatility prior to settlement and are included in Lycos' reported adjusted funds flow from operations in the production month that they are realized.

($ in thousands)	June 30, **2023**	December 31, 2022	June 30, 2022
Working capital	**(11,808)**	55,835	2,199
Current portion of decommissioning liabilities	**1,500**	1,000	-
Financial derivative asset	**(11)**	-	-
Adjusted working capital (net debt)	**(10,319)**	56,835	2,199

Exit Adjusted Working Capital (Net Debt)

Exit adjusted working capital (Net Debt) is a capital management measure which management uses to assess the Company's liquidity and is calculated by taking the forecasted December 2023 current assets less current liabilities, excluding the current portion of decommissioning liabilities and financial derivative assets/liabilities.

Crude Oil, Net of Blending and Total Petroleum and Natural Gas Revenues, Net of Blending

Management uses crude oil, net of blending expense and total petroleum and natural gas revenues, net of blending expense to compare realized pricing to WCS benchmark pricing. This is calculated by deducting the Company's blending expense from crude oil sales and total petroleum and natural gas revenues. Blending expense is recorded within blending and transportation expense in the Interim Financial Statements.

Total Petroleum and Natural Gas Sales, Net of Blending

Management uses total petroleum and natural gas sales, net of blending expense to compare realized pricing to benchmark pricing. This is calculated by deducting the Company's blending expense from petroleum and natural gas sales. Blending expense is recorded within blending and transportation expense in the Interim Financial Statements.

($ in thousands)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Petroleum and natural gas sales	**22,792**	11,020	**37,635**	20,517
Blending expense	**5,317**	1,980	**9,873**	3,674
Total petroleum and natural gas sales, net of blending	**17,475**	9,040	**27,762**	16,843

Royalty Rate

The Company's royalty rate is calculated as total royalties as a percentage of total petroleum and natural gas revenues, net of blending.

Net Operating Expenses

Management uses net operating expenses to analyse operating performance. Net operating expenses are determined by deducting processing income primarily generated by third party volumes at processing facilities where the Company has an ownership interest. However, the Company's principal business is not that of a midstream entity whose activities are dedicated to earning processing and other infrastructure payments. Where the Company has excess capacity at its facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs in the MD&A.

Operating netback

Operating netback is total petroleum and natural gas revenues, net of blending, less royalties, less net operating expenses and transportation expenses, excluding the effects of financial derivatives. These metrics can also be calculated on a per boe basis, which results in them being considered a non-IFRS financial ratio. Management considers operating netback an important measure to evaluate Lycos' operational performance, as it demonstrates field level profitability relative to current commodity prices. Operating netback, including financial derivatives is defined as operating netback plus realized gains or losses on financial derivatives.

Total Capital Expenditures

Management uses the term "total capital expenditures" as a measure of capital investment in exploration and production activity, as well as property acquisitions and dispositions, as such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable IFRS measure for total capital expenditures is cash flow used in investing activities. Total capital expenditures represents capital expenditures – exploration and evaluation, capital expenditures – property, plant and equipment, acquisition through business combination and proceeds on disposition in the Company's Interim Financial Statements. A summary of the reconciliation of cash flow used in investing activities to capital expenditures is set forth below:

($ in thousands)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Net cash used in investing activities	**11,787**	927	**64,199**	968
Change in non-cash working capital	**122**	129	**9,397**	394
Total capital expenditures	**11,909**	1,056	**73,596**	1,362

Advisories

BOE Presentation

The Company uses the following industry terms in the MD&A: "bbl" refers to barrels, "bbl/d" refers to barrels per day, "mbbl" refers to thousand barrels, "mcf" refers to thousand cubic feet, "mcf/d" refers to thousand cubic feet per day, "mmcf" refers to million cubic feet, "MMbtu" refers to one million British thermal units, "boe" refers to barrel of oil equivalent, "boe/d" refers to barrels of oil equivalent per day, and "mboe" refers to thousand barrels of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used in the calculation of the boe amounts in the MD&A. The boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Short-Term Production

References in this MD&A to initial 30-day production rates and other short-term production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production of Lycos.

Product Type Information

The Company has disclosed natural gas liquids ("NGLs") product type with crude oil due to the insignificant magnitude of NGLs. Throughout this MD&A, "crude oil" therefore refers to heavy crude oil and NGLs combined, as such terms are defined by National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. Natural gas refers to conventional natural gas.

Supplementary Financial Measures

Per boe disclosures for petroleum and natural gas revenues, royalties, net operating expenses, transportation expenses, G&A expenses, financing expenses, and depletion, depreciation and amortization, impairment (reversal) are supplementary financial measures that are calculated by dividing each of these respective IFRS measures by the Company's total production volumes for the period.

Average realized prices for crude oil and natural gas are supplementary financial measures calculated by dividing each of these components of petroleum and natural gas revenues by their respective production volumes for the period.

Royalties as a percentage of petroleum and natural gas revenues is a supplementary financial measure calculated by dividing royalties by petroleum and natural gas revenues.

Critical Accounting Estimates

The Interim Financial Statements and this MD&A have been prepared using the same critical accounting estimates as the Annual Financial Statements, which are available on the Company's website at www.lycosenergy.com and under the Company's profile on SEDAR+ at www.sedarplus.ca.

Forward Looking Information and Statements

This MD&A may include forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are included for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project", "budget", "forecast", "should", "will", "may" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or forward-looking information in this MD&A include, but are not limited to, statements or information with respect to: (i) Lycos' business strategy and objectives; (ii) statements with respect to the performance characteristics of Lycos' oil and natural gas properties; (iii) Lycos' expectation and plans regarding drilling and the completions of wells; (iv) Lycos' expectations of royalty expenses as a percentage of revenue; (v) Lycos' 2023 guidance related to expected annual average production, capital expenditures (including proposed strategic acquisition(s) and further drilling plans), adjusted annual funds flow and exit adjusted working capital (net debt); (vi) Lycos' 2023 crude oil pricing assumptions and Canadian to US dollar exchange rates; (vii) the availability of the Company's credit facility; (viii) the Company's ability to complete an equity financing to fund capital activities; (ix) the Company's expectations in respect of G&A expenses; (x) the Company's expectations in respect of WCS differentials; (xi) the completion of the Wyatt Acquisition, including anticipated funding and timing thereof; (xii) satisfaction or waiver of the closing conditions to the Wyatt Acquisition; (xiii) receipt of all required legal and regulatory approvals for the completion of the Wyatt Acquisition; (xiv) the anticipated benefits of the Wyatt Acquisition, including the impact of the acquisition on the Company's operations, reserves, inventory, opportunities, and overall strategy; (xv) the completion of the Consolidation and timing thereof; (xvi) anticipated benefits of the Consolidation; and (xvii) ability of the Company to achieve drilling success consistent with management's expectations. In addition, the statements contained herein relating to "reserves" and "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves or resources described can be profitably produced in the future. The recovery, reserves and resources estimates provided herein are internal estimates only and there is no guarantee that the estimated reserves or resources will be recovered. Therefore, actual results may differ materially from those anticipated in the forward-looking statements. Lycos disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Assumptions

Forward-looking statements or information are based on a number of factors and assumptions which have been used in developing such statements and information, but which may prove to be incorrect. Although the Company 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 MD&A, assumptions have been made regarding, among other things: expectations and assumptions concerning the business plan of the Company; the receipt of all approvals and satisfaction of all conditions in respect of the Wyatt Acquisition and the Consolidation; the accuracy of geological and geophysical data and interpretation of that data; estimated decline rates; the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the Company to operate in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing of and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate transportation for products; future oil and natural gas prices; foreign currency exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; the ability of the Company to successfully market its oil and natural gas products; and prevailing commodity prices, price volatility, price differentials and the actual prices received for the Company's products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

Risks and uncertainties

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. These risks and uncertainties which may cause actual results to differ materially from the forward-looking statements or information include, among other things: the ability of management to execute its business plan; general economic and business conditions; the risk of instability affecting the jurisdictions in which the Company operates; risks associated with the oil and natural gas industry in general (e.g. operational risks in exploring for, developing and producing crude oil and natural gas; market demand; changes to supply and demand for oil and natural gas; uncertainty of reserves estimates; uncertainty of estimates and projections relating to production, costs and expenses, including increased operating and capital costs due to inflationary pressures); counterparty risk to closing the Wyatt Acquisition; unforeseen difficulties in integrating the assets to be acquired pursuant to the Wyatt Acquisition into the Company's operations; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; risks and uncertainties involving geology of oil and natural gas deposits; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew leases; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of foreign currency exchange rates and interest rates; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of royalty payments; health, safety and environmental risks; adverse weather or break-up conditions; risks associated with existing and potential future law suits and regulatory actions against the Company; uncertainties as to the availability and cost of financing; financial risks affecting the value of the Company’s investments; actions of OPEC and OPEC+ members; the impact of Russia's military actions in Ukraine; and the impact of oil differentials on the Company’s financial position. Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties.

This disclosure contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. These include, but are not limited to: the impact of general global economic conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; competition; the lack of availability of qualified personnel or management; the lack of availability of or access to services; fluctuations in foreign exchange rates, interest rates or commodity prices; the results of exploration and development drilling related activities; imprecision in reserve estimates; market volatility; changes to market valuations; and obtaining required approvals from regulatory authorities.

These known and unknown risks and uncertainties may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements. Accordingly, there is no assurance that the expectations conveyed by the forward-looking statements will prove to be correct. All subsequent forward-looking statements, whether written by or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

Additional risks and information on risk factors are included in the Company’s Annual Information Form for the year ended December 31, 2022, which is available on the Company's website at www.lycosenergy.com and under the Company’s profile on SEDAR+ at www.sedarplus.ca.

Corporate Information

Board of Directors

KEVIN OLSON (1) (2)
Chairman of the Board of Directors
Calgary, Alberta

IAN ATKINSON, P.Eng., M.Sc., ICD.D (3)
Independent Director
President and CEO, Southern Energy Corp.
Calgary, Alberta

BRUCE BEYNON (3)
Independent Director
President, Tiburon Exploration Corp.
Calgary, Alberta

GERI GREENALL (1)
Independent Director
CFO, Spartan Delta Corp.
Calgary, Alberta

ALI HORVATH (1)(2)
Independent Director
VP Finance & CFO, Headwater Exploration Inc.
Calgary, Alberta

KEL JOHNSTON (2)(3)
Independent Director
President and CEO, Wylander Crude Corp.
Calgary, Alberta

Special Advisor to the Board

NEIL ROSZELL
CEO & Chairman, Headwater Exploration Inc.
Calgary, Alberta

Officers

DAVE BURTON, P.Eng., M.Eng.
President & CEO

KYLE BOON, P.Tech (Eng.)
Chief Operating Officer

LINDSAY GOOS, CPA-CA, CPHR
Vice President Finance & CFO

JAMIE CONBOY, P.Geo.
Vice President, Exploration

BARRET HENSCHEL, P.Eng.
Vice President, Production

JEFF RIDEOUT
Vice President, Land

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KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Independent Reservoir Consultants
Sproule Associates Limited
Calgary, Alberta

(1) Audit Committee
(2) Corporate Governance and Compensation Committee
(3) Reserves, Environment and Health and Safety Committee