LYCOS ENERGY INC.

Condensed Interim Consolidated Financial Statements

For the three months ended
March 31, 2024
(unaudited)

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(in thousands)

	Notes		**March 31, 2024**		December 31, 2023
Assets					
Current assets					
Cash		**$**	**-**	$	3,822
Accounts receivable	12		**12,359**		6,658
Financial derivatives	12		**-**		759
Prepaid expenses and deposits			**4,098**		4,349
Total current assets			**16,457**		15,588
Exploration and evaluation assets	4		**21,911**		24,777
Property, plant and equipment	5		**237,104**		222,282
Total assets		**$**	**275,472**	$	262,647
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities	12	**$**	**33,530**	$	31,605
Current portion of lease obligations			**177**		281
Current portion of decommissioning liabilities	6		**1,500**		1,500
Financial derivatives	12		**1,688**		-
Bank debt	13		**9,898**		-
Total current liabilities			**46,793**		33,386
Lease obligations			**209**		149
Decommissioning liabilities	6		**32,280**		32,648
Deferred income tax			**12,296**		12,291
Total liabilities		**$**	**91,578**	$	78,474
Shareholders' equity					
Share capital	7		**224,292**		224,292
Contributed surplus			**11,882**		10,747
Deficit			**(52,280)**		(50,866)
Total shareholders' equity			**183,894**		184,173
Total liabilities and shareholders' equity		**$**	**275,472**	$	262,647

Commitments (note 14)

Subsequent events (note 15)

See accompanying notes to the unaudited condensed interim consolidated financial statements

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(unaudited)

(in thousands, except per share data)

	Notes	Three Months Ended March 31, 2024	2023
Revenue			
Petroleum and natural gas sales	9	**$ 30,388**	$ 14,843
Royalties		**(3,706)**	(1,597)
Petroleum and natural gas sales, net of royalties		**26,682**	13,246
Other income		**40**	458
Realized gain on financial derivatives	12	**348**	-
Unrealized loss on financial derivatives	12	**(2,447)**	-
Total revenue and other income		**24,623**	13,704
Expenses			
Operating		**8,938**	5,642
Blending		**6,496**	4,556
Transportation		**591**	86
General and administrative		**1,323**	792
Stock-based compensation	8	**669**	213
Transaction costs		**-**	876
Finance expense	10	**403**	177
Depletion and depreciation	5	**7,612**	3,465
		26,032	15,807
Net loss before investment in associate		**$ (1,409)**	$ (2,103)
Gain on CDLP Acquisition		**-**	11,382
Share of profit of investment in associate		**-**	35
Income from investment in associate		**$ -**	$ 11,417
Income (loss) before income taxes		**(1,409)**	9,314
Deferred income tax expense (recovery)		**5**	(12,498)
Net income (loss) and comprehensive income (loss)		**$ (1,414)**	$ 21,812
Net income (loss) per share			
Basic	7	**$ (0.03)**	$ 0.55
Diluted	7	**$ (0.03)**	$ 0.52

See accompanying notes to the unaudited condensed interim consolidated financial statements

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands, except share amounts)

	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Shareholders' Equity
Balance, December 31, 2022	7	39,768,500	$ 177,032	$ 6,954	$ (75,585)	$ 108,401
Stock-based compensation	8	-	-	345	-	345
Net income		-	-	-	21,812	21,812
Balance, March 31, 2023		39,768,500	$ 177,032	$ 7,299	$ (53,773)	$ 130,558
Balance, December 31, 2023	7	53,081,147	$ 224,292	$ 10,747	$ (50,866)	$ 184,173
Stock-based compensation	8	-	-	1,135	-	1,135
Net loss		-	-	-	(1,414)	(1,414)
Balance, March 31, 2024		**53,081,147**	**$ 224,292**	**$ 11,882**	**$ (52,280)**	**$ 183,894**

See accompanying notes to the unaudited condensed interim consolidated financial statements

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Notes	Three Months Ended March 31, 2024	2023
Operating Activities			
Net income (loss)		**$ (1,414)**	$ 21,812
Adjustments for:			
Unrealized loss on financial derivatives	12	**2,447**	-
Finance expense	10	**403**	171
Interest expense	10	**(131)**	-
Depletion and depreciation	5	**7,612**	3,465
Stock-based compensation	8	**669**	213
Gain on CDLP Acquisition		**-**	(11,382)
Share of profit of investment in associate		**-**	(35)
Deferred income tax expense (recovery)		**5**	(12,498)
Decommissioning expenditures	6	**(278)**	(107)
Change in non-cash operating working capital	11	**(5,208)**	(5,063)
Cash flow from (used in) operating activities		**4,105**	(3,424)
Financing Activities			
Payments on lease obligations		**(58)**	(22)
Change in bank debt	13	**9,898**	-
Cash flow from (used in) financing activities		**9,840**	(22)
Investing Activities			
Capital expenditures - exploration and evaluation	4	**(5,221)**	(911)
Capital expenditures - property, plant and equipment	5	**(14,229)**	(10,776)
Acquisitions through business combination		**-**	(50,000)
Change in non-cash investing working capital	11	**1,683**	9,275
Cash flow used in investing activities		**(17,767)**	(52,412)
Change in cash		**(3,822)**	(55,858)
Cash, beginning of period		**3,822**	59,628
Cash, end of period		**$ -**	$ 3,770

See accompanying notes to the unaudited condensed interim consolidated financial statements

1. Corporate information

Lycos Energy Inc. ("Lycos" or the "Company") is a Canadian resource company engaged in the exploration for and development of petroleum and natural gas production in western Canada. The unaudited condensed interim consolidated financial statements (the "financial statements") of the Company are comprised solely of the accounts of Lycos for the period ended March 31, 2024. The comparative period of March 31, 2023 is comprised of the accounts of Lycos, Chronos Duvernay LP (a limited partnership), and its wholly owned subsidiaries, Chronos Duvernay GP Ltd., Chronos Duvernay Ltd., Chronos Duvernay MIS Ltd. and Chronos Duvernay Sub Co. Ltd., which are incorporated in Canada.

On February 28, 2023, Lycos purchased its former partner's equity interest in the Company's limited partnership, Chronos Duvernay LP ("the Partnership"). On May 1, 2023, Lycos amalgamated with the Partnership by way of a vertical amalgamation with Chronos Duvernay GP Ltd., Chronos Duvernay Ltd., Chronos Duvernay MIS Ltd. and Chronos Duvernay Sub Co. Ltd. Refer to note 5 of the Annual Consolidated Financial Statements for the year ended December 31, 2023, for additional information.

Lycos is a public company existing under the Alberta Business Corporations Act with common shares listed on the TSX Venture Exchange ("TSXV") under the symbol "LCX".

Lycos principal place of business is located at 1900, 215 – 2nd Street S.W., Calgary, Alberta and its registered office is located at 4300 Bankers Hall West, 888-3rd Street S.W. Calgary, Alberta.

2. Basis of preparation

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2023.

These unaudited condensed interim consolidated financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2023.

The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2023.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 22nd, 2024.

3. Material accounting policies

These unaudited condensed interim consolidated financial statements have been prepared following the same accounting policies as the most recent audited annual consolidated financial statements. The unaudited condensed interim consolidated financial statements note disclosures do not include all of those required by IFRS Accounting Standards applicable for annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2023.

(Tabular amounts in thousands)

4. Exploration and evaluation assets

E&E assets consist of the Company's undeveloped land and exploration projects which are pending the determination of proved and probable petroleum and natural gas reserves. Additions represent the Company's share of the cost of E&E assets.

The following table reconciles the movements of the Company's exploration and evaluation ("E&E") assets for the periods:

	Notes		**March 31, 2024**		December 31, 2023
Balance, beginning of period		**$**	**24,777**	$	755
Additions			**5,221**		4,770
Acquisitions through business combination			**-**		22,421
Transfers to PP&E	5		**(8,087)**		(3,169)
Balance, end of period		**$**	**21,911**	$	24,777

Exploration and evaluation additions for the three months ended March 31, 2024, included approximately $5.1 million of drilling and completion costs and $0.1 million of land and geological costs in the Greater Lloydminster area.

Indicators of Impairment

The recoverability of E&E assets is assessed before reclassification to PP&E.

At March 31, 2024, the Company transferred land and drilling and completion costs to PP&E at a value of $8.1 million. As a result of the transfer, an impairment test was required on transfer to PP&E. There were no impairments recorded to E&E as at March 31, 2024.

5. Property, plant and equipment

The following table reconciles the movements of the Company's property, plant & equipment ("PP&E") assets for the periods:

Cost	**Notes**		**Total property, plant and equipment**
Balance, December 31, 2022		$	120,585
Additions			58,226
Transfer from E&E assets	4		3,169
Acquisitions through business combination			110,154
Changes in right-of-use assets			507
Changes in decommissioning liabilities	6		6,764
Capitalized stock-based compensation			1,502
Balance, December 31, 2023		$	300,907
Additions[(1)]			14,229
Transfer from E&E assets	4		8,087
Changes in decommissioning liabilities	6		(348)
Capitalized stock-based compensation	8		466
Balance, March 31, 2024		**$**	**323,341**

(Tabular amounts in thousands)

Accumulated depletion, depreciation and impairment		
Balance, December 31, 2022	$	55,788
Depletion and depreciation		22,837
Balance, December 31, 2023	$	78,625
Depletion and depreciation		7,612
Balance, March 31, 2024	**$**	**86,237**
Net carrying value:		
December 31, 2023	$	222,282
March 31, 2024	**$**	**237,104**

(1) Includes capitalized general and administrative expenses of $0.7 million.

As at March 31, 2024, estimated future development costs of $123.1 million (December 31, 2023 - $131.5 million) associated with the development of the Company's proved and probable petroleum and natural gas reserves were added to the Company's carrying value in the depletion calculation.

Indicators of Impairment

The Company conducted an assessment of indicators of impairment or impairment reversal and concluded that there were no indicators of impairment or impairment reversal for its CGUs as at March 31, 2024.

6. Decommissioning liabilities

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. The Company estimates the total future inflated and undiscounted amount of estimated cash flows required to settle its decommissioning liabilities as at March 31, 2024, is approximately $49.3 million (December 31, 2023 - $48.3 million). These payments are expected to be made over the next 20 to 40 years. A risk-free rate of 3.5% (December 31, 2023 – 3.0%) and an inflation rate of 1.9% (December 31, 2022 – 1.6%) was used to calculate the decommissioning liabilities.

The following table reconciles the movements of the Company's decommissioning liability for the periods:

	Notes		**March 31, 2024**		December 31, 2023
Balance, beginning of period		**$**	**34,148**	$	17,662
Change in estimates (1)	5		**(1,046)**		(231)
Additions	5		**698**		1,149
Disposals			**-**		(172)
Decommissioning expenditures			**(278)**		(1,545)
Liabilities acquired on acquisitions			**-**		10,343
Revaluation of liabilities incurred			**-**		6,018
Accretion	10		**258**		924
Balance, end of period		**$**	**33,780**	$	34,148
Expected to be incurred within one year		**$**	**1,500**	$	1,500
Expected to be incurred beyond one year		**$**	**32,280**	$	32,648

(1) The change in estimates in 2024 is due to a change in estimated abandonment and remediation cost of $(0.2) million (December 31, 2023 - $0.6 million) and change in discount and inflation rates totaling $(0.8) million (December 31, 2023 - $(0.8) million).

(Tabular amounts in thousands)

7. Share capital

(a) Authorized

The Company's authorized share capital consists of an unlimited number of common voting shares and an unlimited number of preferred shares, issuable in series.

(b) Issued and outstanding

The following table summarizes the Company's issued and outstanding common shares for the periods:

	March 31, 2024		December 31, 2023	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of period	**53,081,147**	**$ 224,292**	39,768,500	$ 177,032
Shares issued - Wyatt acquisition	**-**	**-**	635,640	2,536
Shares issued - Durham Creek acquisition	**-**	**-**	2,816,907	10,704
Shares issued - bought deal financing	**-**	**-**	9,860,100	35,003
Share issue costs, net of deferred income tax	**-**	**-**	-	(983)
Balance, end of period	**53,081,147**	**$ 224,292**	53,081,147	$ 224,292

(c) Per share amounts

The following table summarizes the shares used in calculating net income per share:

	March 31, 2024	March 31, 2023
Weighted average number of shares basic	**53,081,147**	39,768,476
Effect of dilutive warrants	**-**	2,531,912
Weighted average number of shares diluted	**53,081,147**	42,300,388

As the Company incurred a net loss for the three months ended March 31, 2024, in computing the diluted net loss per share, the effect of 5,706,250 warrants (March 31, 2023 – 5,706,250 warrants were included) and 3,753,750 (March 31, 2023 – 1,991,875) stock options (note 8) were excluded from the calculation as their effect was anti-dilutive.

Warrants

On December 12, 2022, the Company issued 5,706,250 warrants in connection with the reverse takeover transaction which were recorded in share capital. As at March 31, 2024 the Company had 5,706,250 warrants outstanding and exercisable (December 31, 2023 – 5,706,250).

The following table summarizes the Company's issued, outstanding, and exercisable warrants for the period:

	Warrants outstanding			Warrants exercisable		
	Number outstanding	Weighted average exercise price	Weighted average life remaining (years)	Number outstanding	Weighted average exercise price	Weighted average life remaining (years)
Balance, end of period	**5,706,250**	**$ 2.24**	**3.7**	**5,706,250**	**$ 2.24**	**3.7**

(Tabular amounts in thousands)

8. Stock-based compensation

The Company established a share option plan for its directors, officers, employees, and certain consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company. The stock options expire five years from the date of grant 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:

	March 31, 2024		December 31, 2023	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Options outstanding, beginning of period	**3,716,250**	**$ 4.07**	-	$ -
Granted	**37,500**	**$ 3.68**	3,811,875	$ 4.07
Forfeited	**-**	**$ -**	(95,625)	$ 4.40
Options outstanding, end of period	**3,753,750**	**$ 4.07**	3,716,250	$ 4.07

The total fair value of each option granted during the periods, was estimated on the date of grant using the Black-Scholes pricing model with weighted average assumptions as follows:

	March 31, 2024	December 31, 2023
Weighted average fair value of options granted	**$ 1.43**	$ 2.40
Average risk-free interest rate	**3.6%**	3.7%
Average expected life years	**5.0**	5.0
Average expected volatility (1)	**48.7%**	73.3%

(1) During the periods, the expected volatility was estimated based on a peer group historical volatility.

The range of exercise price of stock options outstanding as at March 31, 2024, is as follows:

	Outstanding options			**Exercisable options**	
Exercise price	Number of Options Outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of Options Outstanding	Weighted average exercise price
$ 3.60 - $ 4.40	3,753,750	4.18	$ 4.07	632,083	$ 4.40

For the period ended March 31, 2024, the Company recorded gross stock-based compensation expense of $1.1 million (March 31, 2023 - $0.3 million) and capitalized stock-based compensation expense of $0.5 million (March 31, 2023 - $0.1 million).

9. Revenue

The Company sells its production pursuant to fixed or variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, condensate, natural gas or natural gas liquids to the customer. Revenue is recognized when a unit of production is delivered to the customer.

(Tabular amounts in thousands)

The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Petroleum and natural gas are sold under contracts of varying terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's petroleum and natural gas sales, all of which are from revenue with contracts with customers:

		March 31, 2024		March 31, 2023
Crude oil	**$**	**30,313**	$	14,330
Natural gas		**41**		31
Petroleum and natural gas revenues		**30,354**		14,361
Processing income		**34**		482
Total petroleum and natural gas sales	**$**	**30,388**	$	14,843

Included in accounts receivable as at March 31, 2024, is $10.1 million (December 31, 2023 - $5.4 million) of accrued petroleum and natural gas sales related to March 2024 production.

10. Finance expense

	Notes		March 31, 2024		March 31, 2023
Accretion on decommissioning liabilities	6	**$**	**258**	$	162
Interest expense			**131**		6
Interest on lease obligations			**14**		9
		$	**403**	$	177

11. Supplementary cash flow information

The following table details the changes in non-cash working capital.

		March 31, 2024		March 31, 2023
Accounts receivable	**$**	**(5,701)**		(3,981)
Due from related party		**-**		426
Prepaid expenses and deposits		**251**		(573)
Accounts payable and accrued liabilities		**1,925**		10,006
Working capital assumed on acquisitions		**-**		(1,666)
	$	**(3,525)**	$	4,212
Relating to:				
Operating activities	**$**	**(5,208)**	$	(5,063)
Investing activities		**1,683**		9,275
	$	**(3,525)**	$	4,212

12. Financial instruments and risk management

The Company has exposure to credit and liquidity risks from its financial assets and liabilities and exposure to market risks relating to commodity prices, interest rates and foreign exchange rates. This note presents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

(Tabular amounts in thousands)

Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices for petroleum and natural gas, foreign exchange rates and interest rates will affect the Company's valuation of financial instruments, the debt levels of the Company, as well as its income and cash flow from operations.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's returns. All such transactions are conducted in accordance with the Company's risk management policy that has been approved by the Board of Directors.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and United States dollar and also world economic events that dictate the levels of supply and demand. The Company may utilize both financial derivatives and physical delivery contracts to manage commodity price risks in accordance with the Company's expected sale requirements.

As at March 31, 2024, the Company had the following financial derivative commodity contracts:

Type	Type	Term	Volume	Price/Unit
WCS	Differential	January 1, 2024 to December 31, 2024	250 bbl/d	CAD ($20.00)
WCS	Differential	January 1, 2024 to December 31, 2024	250 bbl/d	CAD ($23.50)
WCS	Differential	January 1, 2024 to December 31, 2024	250 bbl/d	CAD ($20.25)
WCS	Differential	April 1, 2024 to September 30, 2024	250 bbl/d	USD ($13.60)
WCS	Swap	May 1, 2024 to June 30, 2024	500 bbl/d	CAD $92.40
WTI	Swap	April 1, 2024 to June 30, 2024	250 bbl/d	CAD $109.05
WTI	Swap	April 1, 2024 to June 30, 2024	250 bbl/d	CAD $100.00
WTI	Swap	April 1, 2024 to June 30, 2024	250 bbl/d	CAD $101.88
WTI	Swap	April 1, 2024 to April 30, 2024	250 bbl/d	CAD $104.00
WTI	Swap	April 1, 2024 to April 30, 2024	250 bbl/d	CAD $107.22
WTI	Swap	July 1, 2024 to September 30, 2024	250 bbl/d	CAD $100.18

(Tabular amounts in thousands)

The following table summarizes the Company's financial derivative gains and losses on commodity contracts for the periods:

		March 31, 2024		March 31, 2023
Gain (loss) on financial derivatives:				
Realized gain	**$**	**348**	$	-
Unrealized loss		**(2,447)**		-
Loss on financial derivatives:	**$**	**(2,099)**	$	-

The following table summarizes the fair value and the change in the fair value:

		March 31, 2024	December 31, 2023
Net financial derivative asset, beginning of period	**$**	**759**	-
Unrealized change in fair value		**(2,447)**	759
Net financial derivative asset (liability), end of period	**$**	**(1,688)**	759

Interest rate risk

The Company is exposed to interest rate risk on cash balances and bank debt to the extent of changes in market interest rates. As at March 31, 2024, the Company had no interest rate swap or derivative contracts in place.

Foreign exchange risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. The Company is exposed to foreign exchange risk in relation to its crude oil sales. As at March 31, 2024, the Company had no foreign exchange swap or derivative contracts in place and mitigates the risk by entering into commodity contracts in Canadian dollars.

Credit risk

The Company's cash is deposited in high yield saving accounts with financial institutions and are subject to counterparty credit risk. The Company mitigates this risk by only transacting with investment grade financial institutions with high credit ratings.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from purchasers of the Company's petroleum and natural gas and counterparties to cash, joint venture partners and the counterparties to risk management contracts. As at March 31, 2024, the Company's receivables consisted of $10.1 million due from petroleum and natural gas purchasers (December 31, 2023 - $5.4 million), $nil million from financial derivative commodity contract counterparties (December 31, 2023 - $0.4 million) and $2.3 million due from joint venture partners and other receivables (December 31, 2022 - $0.9 million).

During the three months ended March 31, 2024, the Company sold its petroleum and natural gas production to various counterparties with two counterparties accounting for 95% of sales (March 31, 2023, one counterparty accounted for 93% of sales). Receivables from purchasers of the Company's petroleum and natural gas are normally collected on the 25th day of the month following shipment. As a result, the Company's production revenues are current. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, credit worthy petroleum marketers. Financial derivative contracts are only entered into with credit worthy institutions. Joint venture receivables are typically collected within one to four months of the joint venture bill being issued to the partner.

(Tabular amounts in thousands)

The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to commencement of the joint venture project and smaller partners are cash called to pay for their share of costs in advance of a project commencing. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection.

To offset this risk, the Company often has the ability to withhold production from joint venture partners in the event of non-payment.

The carrying amount of accounts receivable and deposits represents the maximum credit exposure. The Company has calculated the expected credit losses using the simplified approach and no loss provision was recorded for the periods ended March 31, 2024, or December 31, 2023.

As at March 31, 2024 and December 31, 2023, the Company's accounts receivables are aged as follows:

Period ended	Total Receivables	< 90 Days	Past Due
March 31, 2024	**$ 12,359**	**$ 11,778**	**$ 581**
	100%	**95%**	**5%**
December 31, 2023	$ 6,658	$ 6,179	$ 479
	100%	93%	7%

Fair value of financial instruments

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The carrying value of cash, accounts receivable, deposits, bank debt, and accounts payable and accrued liabilities included in the Condensed Interim Consolidated Statement of Financial Position approximate fair value due to the short-term nature of those instruments or the indexed rate of interest.

The fair value of financial derivatives is based on models that use published information with respect to volatility, prices, and interest rates. The fair value of financial derivatives is determined by discounting the difference between the contracted prices and published forward price curves as at the date of the statement of financial position, using the remaining contracted petroleum and natural gas volumes and a risk-free interest rate (based on published government rates). The Company's financial derivative asset/liability is considered Level 2 in the fair value hierarchy.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity risk through cash and debt management strategies to mitigate the likelihood of encountering difficulties in meeting its financial obligations. Such strategies include an actively managed operating and capital expenditure budgeting process, authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures, and the Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company has a credit facility to further strengthen its liquidity (see note 13).

(Tabular amounts in thousands)

The Company's objectives when managing capital are to i) deploy capital to provide an appropriate return on investment to its shareholders; ii) maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and iii) maintain a capital structure that provides financial flexibility to execute strategic acquisitions. To aid in managing the capital structure, the Company monitors adjusted funds flow from operations, adjusted working capital (net debt) and capital expenditures (see note 12(i), note 12(ii) and note 12 (iii)).

The Company's strategy is designed to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying crude oil assets. Key indicators of changing economic conditions include adjusted working capital (net debt) and adjusted funds flow from operations. Lycos considers its capital structure to include shareholders' equity and working capital (net debt). In order to maintain or adjust its capital structure, the Company may from time-to-time issue new common shares, seek debt financing and adjust its capital spending to manage working capital.

The following are the contractual maturities of financial obligations and associated interest payments as at March 31, 2024:

	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	$ 33,530	$ -	$ 33,530
Bank debt	$ 9,898	$ -	$ 9,898
Lease obligations	$ 177	$ 209	$ 386

Capital management

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including changes in economic conditions and resulting changes in capital markets, the current and forecasted net debt levels, the forecasted commodity prices and resulting cash flow from operations and adjusted funds flow from operations, adjusted working capital (net debt), and capital expenditures.

The Company prepares annual capital expenditure budgets and longer term plans, which are continually monitored and updated as necessary depending on varying factors including current and forecast commodity prices, earning and expiry commitments, weather and access restrictions, and project investment risk return profile. The annual and updated budgets are approved by the Board of Directors. The Company will adjust its capital structure through issuance of shares and make adjustments to capital spending to balance the capital structure.

Adjusted funds flow from operations, adjusted working capital (net debt), and total capital expenditures are not standardized measures and therefore may not be comparable with the calculation of similar measures of other entities.

i) Adjusted funds flow from operations:

Management considers adjusted funds flow from operations to be a key measure to assess the performance of the Company's petroleum and natural 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.

(Tabular amounts in thousands)

		March 31, 2024		March 31, 2023
Cash flow from operating activities	**$**	**4,105**	$	(3,424)
Change in non-cash working capital		**5,208**		5,063
Funds flow from operations		**9,313**		1,639
Decommissioning expenditures		**278**		107
Transaction costs		**-**		876
Adjusted funds flow from operations	**$**	**9,591**	$	2,622

ii) Adjusted working capital (net debt):

Management considers adjusted working capital (net debt) to be a key measure to assess the Company's liquidity and capital management. 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.

		March 31, 2024		December 31, 2023
Working capital	**$**	**(30,336)**	$	(17,798)
Current portion of decommissioning liabilities		**1,500**		1,500
Financial derivative liability		**1,688**		(759)
Adjusted working capital (net debt)	**$**	**(27,148)**	$	(17,057)

iii) Capital expenditures:

Management considers capital expenditures to be a key measure to assess the Company's capital investment in exploration and production activity, as well as property acquisitions and dispositions:

		March 31, 2024		March 31, 2023
Net cash used in investing activities	**$**	**17,767**		52,412
Change in non-cash working capital		**1,683**		9,275
Capital expenditures	**$**	**19,450**	$	61,687

13. Bank debt

As at March 31, 2024, the Company had an uncommitted demand revolving credit facility with the National Bank of Canada ("the Lender") for up to $50 million, of which $35.0 million is immediately available for general corporate purposes and an additional $15.0 million is available at the discretion of the Lender. The next borrowing base review is expected to be completed on or about May 31, 2024.

As at March 31, 2024, the Company had $9.9 million (December 31, 2023 - $nil million) drawn on the facility.

Interest rates vary depending on the ratio of Net Debt to Cash Flow (as defined in the lending agreement). At March 31, 2024, the Company had an interest rate of prime plus 1.25% per annum on the credit facility.

The credit facility is 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 as defined in the lending agreement, 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 compliant with all covenants. As at March 31, 2024, the Company was compliant with all covenants.

(Tabular amounts in thousands)

14. Commitments

Future minimum payments relating to variable office rent payments, which are a non-lease component of the Company's head office sublease, as at March 31, 2024 are as follows:

	March 31, 2024
Less than 1 year	$ 641
1-2 years	481
Total commitments	**$ 1,122**

The variable office rent payments will be recorded to general and administrative expenses in the period in which incurred.

The Company has certain commitments to drill three wells in the Greater Lloydminster area. The Company intends to fulfill these commitments within its normal course development drilling program. As at March 31, 2024, the Company has drilled one of the three wells required to meet the commitments with the remaining two wells to be drilled by September 22, 2024 and January 15, 2025 respectively.

15. Subsequent events

1) Subsequent to March 31, 2024, the Company entered into the following financial derivative contracts:

Type	Type	Term	Volume	Price/Unit
WCS	Differential	July 1, 2024 to September 30, 2024	500 bbl/d	USD ($10.85)
WTI	Swap	July 1, 2024 to September 30, 2024	250 bbl/d	CAD $112.40

2) Subsequent to March 31, 2024, 44,643 warrants were exercised for proceeds of $0.1 million.