



Q1 2024

TSXV: LCX



LYCOS ENERGY INC.

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 May 22, 2024 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2024 and 2023 and the notes thereto (the "Interim Financial Statements") and the audited consolidated financial statements for the year ended December 31, 2023 and 2022 and the notes thereto ("the Annual Financial Statements"). The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS"). 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, 2023, 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' Interim 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 and heavy oil assets in the Lloydminster and Greater Lloydminster area of Alberta and Saskatchewan and the Gull Lake area of southwest Saskatchewan.

Natural gas is not a significant component of the Company's production or sales.

Q1 2024 Highlights

Highlights for the three months ended March 31, 2024 include:

- Average production volumes increased to 3,840 boe/d (99% crude oil) in the first quarter of 2024 compared to 1,940 boe/d in the first quarter of 2023, representing a 98% increase. Exit March production averaged over 4,100 boe/day.
- Net operating expenses⁽¹⁾ were \$25.48 per boe in the first quarter of 2024, representing a 14% decrease from \$29.55 per boe in the comparable period of 2023.
- Adjusted funds flow from operations⁽¹⁾ of \$9.6 million in the first quarter of 2024 compared to \$2.6 million in the first quarter of 2023, representing a 266% increase.
- Reduced G&A expense to \$3.79 per boe in the first quarter of 2024, a 17% decrease compared to \$4.54 per boe in the same period of 2023.

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- Successfully drilled and completed 7.0 wells in the Lloydminster and Greater Lloydminster area, including 6.0 net wells (2.0 wine rack and 4.0 multi-lateral) brought on stream by the end of March 2024 and 1.0 net disposal well. Lycos commenced the drilling of an additional wine rack well that was brought on stream after the first quarter of 2024.

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

First Quarter Operational and Financial Highlights

(\$ in thousands, except per share)	Three months ended March 31,		
	2024	2023	% change
Total petroleum and natural gas sales, net of blending⁽¹⁾	23,892	10,287	132%
Adjusted funds flow from operations⁽¹⁾	9,591	2,622	266%
Net income (loss)	(1,414)	21,812	(106)%
Per share - basic	\$ (0.03)	\$ 0.55	(105)%
Per share - diluted	\$ (0.03)	\$ 0.52	(105)%
Capital expenditures - exploration & development	19,450	11,687	66%
Capital expenditures - net acquisitions & dispositions	-	50,000	(100)%
Adjusted working capital (net debt)⁽¹⁾	(27,148)	(4,982)	445%
Weighted average shares outstanding (thousands)			
Basic	53,081	39,769	33%
Diluted	53,081	42,300	25%
Average daily production:			
Crude oil (bbls/d)	3,804	1,919	98%
Natural gas (mcf/d)	218	125	74%
Total (boe/d)	3,840	1,940	98%
Realized prices:			
Crude oil (\$/bbl) ⁽²⁾	68.81	56.57	22%
Natural gas (\$/mcf)	2.07	2.77	(25)%
Total (\$/boe)	68.27	56.14	22%
Operating netback (\$/boe)			
Petroleum and natural gas revenues ⁽²⁾	68.27	56.14	22%
Realized gain on financial derivatives	1.00	-	100%
Royalties	(10.61)	(9.15)	16%
Net operating expenses ⁽¹⁾	(25.48)	(29.55)	(14)%
Transportation expenses	(1.69)	(0.49)	245%
Operating netback, including financial derivatives (\$/boe)⁽¹⁾	31.49	16.95	86%
Adjusted funds flow from operations (\$/boe)⁽¹⁾	27.45	15.01	83%

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

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

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Results of Operations Production

<i>(6:1 boe conversion)</i>	Three months ended March 31,		
	2024	2023	% change
Daily production:			
Crude oil (bbls/d)	3,804	1,919	98%
Natural gas (mcf/d)	218	125	74%
Total (boe/d)	3,840	1,940	98%
% Crude oil	99%	99%	0%

Production for the three months ended March 31, 2024 averaged 3,840 boe/d (99% crude oil), an increase of 98%, respectively, over production of 1,940 boe/d (99% crude oil) in the comparable period of 2023. The increase in production is directly associated with a full quarter of production from the 2023 acquisitions of the Company's limited partnership ("the CDLP Acquisition") and Wyatt Resources Ltd. combined with Lycos' successful drilling program. In the first quarter of 2024, Lycos drilled 6.0 producing wells, of which all were brought on during the quarter and performing higher than expectations.

First quarter 2024 production decreased to 3,840 boe/d from 4,121 boe/d in the fourth quarter of 2023 due to extreme cold weather experienced in January 2024 and subsequent delays bringing wells back on production, as well as natural declines, offset by new wells drilled. Lycos has recovered the production and averaged production over 4,100 boe/d in March.

Petroleum and Natural Gas Sales

<i>(\$ in thousands)</i>	Three months ended March 31,		
	2024	2023	% change
Crude oil	30,313	14,330	112%
Blending expense	6,496	4,556	43%
Crude oil, net of blending ⁽¹⁾	23,817	9,774	144%
Natural gas	41	31	32%
Total petroleum and natural gas revenues, net of blending ⁽¹⁾	23,858	9,805	143%
Processing income	34	482	(93)%
Total petroleum and natural gas sales, net of blending ⁽¹⁾	23,892	10,287	132%

⁽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 months ended March 31, 2024 was \$23.9 million, a 143% increase as compared to \$9.8 million in the comparable period of 2023. The increase is the result of a 98% increase in crude oil production volumes and a 22% increase in the realized price.

For the first quarter of 2024, West Texas Intermediate ("WTI") pricing marginally increased in comparison to the same period of 2023. Pricing was mainly impacted by the narrowing of the Western Canadian Select ("WCS") differential in the quarter. These pricing movements resulted in an increase in realized pricing, in addition to the Company's discount to WCS improving in the first quarter of 2024 as compared to the first quarter of 2023.

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Benchmark and Realized Prices

(\$ in thousands)	Three months ended		
	March 31,		
	2024	2023	% change
Averaged realized prices:			
Crude oil (\$/bbl) ⁽¹⁾⁽³⁾	68.81	56.57	22%
Natural gas (\$/mcf) ⁽¹⁾	2.07	2.77	(25)%
Barrels of oil equivalent (\$/boe) ⁽²⁾⁽³⁾	68.27	56.14	22%
Benchmark prices:			
WTI (\$US/bbl)	76.96	76.13	1%
WCS differential to WTI (US\$/bbl)	(19.31)	(24.88)	(22)%
WCS (\$Cdn/bbl)	77.76	69.33	12%
Lloyd Kerrobert (\$Cdn/bbl)	78.63	68.08	15%
Condensate at Edmonton (\$Cdn/bbl)	96.35	105.72	(9)%
Exchange rate (\$Cdn/\$US)	1.35	1.35	0%

(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 the Statement of 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 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 and Greater 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.

In the first quarter of 2024, benchmark WTI pricing remained consistent with the first quarter of 2023. WCS differential to WTI in US dollars decreased in the first quarter of 2024 compared to the first quarter of 2023. The decrease was primarily due to unplanned refinery outages in the United States Gulf Coast in the first quarter of 2023, increasing supply which weakened the underlying WCS differential to WTI. Given the anticipated commissioning of the Trans Mountain pipeline expansion, narrower heavy oil differentials appear to be supported by the overall supply-demand outlook.

The Company's realized crude oil price, net of blending, for the three months ended March 31, 2024 was \$68.81/bbl as compared to \$56.57/bbl in the comparable period of 2023. WTI pricing was consistent in the first quarter of 2024 compared to the same period of 2023, representing only a 1% change. The change in WTI pricing was offset by the narrowing of the WCS differential in the first quarter of 2024 to the comparable quarter of 2023. These pricing movements resulted in an increase in realized pricing, in addition to the Company's discount to WCS improving compared to the first quarter of 2023.

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Risk Management Financial Derivatives

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Realized gain	348	-	100%
Unrealized loss	(2,447)	-	100%
Financial derivative loss	(2,099)	-	100%
Realized gain per boe (\$)	1.00	-	100%

The Company incurred a realized gain of \$0.3 million and an unrealized loss of \$2.4 million for the three months ended March 31, 2024. The realized gain was the result of the fixed price of the financial derivative commodity contracts being higher than the settlement price in the period. The unrealized loss is a result of the non-cash change in the mark-to-market values over the period on the Company's outstanding financial derivative contracts. The Company did not have any financial derivatives in the comparable period.

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 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

Royalties

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Royalty expenses	3,706	1,597	132%
Royalty rate ⁽¹⁾	15.5%	16.3%	(5)%
Per boe (\$)	10.61	9.15	16%

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

Royalties are paid to provincial governments, Indian Oil and Gas Canada, 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.

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Royalties for the three months ended March 31, 2024 were \$3.7 million or a 15.5% royalty rate as compared to \$1.6 million or a 16.3% royalty rate in the comparable period. On an absolute dollar basis, royalties increased over the comparable period due to higher petroleum and natural gas revenues. On a royalty rate basis, royalties decreased slightly over the comparable period due to royalty incentives on newly drilled wells in Alberta.

Net Operating Expenses

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Operating expenses	8,938	5,642	58%
Less: processing income	34	482	(93)%
Total net operating expenses ⁽¹⁾	8,904	5,160	73%
Per boe (\$)	25.48	29.55	(14)%

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

For the three months ended March 31, 2024, net operating expenses increased to \$8.9 million, respectively, from \$5.2 million in the comparable period due to a significant increase in production volumes and inflationary pressures.

On a per boe basis, net operating expenses for the three months ended March 31, 2024, were \$25.48 compared to \$29.55 in the comparable period. The overall decrease in net operating expenses per boe is due to the increased production and the full quarter impact of lower operating costs and synergies gained from the CDLP Acquisition, combined with injection and disposal projects aimed at reducing net operating costs.

Transportation Expenses

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Transportation expenses	591	86	587%
Per boe (\$)	1.69	0.49	245%

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 months ended March 31, 2024, total transportation expenses on an absolute and per boe basis increased 587% and 245% compared to the comparable period due to higher production volumes and increased clean oil trucking to optimize received pricing.

Operating Netback

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾	23,858	9,805	143%
Royalties	(3,706)	(1,597)	132%
Net operating expenses ⁽¹⁾	(8,904)	(5,160)	73%
Transportation expenses	(591)	(86)	587%
Operating netback⁽¹⁾	10,657	2,962	260%
Realized gain on financial derivatives	348	-	100%
Operating netback⁽¹⁾, including financial derivatives	11,005	2,962	272%

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(\$/boe)	Three months ended March 31,		
	2024	2023	% change
Total petroleum and natural gas revenues, net of blending ⁽²⁾	68.27	56.14	22%
Royalties	(10.61)	(9.15)	16%
Net operating expenses ⁽¹⁾	(25.48)	(29.55)	(14)%
Transportation expenses	(1.69)	(0.49)	245%
Operating netback⁽¹⁾	30.49	16.95	80%
Realized gain on financial derivatives	1.00	-	100%
Operating netback⁽¹⁾, including financial derivatives	31.49	16.95	86%

⁽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 months ended March 31, 2024, operating netback per boe was higher primarily due to higher received price and lower net operating expenses, offset by higher transportation and royalties expenses as compared to the same period of 2023.

On an absolute basis, operating netback for the three months ended March 31, 2024 was higher than the comparable period due to higher production and higher received price offset by higher net operating expenses, royalties and transportation expenses.

General and Administrative ("G&A") Expenses

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
G&A expenses	2,206	1,423	55%
Capitalized G&A and overhead recoveries	(883)	(631)	40%
Net G&A expenses	1,323	792	67%
Per boe (\$)	3.79	4.54	(17)%

For the three months ended March 31, 2024, the Company incurred net G&A expenses of \$1.3 million, respectively, from \$0.8 million in the comparable period due to increased employee related costs and professional fees associated with the Company's growth. For the three months ended March 31, 2024, the Company increased capitalized G&A due to Lycos' higher capital expenditure program and technical staff additions as compared to the same period of 2023. On a per boe basis, G&A expenses decreased as compared to the same period of 2023 due to a significant increase in production over the period.

Stock-based Compensation

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Stock options	1,135	345	229%
Capitalized stock-based compensation	(466)	(132)	253%
Stock-based compensation	669	213	214%
Per boe (\$)	1.91	1.22	57%

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 of the Company ("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.

During the three months ended March 31, 2024, the Company recorded gross stock-based compensation expense of \$1.1 million compared to \$0.3 million in the comparable period of 2023. The Company capitalizes stock-based compensation expense related to petroleum and natural gas exploration and development

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activities. For the three months ended March 31, 2024, Lycos recorded capitalized stock-based compensation expense of \$0.5 million compared to \$0.1 million in the comparable period of 2023.

The following table summarizes stock options granted in the three months ended March 31, 2024:

	Number of Options	Exercise price
January 24, 2024	37,500	\$ 3.68
Total options granted in period	37,500	\$ 3.68

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 range of exercise price of stock options outstanding and exercisable 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	

Depletion and Depreciation (“D&D”)

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Depletion and depreciation	7,612	3,465	120%
Per boe (\$)	21.78	19.84	10%

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. Depletion and depreciation expense for the three months ended March 31, 2024 was \$7.6 million compared to \$3.5 million for the comparable period of 2023 due to a significant increase in the Company’s production volumes and depletable base.

D&D per boe for the three months ended March 31, 2024 was \$21.78/boe compared to \$19.84/boe for the three months ended March 31, 2023. This increase in the D&D rate is mainly the result of the 2023 acquisitions which increased the Company’s depletable base.

Impairment Expense (Reversal)

As at March 31, 2024, there were no indicators of impairment for either of the Company’s Lloydminster or southwest Saskatchewan cash generating units, or reversal of impairment for the southwest Saskatchewan cash generating unit. As such, an impairment test was not performed.

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Transaction Costs

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Transaction costs related to acquisitions	-	777	(100)%
Transaction costs related to credit facilities	-	99	(100)%
Transaction costs	-	876	(100)%
Per boe (\$)	-	5.02	(100)%

For the three months ended March 31, 2024, Lycos incurred \$nil million of transaction costs. The comparable period incurred \$0.9 million for certain professional fees associated with the CDLP Acquisition and \$0.1 million for the upfront free and legal costs associated with revolving credit facility.

Finance Expense

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Accretion of decommissioning liabilities	258	162	59%
Interest expense (income)	131	6	2083%
Interest on lease obligations	14	9	56%
	403	177	128%
Per boe (\$)	1.15	1.01	14%

The Company's finance expense for the three months ended March 31, 2024, was \$0.4 million compared to finance expense of \$0.2 million in the comparable period. The increase in finance expense is primarily due to the interest expense associated with higher debt borrowings and higher accretion of the decommissioning liabilities associated with the 2023 acquisitions and newly drilled wells.

Other Income

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Other income	40	458	(91)%
Per boe (\$)	0.11	2.62	(96)%

Other income consists of interest income earned associated with cash deposits and in the comparative period includes interest income earned on cash on hand. For the three months ended March 31, 2024, the Company recognized \$40 thousand of other income compared to \$0.5 million in the comparative period.

Taxes

The following table outlines the Company's estimated tax pools as at March 31, 2024:

(\$ in thousands)	March 31, 2024	Annual Deductibility
Undepreciated capital cost	5,238	Primarily 25% declining balance
Canadian exploration expense	11,135	100%
Canadian development expense	49,100	30% declining balance
Canadian oil and gas property expense	28,988	10% declining
Non-capital loss carry forward	72,916	100%
Share issue costs	5,073	20% straight line
Total	172,450	

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Deferred income tax expense (recovery)	5	(12,498)	(100)%

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For the three months ended March 31, 2024, the Company recognized a deferred income tax expense of \$5.0 thousand compared to a \$12.5 million deferred income tax recovery in the comparable period.

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

(\$ in thousands, except per share)	Three months ended March 31,		
	2024	2023	% change
Cash flow from operating activities	4,105	(3,424)	220%
Adjusted funds flow from operations⁽¹⁾	9,591	2,622	266%
Net income (loss)	(1,414)	21,812	(106)%
Per share - basic	\$ (0.03)	\$ 0.55	(105)%
Per share - diluted	\$ (0.03)	\$ 0.52	(105)%

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

The Company recorded net loss of \$1.4 million (\$0.03 per basic and diluted share) for the three months ended March 31, 2024 compared to net income of \$21.8 million (\$0.55 per basic and \$0.52 per diluted share) in the comparable period. The decrease in net income for the three months ended March 31, 2024 as compared to the same period in 2023 is the result of a non cash gain recorded in the first quarter of 2023 on the CDLP Acquisition of \$11.4 million and a deferred income tax recovery of \$12.5 million recorded in the first quarter of 2023 associated the recognition of the deferred tax assets offset by deferred tax liability recognized in the CDLP Acquisition. In addition, the Company recorded an unrecognized loss on financial instruments of \$2.4 million in the first quarter of 2024 compared to \$nil in the comparable period.

Adjusted funds flow from operations for the three months ended March 31, 2024 increased 266% compared to the same period in 2023. This was primarily due to an increase in petroleum and natural gas sales, partially offset by higher operating expenses, royalties, and G&A expenses.

Capital Expenditures

(\$ in thousands)	Three months ended March 31,		
	2024	2023	% change
Land and geological and geophysical	320	1,020	(69)%
Drilling and completions	16,084	8,242	95%
Equipping and facilities	2,300	1,929	19%
Other	746	496	50%
Exploration and development	19,450	11,687	66%
Acquisition through business combination	-	50,000	(100)%
Property dispositions	-	-	0%
Capital expenditures⁽¹⁾	19,450	61,687	(68)%

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

During the three months ended March 31, 2024, the Company invested a total of \$19.5 million on exploration and development capital expenditures. Expenditures on exploration and development included \$0.3 million on lease acquisitions and seismic, \$16.1 million on drilling and completions, \$2.3 million on equipping and facilities, and \$0.7 million on other costs.

The Company's first quarter 2024 exploration and development program included 6.0 net multi-lateral wells (including two new generation wine rack wells) and 1.0 disposal well that were brought onstream in the first quarter of 2024. In addition, the Company drilled 1.0 multi-lateral well (wine rack well) that was completed and brought on stream after the quarter.

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

	Three months ended March 31,			
	2024		2023	
	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net
Crude oil	6.0	6.0	3.0	3.0
Disposal	1.0	1.0	2.0	2.0
Total	7.0	7.0	5.0	5.0
Success rate	100%	100%	100%	100%

(1) All 6 (6.0 net) crude oil wells drilled during the three months ended March 31, 2024 were brought on production in the first quarter of 2024.

Share Capital

Common Shares

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series (of which nil preferred shares are outstanding).

The following table summarizes the Company's issued and outstanding Common Shares for the period ended March 31, 2024 and December 31, 2023:

	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

As at May 22, 2024, the Company had 53,125,790 Common Shares outstanding.

(in thousands)	As at May 22, 2024
Outstanding securities at May 22, 2024	
Common shares	53,126
Stock options	3,754
Warrants	5,662

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). Each warrant entitles the holder thereof to purchase one Common Share anytime on or prior to December 12, 2027 at an exercise of \$2.24 per Common Share. The warrants are fully vested and exercisable.

Dilution

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 were excluded from the calculation as their effect was anti-dilutive.

Liquidity and Capital Resources

As at March 31, 2024, the Company's capital structure is comprised of net debt of \$27.1 million and shareholders' equity of \$184.1 million. Lycos' net debt fluctuated from a net debt of \$17.1 million at December 31, 2023 to \$27.1 million as at March 31, 2024 primarily due to the exploration and development expenditures program.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company expects to have adequate liquidity to execute on its short-term and longer-term growth strategy through a combination of cash provided by operating activities and its \$50.0 million credit facility. 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

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 \$50.0 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.

Interest rates vary depending on the ratio of Net Debt to Cash Flow (as such term is defined in the lending agreement, a copy of which may be accessed on the Company's SEDAR+ profile at www.sedarplus.ca). As at March 31, 2024, the Company had an interest rate of prime plus 1.25% per annum on the credit facility.

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 (as such term is 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.

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.

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

In 2023, the Company assumed certain commitments on one of its corporate acquisitions 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.

2024 Guidance

The following table summarizes Lycos' current 2024 guidance released on April 3, 2024 ("Updated 2024 Guidance"). Lycos expects to fund capital expenditures through forecasted cash flows from operating activities and its credit facility.

	Updated 2024 Guidance ⁽²⁾	
	Year Ended	
	December 31, 2024	
Annual average production (boe/d)		4,800 boe/d (99% oil)
Average Q4 2024 production (boe/d)		5,700 boe/d (99% oil)
Capital expenditures ⁽¹⁾		\$66.0 million
Decommissioning expenditures		\$1.8 million
Adjusted funds flow from operations ⁽¹⁾		\$65.8 million
Adjusted working capital (net debt), end of year ⁽¹⁾		(\$19.8) million
Net debt to adjusted funds flow from operations ratio, end of year		0.3X

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

⁽²⁾ 2024 Budget numbers are based on 2024 average pricing assumptions of: US\$77.58 bbl WTI; (US\$18.68) WCS differential; and \$1.35 CAD/USD

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Quarterly Results

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

	2024		2023			2022		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (thousands of dollars, except share data)								
Total petroleum and natural gas sales, net of blending ⁽¹⁾	23,892	24,748	24,087	17,475	10,287	6,341	9,621	9,040
Cash flow from operating activities	4,105	14,235	7,534	9,022	(3,424)	910	3,164	(769)
Adjusted funds flow from operations ⁽¹⁾	9,591	11,382	10,826	7,004	2,622	(201)	1,389	2,342
Net income (loss)	(1,414)	1,172	1,699	36	21,812	(14,948)	15,646	1,626
Per share - basic	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00	\$ 0.55	\$ (0.93)	\$ 1.59	\$ 0.17
Per share - diluted	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00	\$ 0.52	\$ (0.93)	\$ 1.59	\$ 0.17
Adjusted working capital (net debt) ⁽¹⁾	(27,148)	(17,057)	(29,015)	(10,319)	(4,982)	56,835	636	2,199
Capital expenditures ⁽¹⁾	19,450	31,474	26,990	11,909	61,687	5,489	2,924	1,089
Weighted average shares outstanding (thousands)								
Basic	53,081	50,876	39,976	39,769	39,769	15,999	9,812	9,812
Diluted	53,081	53,055	42,143	41,903	42,300	15,999	9,812	9,812
Shares outstanding, end of period (thousands)								
Basic	53,081	53,081	40,404	39,769	39,769	39,769	9,812	9,812
Diluted	53,081	55,260	42,571	41,903	42,300	39,769	9,812	9,812
Operational								
Average daily production								
Crude oil (bbls/d)	3,804	4,081	3,017	2,890	1,919	1,109	1,075	892
Natural gas (mcf/d)	218	238	155	110	125	85	49	67
Total (boe/d)	3,840	4,121	3,043	2,908	1,940	1,123	1,083	903

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

December 2022 was a transformational period for Lycos following a reverse takeover transaction for accounting purposes and a \$65.0 million financing combined with the reconstitution of management and the Board of Directors. Exiting the 2022 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 four acquisitions, consisting of heavy oil assets and lands in its Lloydminster and Greater Lloydminster area, completed a \$35.0 million bought deal financing and a significant capital expenditures program, rig-releasing 19.0 net crude oil wells in 2023. For the 2022 fiscal year, 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 were 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. The recovery of crude oil prices and the increase in the Company's daily average production through 2023 has resulted in an increase in sales and cash flow from operating activities over the periods. The momentum in 2024 continued, with Lycos incurring \$19.5 million of capital expenditures, which included drilling and completing 6.0 net producing wells and 1.0 net disposal well, of which, all drills were on new lands that were acquired in 2023. Average first quarter 2024 production was impacted by cold weather in January 2024, but recovered in March to an average Exit March production of over 4,100 boe/day, which is consistent with the fourth quarter of 2023. The first quarter of 2024 sales and cash flows were impacted by the lower production, which was offset by a higher commodity pricing environment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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", "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)" 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 March 31,	
	2024	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 costs incurred	278	107
Transaction costs	-	876
Adjusted funds flow from operations	9,591	2,622
Per boe (\$)	27.45	15.01

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>(\$ in thousands)</i>	March 31, 2024	December 31, 2023
Working capital	(30,336)	(17,798)
Current portion of decommissioning liabilities	1,500	1,500
Financial derivative asset	-	(759)
Financial derivative liabilities	1,688	-
Adjusted working capital (net debt)	(27,148)	(17,057)

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

<i>(\$ in thousands)</i>	Three months ended March 31,	
	2024	2023
Crude oil	30,313	14,330
Blending expense	6,496	4,556
Crude oil, net of blending	23,817	9,774
Natural gas	41	31
Total petroleum and natural gas revenues, net of blending	23,858	9,805

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 (see section titled "Net Operating Expenses" above) 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.

Capital Expenditures

Management uses the term "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. Capital expenditures represents capital expenditures – exploration and evaluation, capital expenditures – property, plant and equipment, acquisition through business combination and proceeds on disposition in the Interim Financial Statements. A summary of the reconciliation of cash flow used in investing activities to capital expenditures is set forth below:

MANAGEMENT'S DISCUSSION AND ANALYSIS

(\$ in thousands)	Three months ended	
	March 31,	
	2024	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

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, "mmbbl" 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.

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, including anticipated production, capital expenditures, drilling plans, adjusted funds flow and adjusted working capital (net debt); (iii) Lycos' expectation and plans regarding drilling and the completions of wells; (iv) Lycos' expectations of royalty expenses as a percentage of revenue; (v) the Company's Updated 2024 Guidance related to expected annual average production, annual Q4 2024 production, capital

MANAGEMENT'S DISCUSSION AND ANALYSIS

expenditures, adjusted annual funds flow from operations and exit adjusted working capital (net debt), as well as management's expectations surrounding the Company's 2024 capital program; (vi) Lycos' crude oil pricing assumptions and Canadian to US dollar exchange rates; (vii) capital resources and liquidity, including the Company's expectations regarding sources of funding for future development capital expenditures (including the availability of the Company's credit facility); (viii) the Company's expectations in respect of G&A expenses; (ix) the Company's expectations in respect of commodity prices and WCS differentials; (x) expectations in respect of the Company's sweeper fishbone wells and wine rack wells, including anticipated benefits and results; (xi) the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and the effects thereof; and (xii) 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 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 successful integration of the recently acquired assets into Lycos' operations; 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 impact of inflation on costs and interest rates; the ability of the Company to successfully market its oil and natural gas products; the availability of capital (including that Lycos is well capitalized to execute on its 2024 capital expenditure program and strategy) and skilled personnel; drilling results; 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); failure to realize the anticipated benefits of the Company's recent acquisitions; unforeseen difficulties integrating recently acquired assets into Lycos' 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 ability to access sufficient capital from internal and external sources; 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, including severe weather events and natural disasters such as fires, droughts, flooding and extreme hot or cold temperatures; 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 impacts on the Company of the military conflict between Russia and Ukraine as well as the war between Israel and Hamas; 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, 2023, which is available on the Company's website at www.lycosenergy.com and under the Company's profile on SEDAR+ at www.sedarplus.ca.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Information

Board of Directors

KEVIN OLSON ⁽¹⁾⁽²⁾⁽³⁾
Chairman of the Board of Directors
Calgary, Alberta

BRUCE BEYNON ⁽³⁾
Independent Director
VP Light Oil, Athabasca Oil Corp.
Calgary, Alberta

GERI GREENALL ⁽¹⁾
Independent Director
COO, Cascade Trading Ltd.
Calgary, Alberta

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

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

Special Advisor to the Board

NEIL ROSZELL
Executive 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 HENSCHER, P.Eng.
Vice President, Production

JEFF RIDEOUT
Vice President, Land

SONY GILL
Corporate Secretary
Stikeman Elliott LLP

Head Office

Suite 1900, 215-2nd Street SW
Calgary, Alberta T2P 1M4
Tel: (403) 453-1950
Email: info@lycosenergy.com

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Independent Reservoir Consultants

Sroule Associates Limited
Calgary, Alberta

(1) Audit Committee

(2) Corporate Governance and Compensation Committee

(3) Reserves, Environment and Health and Safety Committee