



## **Condensed Interim Consolidated Financial Statements**

**For the three and six months ended  
June 30, 2024  
(unaudited)**

## Lycos Energy Inc.

### Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(in thousands)

	Notes	June 30, 2024	December 31, 2023
<b>Assets</b>			
Current assets			
Cash		\$ -	\$ 3,822
Accounts receivable	12	15,766	6,658
Financial derivatives	12	22	759
Prepaid expenses and deposits		5,117	4,349
Total current assets		20,905	15,588
Exploration and evaluation assets	4	20,409	24,777
Property, plant and equipment	5	251,109	222,282
Total assets		\$ 292,423	\$ 262,647
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 37,902	\$ 31,605
Current portion of lease obligations		217	281
Current portion of decommissioning liabilities	6	1,500	1,500
Bank debt	13	13,356	-
Total current liabilities		52,975	33,386
Lease obligations		213	149
Decommissioning liabilities	6	32,933	32,648
Deferred income tax		11,154	12,291
Total liabilities		\$ 97,275	\$ 78,474
Shareholders' equity			
Share capital	7	224,392	224,292
Contributed surplus		12,791	10,747
Deficit		(42,035)	(50,866)
Total shareholders' equity		195,148	184,173
Total liabilities and shareholders' equity		\$ 292,423	\$ 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 and Comprehensive Income

(unaudited)

(in thousands, except per share data)

	Notes	Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2024	2023	2024	2023
<b>Revenue</b>					
Petroleum and natural gas sales	9	\$ 44,596	\$ 22,792	\$ 74,984	\$ 37,635
Royalties		(4,876)	(2,476)	(8,582)	(4,073)
Petroleum and natural gas sales, net of royalties		39,720	20,316	66,402	33,562
Other income		7	45	47	503
Realized gain (loss) on financial derivatives	12	(729)	92	(381)	92
Unrealized gain (loss) on financial derivatives	12	1,710	11	(737)	11
<b>Total revenue and other income</b>		<b>40,708</b>	20,464	<b>65,331</b>	34,168
<b>Expenses</b>					
Operating		9,604	6,657	18,542	12,299
Blending		8,947	5,317	15,443	9,873
Transportation		647	224	1,238	310
General and administrative		1,248	1,200	2,571	1,992
Stock-based compensation	8	536	780	1,205	993
Transaction costs		133	-	133	876
Finance expense	10	834	284	1,237	461
Depletion and depreciation	5	9,656	5,641	17,268	9,106
		<b>31,605</b>	20,103	<b>57,637</b>	35,910
Net income (loss) before investment in associate		\$ 9,103	\$ 361	\$ 7,694	\$ (1,742)
Gain on CDLP Acquisition		-	-	-	11,382
Share of profit of investment in associate		-	-	-	35
Income from investment in associate		\$ 9,103	\$ -	\$ 7,694	\$ 11,417
Income before income taxes		9,103	361	7,694	9,675
Deferred income tax expense (recovery)		(1,142)	325	(1,137)	(12,173)
<b>Net income and comprehensive income</b>		<b>\$ 10,245</b>	\$ 36	<b>\$ 8,831</b>	\$ 21,848
<b>Net income per share</b>					
Basic	7	\$ 0.19	\$ 0.00	\$ 0.17	\$ 0.55
Diluted	7	\$ 0.19	\$ 0.00	\$ 0.16	\$ 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	Total Equity
Balance, December 31, 2022	7	39,768,500	\$ 177,032	\$ 6,954	\$ (75,585)	\$ 108,401
Stock-based compensation	8	-	-	1,608	-	1,608
Net income		-	-	-	21,848	21,848
<b>Balance, June 30, 2023</b>		<b>39,768,500</b>	<b>\$ 177,032</b>	<b>\$ 8,562</b>	<b>\$ (53,737)</b>	<b>\$ 131,857</b>
Balance, December 31, 2023	7	53,081,147	\$ 224,292	\$ 10,747	\$ (50,866)	\$ 184,173
Stock-based compensation	8	-	-	2,044	-	2,044
Net income		-	-	-	8,831	8,831
Exercise of warrants		44,643	100	-	-	100
<b>Balance, June 30, 2024</b>		<b>53,125,790</b>	<b>\$ 224,392</b>	<b>\$ 12,791</b>	<b>\$ (42,035)</b>	<b>\$ 195,148</b>

See accompanying notes to the unaudited condensed interim consolidated financial statements

**Lycos Energy Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(unaudited)

(in thousands)

		Three Months Ended		Six Months Ended	
	Notes	June 30,		June 30,	
		2024	2023	2024	2023
<b>Operating Activities</b>					
Net income		\$ 10,245	\$ 36	\$ 8,831	\$ 21,848
Adjustments for:		-			
Unrealized loss (gain) on financial derivatives	12	(1,710)	(11)	737	(11)
Finance expense	10	834	284	1,237	461
Interest expense	10	(525)	(51)	(656)	(57)
Depletion and depreciation	5	9,656	5,641	17,268	9,106
Stock-based compensation	8	536	780	1,205	993
Gain on CDLP Acquisition		-	-	-	(11,382)
Share of profit of investment in associate		-	-	-	(35)
Deferred income tax expense (recovery)		(1,142)	325	(1,137)	(12,173)
Decommissioning expenditures	6	(79)	(357)	(357)	(464)
Change in non-cash operating working capital	11	(3,791)	2,375	(8,999)	(2,688)
Cash flow from operating activities		14,024	9,022	18,129	5,598
<b>Financing Activities</b>					
Payments on lease obligations		(61)	(42)	(119)	(64)
Proceeds from exercise of warrants		100		100	
Change in bank debt	13	3,458	-	13,356	-
Cash flow from (used in) financing activities		3,497	(42)	13,337	(64)
<b>Investing Activities</b>					
Capital expenditures - exploration and evaluation	4	(316)	-	(5,537)	(911)
Capital expenditures - property, plant and equipment	5	(20,942)	(11,909)	(35,171)	(22,685)
Acquisition through business combination		-	-	-	(50,000)
Change in non-cash investing working capital	11	3,737	122	5,420	9,397
Cash flow used in investing activities		(17,521)	(11,787)	(35,288)	(64,199)
Change in cash		-	(2,807)	(3,822)	(58,665)
Cash, beginning of period		-	3,770	3,822	59,628
Cash, end of period		\$ -	\$ 963	\$ -	\$ 963

See accompanying notes to the unaudited condensed interim consolidated financial statements

# Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

*(Tabular amounts in thousands)*

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## 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 June 30, 2024. The comparative period of June 30, 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 consolidated 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 August 22, 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 unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2023.

## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(Tabular amounts in thousands)

### 4. Exploration and evaluation assets

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 E&E assets for the periods:

	Notes	June 30, 2024	December 31, 2023
Balance, beginning of period		\$ 24,777	\$ 755
Additions		5,537	4,770
Acquisitions through business combination		-	22,421
Transfers to PP&E	5	(9,905)	(3,169)
Balance, end of period		\$ 20,409	\$ 24,777

E&E asset additions for the period ended June 30, 2024, included approximately \$5.1 million of drilling and completion costs and \$0.4 million of land and geological costs in the Greater Lloydminster area for the Company’s exploration projects which were pending the determination of proved and probable petroleum and natural gas reserves.

#### Indicators of Impairment

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

At June 30, 2024, the Company transferred land, drilling and completion costs to PP&E at a value of \$9.9 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 June 30, 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 <sup>(1)</sup>		35,171
Changes in right-of-use assets		90
Transfer from E&E assets	4	9,905
Changes in decommissioning liabilities	6	90
Capitalized stock-based compensation	8	839
<b>Balance, June 30, 2024</b>		<b>\$ 347,002</b>

## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(Tabular amounts in thousands)

<b>Accumulated depletion, depreciation and impairment</b>	
Balance, December 31, 2022	\$ 55,788
Depletion and depreciation	22,837
Balance, December 31, 2023	\$ 78,625
Depletion and depreciation	17,268
<b>Balance, June 30, 2024</b>	<b>\$ 95,893</b>
Net carrying value:	
December 31, 2023	\$ 222,282
<b>June 30, 2024</b>	<b>\$ 251,109</b>

<sup>(1)</sup> Includes capitalized general and administrative expenses of \$1.4 million.

As at June 30, 2024, estimated future development costs of \$114.7 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 June 30, 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 June 30, 2024, is approximately \$50.3 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 3.4% (December 31, 2023 – 3.0%) and an inflation rate of 1.8% (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	June 30, 2024	December 31, 2023
Balance, beginning of period		\$ 34,148	\$ 17,662
Change in estimates <sup>(1)</sup>	5	(1,045)	(231)
Additions	5	1,135	1,149
Disposals		-	(172)
Decommissioning expenditures		(357)	(1,545)
Liabilities acquired on acquisitions		-	10,343
Revaluation of liabilities incurred		-	6,018
Accretion	10	552	924
Balance, end of period		\$ 34,433	\$ 34,148
Expected to be incurred within one year		\$ 1,500	\$ 1,500
Expected to be incurred beyond one year		\$ 32,933	\$ 32,648

<sup>(1)</sup> The change in estimates in 2024 is due to a change in estimated abandonment and remediation cost of \$(0.3) million (December 31, 2023 - \$0.6 million) and change in discount and inflation rates totaling \$(0.7) million (December 31, 2023 - \$(0.8) million).



## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(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, of which nil preferred shares are outstanding.

#### (b) Issued and outstanding

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

	June 30, 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)
Exercise of warrants	44,643	100	-	-
<b>Balance, end of period</b>	<b>53,125,790</b>	<b>\$ 224,392</b>	<b>53,081,147</b>	<b>\$ 224,292</b>

#### (c) Per share amounts

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2024	2023	2024	2023
Weighted average shares outstanding - basic	53,104,204	39,768,500	53,092,676	39,768,500
Effect of dilutive warrants	2,013,423	2,134,909	1,894,365	2,345,093
Weighted average shares outstanding - diluted	55,117,627	41,903,409	54,987,041	42,113,593

The Company uses the treasury stock method to determine the impact of dilutive securities. As the Company recorded net income for the three and six months ended June 30, 2024, in computing the diluted net income per share for the periods, the effect of 5,661,607 warrants were included (three and six months ending June 30, 2023 – 5,706,250 warrants were included) and 3,746,125 stock options were excluded (three and six months ending June 30, 2023 – 2,134,375) 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.

The following table summarizes the changes in the outstanding warrants for the periods:

	June 30, 2024	December 31, 2023
Balance, beginning of period	5,706,250	5,706,250
Issued	-	-
Exercised	(44,643)	-
<b>Balance, end of period</b>	<b>5,661,607</b>	<b>5,706,250</b>

## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(Tabular amounts in thousands)

The following table summarizes the Company's outstanding and exercisable warrants as at June 30, 2024:

	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)
<b>Balance, end of period</b>	<b>5,661,607</b>	<b>\$ 2.24</b>	<b>3.5</b>	<b>5,661,607</b>	<b>\$ 2.24</b>	<b>3.5</b>

### 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:

	June 30, 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	82,125	\$ 3.37	3,811,875	\$ 4.07
Forfeited	(52,250)	\$ 3.92	(95,625)	\$ 4.40
<b>Options outstanding, end of period</b>	<b>3,746,125</b>	<b>\$ 4.06</b>	<b>3,716,250</b>	<b>\$ 4.07</b>

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:

	June 30, 2024	December 31, 2023
Weighted average fair value of options granted	\$ 1.59	\$ 2.40
Average risk-free interest rate	3.6%	3.7%
Average expected life years	5.0	5.0
Average expected volatility <sup>(1)</sup>	49.4%	73.3%

<sup>(1)</sup> 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 June 30, 2024, is as follows:

Exercise price	Outstanding options			Exercisable options		
	Number of Options Outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of Options Outstanding	Weighted average exercise price	Weighted average exercise price
\$ 3.26 - \$ 4.40	3,746,125	3.95	\$ 4.06	667,500	\$ 4.35	\$ 4.35

During the three and six months ended June 30, 2024, the Company recorded gross stock-based compensation expense of \$0.9 million and \$2.0 million, respectively (three and six months ended June 30, 2023 - \$1.3 million and \$1.6 million), and capitalized stock-based compensation expense of \$0.4 million and \$0.8 million, respectively (three and six months ended June 30, 2023 - of \$0.5 million and \$0.6 million) for stock options granted.

## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(Tabular amounts in thousands)

### 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.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Crude oil	\$ 44,572	\$ 22,593	\$ 74,885	\$ 36,923
Natural gas	4	22	45	53
Petroleum and natural gas revenues	44,576	22,615	74,930	36,976
Processing income	20	177	54	659
Total petroleum and natural gas sales	\$ 44,596	\$ 22,792	\$ 74,984	\$ 37,635

Included in accounts receivable as at June 30, 2024, is \$12.6 million (December 31, 2023 - \$5.4 million) of accrued petroleum and natural gas sales related to June 2024 production.

### 10. Finance expense

The following table details the finance expense incurred for the periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Accretion on decommissioning liabilities	\$ 294	\$ 220	\$ 552	\$ 382
Interest expense	525	51	656	57
Interest on lease obligations	15	13	29	22
Finance expense	\$ 834	\$ 284	\$ 1,237	\$ 461

## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(Tabular amounts in thousands)

### 11. Supplementary cash flow information

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Accounts receivable	\$ (3,407)	\$ 1,494	\$ (9,108)	\$ (2,487)
Due from related party	-	-	-	426
Prepaid expenses and deposits	(1,019)	28	(768)	(545)
Accounts payable and accrued liabilities	4,372	975	6,297	10,981
Working capital assumed on acquisitions	-	-	-	(1,666)
	\$ (54)	\$ 2,497	\$ (3,579)	\$ 6,709
Relating to:				
Operating activities	\$ (3,791)	\$ 2,375	\$ (8,999)	\$ (2,688)
Investing activities	3,737	122	5,420	9,397
	\$ (54)	\$ 2,497	\$ (3,579)	\$ 6,709

### 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.

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.

#### 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.

## Lycos Energy Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2024, and 2023

(Tabular amounts in thousands)

As at June 30, 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	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 \$100.18
WTI	Swap	July 1, 2024 to September 30, 2024	250 bbl/d	CAD \$112.40

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Gain (loss) on financial derivatives:				
Realized gain (loss)	\$ (729)	\$ 92	\$ (381)	\$ 92
Unrealized gain (loss)	1,710	11	(737)	11
Gain (loss) on financial derivatives:	\$ 981	\$ 103	\$ (1,118)	\$ 103

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

	June 30, 2024	December 31, 2023
Net financial derivative asset, beginning of period	\$ 759	-
Unrealized change in fair value	(737)	759
Net financial derivative asset (liability), end of period	\$ 22	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 June 30, 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 June 30, 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 June 30, 2024, the Company's

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receivables consisted of \$12.6 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 \$3.2 million due from joint venture partners and other receivables (December 31, 2022 - \$0.9 million).

During the six months ended June 30, 2024, the Company sold its petroleum and natural gas production to various counterparties with two counterparties accounting for 97% of sales (June 30, 2023, two counterparties accounted for 99% 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.

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 June 30, 2024, or December 31, 2023.

As at June 30, 2024 and December 31, 2023, the Company's accounts receivables are aged as follows:

<b>Period ended</b>	<b>Total Receivables</b>		
	<b>&lt; 90 Days</b>	<b>Past Due</b>	
<b>June 30, 2024</b>	<b>\$ 15,766</b>	<b>\$ 15,050</b>	<b>\$ 716</b>
<b>as a %</b>	<b>100%</b>	<b>95%</b>	<b>5%</b>
December 31, 2023	\$ 6,658	\$ 6,179	\$ 479
as a %	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.

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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 Statements 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).

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 June 30, 2024:

	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	\$ 37,902	\$ -	\$ 37,902
Bank debt	\$ 13,356	\$ -	\$ 13,356
Lease obligations	\$ 217	\$ 213	\$ 430

### 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 adjusted working capital (net debt) and bank debt, the forecasted commodity prices and resulting cash flow from operations and adjusted funds flow from operations, 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.

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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 expenditures, 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.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Cash flow from operating activities	\$ 14,024	\$ 9,022	\$ 18,129	\$ 5,598
Change in non-cash working capital	3,791	(2,375)	8,999	2,688
Funds flow from operations	17,815	6,647	27,128	8,286
Decommissioning expenditures	79	357	357	464
Transaction costs	133	-	133	876
<b>Adjusted funds flow from operations</b>	<b>\$ 18,027</b>	<b>\$ 7,004</b>	<b>\$ 27,618</b>	<b>\$ 9,626</b>

### 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.

	June 30,	December 31,
	2024	2023
Working capital	\$ (32,070)	\$ (17,798)
Current portion of decommissioning liabilities	1,500	1,500
Financial derivative asset	(22)	(759)
<b>Adjusted working capital (net debt)</b>	<b>\$ (30,592)</b>	<b>\$ (17,057)</b>

### 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:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Net cash used in investing activities	\$ 17,521	\$ 11,787	\$ 35,288	\$ 64,199
Change in non-cash working capital	3,737	122	5,420	9,397
<b>Capital expenditures</b>	<b>\$ 21,258</b>	<b>\$ 11,909</b>	<b>\$ 40,708</b>	<b>\$ 73,596</b>



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(Tabular amounts in thousands)

### 13. Bank debt

As at June 30, 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 November 30, 2024.

As at June 30, 2024, the Company had \$13.4 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 June 30, 2024, the Company had an interest rate of prime plus 1.50% 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. Subsequent to June 30, 2024, this financial covenant was removed. 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 June 30, 2024, the Company was compliant with all covenants.

### 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 June 30, 2024 are as follows:

	<b>June 30, 2024</b>
Less than 1 year	\$ 641
1-2 years	321
<b>Total commitments</b>	<b>\$ 962</b>

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 June 30, 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 30, 2024 and January 15, 2025 respectively.

Subsequent to June 30, 2024, the Company extended the September 30, 2024 drilling commitment to September 30, 2025 and committed to drill an additional two wells in the Greater Lloydminster area, one by December 1, 2024 (which has been drilled) and the other by January 31, 2026, resulting in a total of three well commitments outstanding.

### 15. Subsequent events

1) Subsequent to June 30, 2024, the Company entered into the following financial derivative contracts:

Type	Type	Term	Volume	Price/Unit
WCS	Differential	October 1, 2024 to October 31, 2024	250 bbl/d	USD (\$14.75)
WCS	Differential	January 1, 2025 to September 30, 2025	500 bbl/d	USD (\$14.10)

2) Subsequent to June 30, 2024, 87,277 warrants were exercised for proceeds of \$0.2 million.

3) On August 21, 2024, the Company executed a purchase and sale agreement to dispose of certain assets held in escrow pending the release of certain post-close conditions, for total cash consideration of \$2.8 million subject to closing adjustments.