



Q3 2024


LYCOS ENERGY INC.

TSXV: LCX

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 November 18, 2024 and should be read in conjunction with the unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 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 the Company's website at www.lycosenergy.com and under the Company's profile on SEDAR+ at www.sedarplus.ca. 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.

Q3 2024 Highlights

Highlights for the three months ended September 30, 2024, include:

- Average production volumes increased to 4,836 boe/d (98% crude oil) in the third quarter of 2024 compared to 3,043 boe/d (99% crude oil) in the third quarter of 2023, representing a 59% increase with exit September production averaging 5,306 boe/d.
- Realized adjusted funds flow from operations⁽¹⁾ of \$17.0 million in the third quarter of 2024 compared to \$10.8 million in the third quarter of 2023, representing a 57% increase.
- Reduced net operating expenses⁽¹⁾ to \$22.08 per boe in the third quarter of 2024, representing an 18% decrease from \$26.98 per boe in the comparable period of 2023.
- Reduced G&A expense to \$2.89 per boe in the third quarter of 2024, a 33% decrease from \$4.32 per boe in the comparable quarter of 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Executed a \$17.3 million capital expenditure program, drilling, completing and bringing on stream 7.0 multi-lateral wells (7.0 net wells) by the end of September 2024. The Company continued to build on its undeveloped land position by adding \$1.3 million of crown and freehold lands in Q3 of 2024.
- Exit net debt⁽¹⁾ of \$31.7 million, representing 0.5X annualized net debt to adjusted funds flow ratio⁽¹⁾

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

Second Quarter Operational and Financial Highlights

(\$ in thousands, except per share)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
Total petroleum and natural gas sales, net of blending⁽¹⁾	33,986	24,087	41%	93,527	51,849	80%
Cash flow from operating activities	19,764	7,534	162%	37,893	11,908	218%
Per share - basic	\$ 0.37	0.19	95%	\$ 0.71	0.30	137%
Per share - diluted	\$ 0.36	0.18	100%	\$ 0.69	0.28	146%
Adjusted funds flow from operations⁽¹⁾	17,005	10,826	57%	44,623	20,452	118%
Per share - basic	\$ 0.32	\$ 0.27	19%	\$ 0.84	\$ 0.51	65%
Per share - diluted	\$ 0.31	\$ 0.26	19%	\$ 0.81	\$ 0.49	65%
Net income	3,706	1,699	118%	12,537	23,547	(47)%
Per share - basic	\$ 0.07	\$ 0.04	75%	\$ 0.24	\$ 0.59	(59)%
Per share - diluted	\$ 0.07	\$ 0.04	75%	\$ 0.23	\$ 0.56	(59)%
Capital expenditures - exploration & development	17,281	20,880	(17)%	57,989	44,476	30%
Capital expenditures - net acquisitions & dispositions	-	6,110	(100)%	-	54,886	(100)%
Adjusted working capital (net debt)⁽¹⁾	(31,727)	(29,015)	9%	(31,727)	(29,015)	9%
Weighted average shares outstanding (thousands)						
Basic	53,215	39,976	33%	53,134	39,838	33%
Diluted	54,818	42,143	30%	54,910	42,127	30%
Average daily production:						
Crude oil (bbls/d)	4,728	3,017	57%	4,383	2,612	68%
Natural gas (mcf/d)	651	155	320%	360	131	175%
Total (boe/d)	4,836	3,043	59%	4,443	2,634	69%
Realized prices:						
Crude oil (\$/bbl) ⁽²⁾	77.96	86.22	(10)%	77.73	71.48	9%
Natural gas (\$/mcf)	0.45	2.04	(78)%	0.72	2.30	(69)%
Total (\$/boe)	76.27	85.59	(11)%	76.74	71.00	8%
Operating netback (\$/boe)⁽¹⁾						
Petroleum and natural gas revenues⁽²⁾	76.27	85.59	(11)%	76.74	71.00	8%
Realized gain (loss) on financial derivatives	0.31	(2.12)	(115)%	(0.20)	(0.70)	(71)%
Royalties	(11.10)	(12.18)	(9)%	(11.11)	(10.41)	7%
Net operating expenses⁽¹⁾	(22.08)	(26.98)	(18)%	(23.26)	(26.69)	(13)%
Transportation expenses	(1.29)	(1.16)	11%	(1.49)	(0.88)	69%
Operating netback, including financial derivatives (\$/boe)⁽¹⁾	42.11	43.15	(2)%	40.68	32.32	26%
Adjusted funds flow from operations (\$/boe)⁽¹⁾	38.22	38.67	(1)%	36.65	28.44	29%

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Production

<i>(6:1 boe conversion)</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Daily production:						
Crude oil (bbls/d)	4,728	3,017	57%	4,383	2,612	68%
Natural gas (mcf/d)	651	155	320%	360	131	175%
Total (boe/d)	4,836	3,043	59%	4,443	2,634	69%
% Crude oil	98%	99%	(1)%	99%	99%	0%

Production for the three and nine months ended September 30, 2024, averaged 4,836 boe/d (98% crude oil) and 4,443 boe/d (99% crude oil), an increase of 59% and 69%, respectively, over production of 3,043 boe/d (99% crude oil) and 2,634 (99% crude oil) in the comparable periods of 2023.

The production increase for the periods is the result of the Company's successful 2023 and 2024 year to date drilling program targeted in the Company's Lloydminster and Greater Lloydminster core areas, combined with a full quarter production from the 400 boe/d corporate acquisition of Wyatt Resources Ltd. in the third quarter of 2023.

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

Petroleum and Natural Gas Sales

<i>(\$ in thousands)</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Crude oil	41,145	28,154	46%	116,030	65,077	78%
Less: Blending expense	7,237	4,223	71%	22,680	14,096	61%
Crude oil, net of blending ⁽¹⁾	33,908	23,931	42%	93,350	50,981	83%
Natural gas	27	29	(7)%	72	82	(13)%
Total petroleum and natural gas revenues, net of blending ⁽¹⁾	33,935	23,960	42%	93,422	51,063	83%
Processing income	51	127	(59)%	105	786	(87)%
Total petroleum and natural gas sales, net of blending ⁽¹⁾	33,986	24,087	41%	93,527	51,849	80%

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

Total petroleum and natural gas revenues, net of blending for the three and nine months ended September 30, 2024, was \$33.9 million and \$93.4 million, respectively, as compared to \$24.0 million and \$51.1 million in the comparable periods of 2023.

For the three months ended September 30, 2024, the increase in petroleum and natural gas revenues was primarily the result of a 57% increase in crude oil production volumes offset by an 10% decrease in the realized crude oil price. Realized pricing was impacted by the decrease in West Texas Intermediate ("WTI") pricing combined with the widening of the Western Canadian Select ("WCS") differential resulting in an overall decrease in realized pricing compared to the same period in 2023.

For the nine months ended September 30, 2024, the increase in petroleum and natural gas revenues was a result of a 68% increase in crude oil production volumes combined with a 9% increase in the realized crude oil price over the comparative period of 2023. WTI pricing remained relatively flat in comparison to the same period of 2023, with the increase in realized pricing mainly attributable to the narrowing of the WCS differential and marketing initiatives to optimize the blending process and sales points.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Benchmark and Realized Prices

(\$ in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
Averaged realized prices:						
Crude oil (\$/bbl) ⁽¹⁾⁽³⁾	77.96	86.22	(10)%	77.73	71.48	9%
Natural gas (\$/mcf) ⁽¹⁾	0.45	2.14	(79)%	0.72	2.30	(69)%
Barrels of oil equivalent (\$/boe) ⁽²⁾⁽³⁾	76.27	85.59	(11)%	76.74	71.00	8%
Benchmark prices:						
WTI (\$US/bbl)	75.10	82.26	(9)%	77.54	77.39	0%
WCS differential to WTI (US\$/bbl)	(13.55)	(12.91)	5%	(15.49)	(17.65)	(12)%
WCS (\$Cdn/bbl)	83.95	93.04	(10)%	84.45	80.37	5%
Condensate at Edmonton (\$Cdn/bbl)	96.83	104.37	(7)%	99.89	102.11	(2)%
Exchange rate (\$Cdn/\$US)	1.36	1.34	1%	1.36	1.35	1%

(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 Statements 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 third quarter of 2024, WTI pricing declined due to weakening global demand and concerns of increased supply due to OPEC+'s announcement to unwind production cuts. WCS differentials widened slightly due to lower demand for Canadian heavy crude oil resulting from reduced capacity at United States refineries. For the nine months ended September 30, 2024, WTI pricing was supported by sustained OPEC+ production cuts and geopolitical tensions. WCS differentials narrowed due to increased pipeline capacity out of Western Canada from the commissioning of the Trans Mountain pipeline on May 1, 2024.

The Company's realized crude oil price, net of blending, for the three and nine months ended September 30, 2024, was \$77.96/bbl and \$77.73/bbl respectively, as compared to \$86.22/bbl and \$71.48/bbl in the comparable periods of 2023. For the three months ended September 30, 2024, benchmark WTI pricing weakened with the WCS differential to WTI in US dollars widening as compared to the same periods of 2023. In contrast, the nine months ending September 30, 2024, saw relatively flat WTI pricing with the WCS differential to WTI in US dollars narrowing.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Risk Management

Financial Derivatives

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Realized gain (loss)	140	(594)	124%	(241)	(502)	(52)%
Unrealized loss	(411)	(688)	(40)%	(1,148)	(677)	70%
Financial derivative loss	(271)	(1,282)	(79)%	(1,389)	(1,179)	18%
Realized gain (loss) per boe (\$)	0.31	(2.12)	115%	(0.20)	(0.70)	(71)%

The Company incurred a realized gain of \$0.1 million and a realized loss of \$0.2 million for the three and nine months ended September 30, 2024, compared to a realized loss of \$0.6 million and \$0.5 million for the comparable periods of 2023. The realized gain in the three months ended September 30, 2024 was the result of the fixed price of the financial derivative commodity contracts being higher and than the settlement price in the comparable period. The realized loss in the nine months ended September 30, 2024 was the result of the fixed price of the financial derivative commodity contracts being lower and than the settlement price in the comparable period of 2023.

The Company recognized an unrealized loss of \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2024, compared to an unrealized loss of \$0.7 million in both the comparable periods of 2023. The unrealized loss is a result of the non-cash change in the mark-to-market values over the periods on the Company's outstanding financial derivative contracts.

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 September 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	April 1, 2024 to December 31, 2024	250 bbl/d	CAD (\$20.25)
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)
WCS	Differential	January 1, 2025 to December 31, 2025	250 bbl/d	USD (\$14.35)
WTI	Swap	October 1, 2024 to December 31, 2024	250 bbl/d	USD \$70.00

Subsequent to September 30, 2024, the Company entered into the following financial derivative contracts:

Type	Type	Term	Volume	Price/Unit
WTI	Swap	October 1, 2024 to October 31, 2024	250 bbl/d	USD \$69.45
WTI	Swap	October 1, 2024 to October 31, 2024	250 bbl/d	USD \$71.00
WTI	Swap	October 1, 2024 to December 31, 2024	250 bbl/d	USD \$70.50
WTI	Swap	October 1, 2024 to December 31, 2024	250 bbl/d	USD \$71.20
WTI	Swap	October 1, 2024 to December 31, 2024	250 bbl/d	USD \$72.00
WTI	Swap	November 1, 2024 to November 30, 2024	250 bbl/d	USD \$75.70
WTI	Swap	December 1, 2024 to December 31, 2024	250 bbl/d	USD \$75.10

MANAGEMENT'S DISCUSSION AND ANALYSIS

Royalties

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Royalty expenses	4,940	3,411	45%	13,522	7,484	81%
Royalty rate ⁽¹⁾	14.6%	14.2%	3%	14.5%	14.7%	(1)%
Per boe (\$)	11.10	12.18	(9)%	11.11	10.41	7%

⁽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.

Royalties for the three and nine months ended September 30, 2024, were \$4.9 million or a 14.6% royalty rate and \$13.5 million or a 14.5% royalty rate, respectively, as compared to \$3.4 million or a 14.2% royalty rate and \$7.5 million or a 14.7% royalty rate in the comparable periods of 2023. On an absolute dollar basis, royalties increased over the comparable periods due to higher petroleum and natural gas revenues. On a royalty rate basis, in the three months ended September 30, 2024, royalties increased slightly over the comparable period of 2023 due to wells coming off royalty holidays and decreased slightly in the nine months ended September 30, 2024 from the comparable period of 2023 due to royalty incentives on newly drilled wells.

Net Operating Expenses

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Operating expenses	9,874	7,681	29%	28,416	19,980	42%
Less: processing income	51	127	(60)%	105	786	(87)%
Total net operating expenses ⁽¹⁾	9,823	7,554	30%	28,311	19,194	47%
Per boe (\$)	22.08	26.98	(18)%	23.26	26.69	(13)%

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

For the three and nine months ended September 30, 2024, net operating expenses increased to \$9.8 million and \$28.3 million, respectively, from \$7.6 million and \$19.2 million in the comparable periods due to a significant increase in production volumes.

On a per boe basis, net operating expenses for the three and nine months ended September 30, 2024, were \$22.08 and \$23.26, respectively, compared to \$26.98 and \$26.69 in the comparable periods. The overall decrease in net operating expenses per boe is due to the increased production combined with injection and disposal projects and field optimization projects aimed at reducing net operating costs.

Transportation Expenses

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Transportation expenses	576	324	78%	1,814	634	186%
Per boe (\$)	1.29	1.16	11%	1.49	0.88	69%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

each well to a sales point. For the three and nine months ended September 30, 2024, total transportation expenses on an absolute basis increased 78% and 186%, respectively, compared to the comparable periods due to higher production volumes. On a per boe basis, total transportation expenses increased 11% and 69% from the comparable periods of 2023 due to increased clean oil trucking to optimize received pricing.

Operating Netback

(\$ in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
Total petroleum and natural gas						
revenues, net of blending ⁽¹⁾	33,935	23,960	42%	93,422	51,063	83%
Royalties	(4,940)	(3,411)	45%	(13,522)	(7,484)	81%
Net operating expenses ⁽¹⁾	(9,823)	(7,554)	30%	(28,311)	(19,194)	47%
Transportation expenses	(576)	(324)	78%	(1,814)	(634)	186%
Operating netback⁽¹⁾	18,596	12,671	47%	49,775	23,751	110%
Realized gain (loss) on financial derivatives	140	(594)	(124)%	(241)	(502)	(52)%
Operating netback⁽¹⁾, including financial derivatives	18,736	12,077	55%	49,534	23,249	113%

(\$/boe)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
Total petroleum and natural gas						
revenues, net of blending ⁽¹⁾⁽²⁾	76.27	85.59	(11)%	76.74	71.00	8%
Royalties	(11.10)	(12.18)	(9)%	(11.11)	(10.41)	7%
Net operating expenses ⁽¹⁾	(22.08)	(26.98)	(18)%	(23.26)	(26.69)	(13)%
Transportation expenses	(1.29)	(1.16)	11%	(1.49)	(0.88)	69%
Operating netback⁽¹⁾	41.80	45.27	(8)%	40.88	33.02	24%
Realized gain (loss) on financial derivatives	0.31	(2.12)	(115)%	(0.20)	(0.70)	(71)%
Operating netback⁽¹⁾, including financial derivatives	42.11	43.15	(2)%	40.68	32.32	26%

⁽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 September 30, 2024, operating netback per boe was lower primarily due to lower realized pricing and higher transportation, partially offset by lower royalties and net operating expenses as compared to the same period of 2023. On an absolute basis, operating netback was higher than the comparable period of 2023 due to significantly higher production offset by lower realized pricing and higher royalties, net operating expenses and transportation expenses.

For the nine months ended September 30, 2024, operating netback per boe was higher primarily due to higher realized pricing and lower net operating expenses, partially offset by higher royalties and transportation expenses as compared to the same periods of 2023. On an absolute basis, operating netback was higher than the comparable periods of 2023 due to significantly higher production combined with higher realized pricing, offset by higher royalties, net operating expenses and transportation expenses.

General and Administrative ("G&A") Expenses

(\$ in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
G&A expenses	2,183	1,945	12%	6,548	5,174	27%
Capitalized G&A and overhead recoveries	(898)	(736)	22%	(2,692)	(1,973)	36%
Net G&A expenses	1,285	1,209	6%	3,856	3,201	20%
Per boe (\$)	2.89	4.32	(33)%	3.17	4.45	(29)%

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2024, the Company incurred net G&A expenses of \$1.3 million and \$3.9 million, respectively, from \$1.2 million and \$3.2 million in the comparable periods of 2023 due to increased employee related costs and professional fees associated with the Company's growth. For the three and nine months ended September 30, 2024, the Company increased capitalized G&A due to Lycos' higher capital expenditure program and technical staff additions as compared to the same periods of 2023. On a per boe basis, G&A expenses decreased as compared to the same periods of 2023 due to a significant increase in production over the periods.

Stock-based Compensation

(\$ in thousands)	Three months ended			Nine months ended		
	September 30, 2024	2023	% change	September 30, 2024	2023	% change
Stock options	946	946	0%	2,990	2,554	17%
Capitalized stock-based compensation	(389)	(379)	3%	(1,228)	(994)	24%
Stock-based compensation	557	567	(2)%	1,762	1,560	13%
Per boe (\$)	1.25	2.03	(38)%	1.45	2.17	(33)%

The Company established a stock 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. Stock-based compensation is recorded over a three-year vesting period using graded amortization resulting in a higher proportion of expense being recognized earlier in the vesting term.

During the three and nine months ended September 30, 2024, the Company recorded gross stock-based compensation expense of \$0.9 million and \$3.0 million, respectively, compared to \$0.9 million and \$2.6 million in the comparable periods. Stock-based compensation expense slightly decreased for the three months ended September 30, 2024 as compared to the same period of 2023 as the fair value of new grants is lower than the comparable period due to a decrease in the Company's share price and forfeitures on previously issued options. Stock-based compensation expense increased for the nine months ended September 30, 2024, as compared to the same period of 2023 due to a higher number of stock options outstanding.

The Company capitalizes stock-based compensation expense related to petroleum and natural gas exploration and development activities. For the three and nine months ended September 30, 2024, Lycos recorded capitalized stock-based compensation expense of \$0.4 million and \$1.2 million, respectively, compared to \$0.4 million and \$1.0 million in the comparable periods of 2023.

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

	September 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	244,225	\$ 3.10	3,811,875	\$ 4.07
Forfeited	(52,250)	\$ 3.92	(95,625)	\$ 4.40
Options outstanding, end of period	3,908,225	\$ 4.02	3,716,250	\$ 4.07

The range of exercise price of stock options outstanding and exercisable as at September 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	
\$ 2.80 - \$ 4.40	3,908,225	3.74	\$ 4.02	684,583	\$ 4.33	

MANAGEMENT'S DISCUSSION AND ANALYSIS

Depletion and Depreciation (“D&D”)

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Depletion and depreciation	10,645	5,639	89%	27,913	14,745	89%
Per boe (\$)	23.92	20.14	19%	22.93	20.50	12%

D&D per boe will fluctuate from one period to the next depending on the amount and type of capital expenditures, 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 and nine months ended September 30, 2024 was \$10.6 million and \$27.9 million, respectively, compared to \$5.6 million and \$14.7 million for the comparable periods of 2023 due to a significant increase in the Company's production volumes and depletable base over the periods.

D&D per boe for the three and nine months ended September 30, 2024 was \$23.92/boe and \$22.93/boe, respectively, compared to \$20.14/boe and \$20.50/boe for the comparable periods. This increase in the D&D rate is mainly the result of the 2023 acquisitions, E&E transfers in the periods, and increased development expenditures which increased the Company's depletable base.

Impairment

Property, Plant & Equipment (“PP&E”)

As at September 30, 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.

Exploration and Evaluation Assets (“E&E”)

As at September 30, 2024, the Company transferred land, drilling and completion costs to PP&E at a value of \$20.9 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 September 30, 2024.

Asset held for sale

In connection with a 2023 land acquisition, the Company paid a \$2.8 million deposit for certain additional land that was held in escrow pending closing conditions. In July 2024, the escrow funds were released and the land and related decommissioning liabilities transferred to the Company. In connection with the closing of this transaction, the Company entered into a purchase and sale agreement in August 2024 to dispose of \$2.8 million of land and \$0.5 million of decommissioning obligations, for net cash consideration of \$2.8 million, subject to closing adjustments. The associated land and decommissioning liabilities were classified as held for sale at September 30, 2023. Subsequent to period end, customary post-close conditions were met, and the sale was finalized.

Transaction Costs

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Transaction costs related to acquisitions	115	649	(82)%	248	1,426	(83)%
Transaction costs related to credit facilities	-	-	0%	-	99	(100)%
Transaction costs	115	649	(82)%	248	1,525	(84)%
Per boe (\$)	0.26	2.32	(89)%	0.20	2.12	(91)%

Transaction costs for the three and nine months ended September 30, 2024 were \$0.1 million and \$0.2 million, compared to \$0.6 million and \$1.5 million in the comparative periods of 2023. Current period transaction costs relate to legal costs associated with deal flow in the period. The three-month comparable period of 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

incurred costs including \$0.3 million associated with the Wyatt Acquisition and \$0.3 million related to the DCEL Acquisition, which closed subsequent to the third quarter of 2023. The nine month comparable period of 2023 incurred additional costs including \$0.8 million for certain professional fees associated with the Company's acquisition of its former partner's equity interest in Chronos Duvernay Limited Partnership which was subsequently wound up into Lycos, and \$0.1 million for the upfront fee and legal costs associated with the Company's revolving credit facility.

Finance Expense

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Accretion of decommissioning liabilities	282	237	19%	834	619	35%
Interest expense	450	95	374%	1,106	152	628%
Interest on lease obligations	13	15	(13)%	42	37	14%
Finance expense	745	347	115%	1,982	808	145%
Per boe (\$)	1.67	1.24	35%	1.63	1.12	46%

The Company's finance expense for the three and nine months ended September 30, 2024, was \$0.7 million and \$2.0 million, respectively, compared to finance expense of \$0.3 million and \$0.8 million in the comparable periods. 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			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Other income	4	53	(92)%	51	556	(91)%
Per boe (\$)	0.01	0.19	(95)%	0.04	0.77	(95)%

Other income consists of interest income earned on cash deposits and in the comparative period includes interest income earned on cash on hand. For the three and nine months ended September 30, 2024, the Company recognized other income of \$4 thousand and \$51 thousand, respectively, compared to \$53 thousand and \$0.6 million in the comparative periods.

Taxes

The following table outlines the Company's estimated tax pools as at September 30, 2024:

(\$ in thousands)	September 30,		Annual Deductibility
	2024		
Undepreciated capital cost	8,702		Primarily 25% declining balance
Canadian development expense	71,626		30% declining balance
Canadian development expense - successored	5,157		30% declining balance
Canadian oil and gas property expense	20,434		10% declining balance
Canadian oil and gas property expense - successored	11,836		10% declining balance
Non-capital loss carry forward	66,397		100%
Share & debt issue costs	4,577		20% straight line
Total	188,729		

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Deferred income tax expense (recovery)	1,276	1,332	(4)%	139	(10,841)	(101)%

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2024, the Company recognized a deferred income tax expense of \$1.3 million and \$0.1 million compared to a \$1.3 million deferred income tax expense and a \$10.8 million deferred income tax recovery in the comparable periods. For the three months ended September 30, 2024, the change from the comparable period is related to higher net income, partially offset by lower effective tax rate. For the nine months ended September 30, 2024, the deferred income tax expense relates to net income recognized in the period, partially offset by the recognition of additional tax pools. The comparative period had a deferred income tax recovery of \$10.8 million due to the deferred income tax liabilities recognized in the CDLP Acquisition and Wyatt Acquisition and the Q1 2023 recognition of the deferred tax assets that were previously unrecognized.

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

(\$ in thousands, except per share)	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	% change	2024	2023	% change
Cash flow from operating activities	19,764	7,534	162%	37,893	11,908	218%
Adjusted funds flow from operations⁽¹⁾	17,005	10,826	57%	44,623	20,452	118%
Net income	3,706	1,699	118%	12,537	23,547	(47)%
Per share - basic	\$ 0.07	\$ 0.04	75%	\$ 0.24	\$ 0.59	(59)%
Per share - diluted	\$ 0.07	\$ 0.04	75%	\$ 0.23	\$ 0.56	(59)%

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

The Company recorded net income of \$3.7 million (\$0.07 per basic and diluted share) and \$12.5 million (\$0.24 per basic and \$0.23 per diluted share) for the three and nine months ended September 30, 2024, respectively, compared to net income of \$1.7 million (\$0.04 per basic and diluted share) and \$23.5 million (\$0.59 per basic and \$0.56 per diluted share) in the comparable periods.

The increase in net income for the three months ended September 30, 2024, as compared to the same period in 2023 is primarily the result of higher petroleum and natural gas sales offset by higher royalties, operating expenses, an unrealized loss on financial derivatives, blending expenses and depletion and depreciation.

The decrease in net income for the nine months ended September 30, 2024, as compared to the same period in 2023 is primarily the result of the gain on the Company's acquisition of its former partner's equity interest in Chronos Duvernay Limited Partnership and deferred income tax recovery recorded in the comparable period combined with higher royalties, operating expenses, blending expenses, an unrealized loss on financial derivatives, and depletion and depreciation in the current period, partially offset by higher petroleum and natural gas sales in the current period.

Cash flow from operating activities for the three and nine months ended September 30, 2024, increased 162% and 218%, respectively, compared to the same periods in 2023. The increases in cash flow from operating activities was due to the increases in adjusted funds flow from operations (discussed below), adjusted by the changes in non-cash working capital for the periods.

Adjusted funds flow from operations for the three and nine months ended September 30, 2024, increased 57% and 118%, respectively, compared to the same periods in 2023. This was primarily due to an increase in petroleum and natural gas sales, offset by higher operating and blending expenses, royalties, and G&A expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Expenditures

(\$ in thousands)	Three months ended			Nine months ended		
	September 30,			September 30,		
	2024	2023	% change	2024	2023	% change
Land and geological and geophysical	1,779	468	280%	2,679	3,443	(22)%
Drilling and completions	10,954	14,583	(25)%	42,276	30,067	41%
Equipping and facilities	3,830	2,263	69%	10,881	6,408	70%
Other	718	3,566	(80)%	2,153	4,558	(53)%
Exploration and development	17,281	20,880	(17)%	57,989	44,476	30%
Acquisition through business combination	-	6,110	(100)%	-	54,886	(100)%
Property dispositions	-	-	0%	-	-	0%
Capital expenditures⁽¹⁾	17,281	26,990	(36)%	57,989	99,362	(42)%

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

Capital expenditures for the three and nine months ended September 30, 2024, were \$17.3 million and \$58.0 million, respectively, compared to \$27.0 million and \$99.4 million in the comparable periods of 2023. In the three months ended September 30, 2024, the Company incurred \$1.8 million on lease acquisitions and seismic, \$11.0 million on drilling and completions, \$3.8 million on equipping and facilities, and \$0.7 million related to other costs. During the nine months ended September 30, 2024, the Company incurred \$2.7 million on lease acquisitions and seismic, \$42.3 million on drilling and completions, \$10.9 million on equipping and facilities (includes \$1.5 million of gas handling and infrastructure costs for certain wells in Alberta that were drilled in 2024), and \$2.2 million related to other costs.

The Company's Q3 2024 capital program included the drilling and completion of 7.0 multi-lateral wells (7.0 net wells) and bringing on stream all 7.0 wells (7.0 net wells). The Company continued to invest in facility infrastructure on newly drilled wells and gas handling infrastructure on the assets acquired in 2023.

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

	Three months ended September 30,				Nine months ended September 30,			
	2024		2023		2024		2023	
	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net
Crude oil	7.0	7.0	6.0	6.0	23.0	22.6	12.0	12.0
Disposal	-	-	-	-	1.0	1.0	2.0	2.0
Total	7.0	7.0	6.0	6.0	24.0	23.6	14.0	14.0
Success rate	100%	100%	100%	100%	100%	100%	100%	100%

⁽¹⁾ All 7.0 (7.0 net) crude oil wells drilled during the three months ended September 30, 2024, were brought on production in the third 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 periods ended September 30, 2024 and December 31, 2023:

MANAGEMENT'S DISCUSSION AND ANALYSIS

	September 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)
Shares issued - warrant exercise	156,381	350	-	-
Balance, end of period	53,237,528	\$ 224,642	53,081,147	\$ 224,292

As at November 18, 2024, the Company had the following securities outstanding:

(in thousands)	As at November 18, 2024
Outstanding securities:	
Common shares	53,238
Stock options	3,908
Warrants	5,550

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 September 30, 2024 the Company had 5,549,869 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

The Company uses the treasury stock method to determine the impact of dilutive securities. As the Company recorded net income for the three and nine months ended September 30, 2024, in computing the diluted net income per share for the periods, the effect of 5,549,869 warrants were included (three and nine months ending September 30, 2023 – 5,706,250 warrants were included) and 3,908,225 stock options were excluded (three and nine months ending September 30, 2023 – 2,134,375 were excluded) as their effect was anti-dilutive.

Liquidity and Capital Resources

As at September 30, 2024, the Company's capital structure is comprised of net debt of \$31.7 million and shareholders' equity of \$200.1 million. Lycos' net debt fluctuated from a net debt of \$17.1 million at December 31, 2023 to \$31.7 million as at September 30, 2024 primarily due to the Company's exploration and development expenditures program.

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 September 30, 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 November 30, 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 September 30, 2024, the Company had an interest rate of prime plus 1.25% per annum on the credit facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The credit facility is secured by a demand debenture in the amount of \$100.0 million. 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 September 30, 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 September 30, 2024 are as follows:

	September 30, 2024
Less than 1 year	\$ 670
1-2 years	169
Total commitments	\$ 839

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. In the prior quarter, the Company had 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.

In August of 2024, the Company negotiated the satisfaction of its January 15, 2025, well commitment via a lease surrender and amending agreement as well as extended the September 30, 2024, drilling commitment to September 30, 2025. The Company further 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 two well commitments outstanding as at September 30, 2024.

2024 Guidance

The Company has revised its 2024 guidance production, capital expenditures⁽¹⁾, adjusted funds flow from operations⁽¹⁾ and net debt⁽¹⁾. The following table summarizes Lycos' updated 2024 guidance released on November 18, 2024 ("Updated 2024 Guidance"). Lycos expects to fund capital expenditures⁽¹⁾ through forecasted cash flows from operating activities and its credit facility.

	Prior 2024 Guidance ⁽²⁾	Updated 2024 Guidance ⁽³⁾
	Year Ended December 31, 2024	Year Ended December 31, 2024
Annual average production (boe/d)	4,800 boe/d (99% oil)	4,500 boe/d (99% oil)
Capital expenditures ⁽¹⁾	\$66.0 million	\$67.6 million
Decommissioning expenditures	\$1.8 million	\$1.4 million
Adjusted funds flow from operations ⁽¹⁾	\$65.8 million	\$59.0 million
Adjusted working capital (net debt), end of year ⁽¹⁾	(\$19.8) million	(\$27.3) million
Net debt to adjusted funds flow from operations ratio, end of year ⁽¹⁾	0.3X	0.5X

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

⁽²⁾ Prior guidance as updated on April 3, 2024

⁽³⁾ Updated 2024 guidance numbers are based on 2024 average pricing assumptions of: US\$75.74 bbl WTI; (US\$14.76) WCS differential; and \$1.36 CAD/USD

MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Results

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

(\$ in thousands, except share data)	2024				2023			2022
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Total petroleum and natural gas sales, net of blending ⁽¹⁾	33,986	35,649	23,892	24,748	24,087	17,475	10,287	6,341
Cash flow from operating activities	19,764	14,024	4,105	14,235	7,534	9,022	(3,424)	910
Adjusted funds flow from operations ⁽¹⁾	17,005	18,027	9,591	11,382	10,826	7,004	2,622	(201)
Net income (loss)	3,706	10,245	(1,414)	1,172	1,699	36	21,812	(14,948)
Per share - basic	\$ 0.07	\$ 0.19	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00	\$ 0.55	\$ (0.93)
Per share - diluted	\$ 0.07	\$ 0.19	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00	\$ 0.52	\$ (0.93)
Adjusted working capital (net debt) ⁽¹⁾	(31,727)	(30,592)	(27,148)	(17,057)	(29,015)	(10,319)	(4,982)	56,835
Capital expenditures ⁽¹⁾	17,281	21,258	19,450	31,474	26,990	11,909	61,687	5,489
Weighted average shares outstanding (thousands)								
Basic	53,215	53,104	53,081	50,876	39,976	39,769	39,769	15,999
Diluted	54,818	55,118	53,081	53,055	42,143	41,903	42,300	15,999
Shares outstanding, end of period (thousands)								
Basic	53,238	53,126	53,081	53,081	40,404	39,769	39,769	39,769
Diluted	54,841	55,139	53,081	55,260	42,571	41,903	42,300	39,769
Operational								
Average daily production								
Crude oil (bbls/d)	4,728	4,614	3,804	4,081	3,017	2,890	1,919	1,109
Natural gas (mcf/d)	651	209	218	238	155	110	125	85
Total (boe/d)	4,836	4,648	3,840	4,121	3,043	2,908	1,940	1,123

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 \$58.0 million of capital expenditures in the year to date, which included drilling and completing 22.6 net producing wells and 1.0 net disposal well, of which, all drills were on new lands that were acquired in 2023. Lycos grew average daily production to 4,836 boe/d in the third quarter of 2024 from 1,123 boe/d in the fourth quarter of 2022. The strengthening of crude oil prices and the increase in the Company's daily average production has resulted in an increase in sales and cash flow from operating activities over the periods.

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".

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, or ratios, of “adjusted funds flow from operations”, “adjusted working capital (net debt)”, “net debt to adjusted funds flow from operations” 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 expenditures 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 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.

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		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Cash flow from operating activities	19,763	7,534	37,892	11,908
Change in non-cash working capital	(3,794)	1,744	5,205	5,656
Funds flow from operations	15,969	9,278	43,097	17,564
Decommissioning expenditures	921	899	1,278	1,363
Transaction costs	115	649	248	1,525
Adjusted funds flow from operations	17,005	10,826	44,623	20,452
Per boe (\$)	38.22	38.67	36.65	28.44

Adjusted Working Capital (Net Debt)

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

(\$ in thousands)	September 30,	
	2024	December 31, 2023
Working capital	(33,616)	(17,798)
Current portion of decommissioning liabilities	1,500	1,500
Financial derivative liability	389	(759)
Adjusted working capital (net debt)	(31,727)	(17,057)

Net Debt to Adjusted Funds Flow from Operations

Net debt to adjusted funds flow from operations ratio is calculated as net debt divided by adjusted funds flow from operations for the applicable period. Lycos utilizes net debt to adjusted funds flow from operations to

MANAGEMENT'S DISCUSSION AND ANALYSIS

measure the Company's overall debt position and to measure the strength of the Company's balance sheet Lycos monitors this capital management ratio and uses this as a key measure in making decisions regarding financing, capital expenditures and shareholder returns.

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 expense in the Interim Financial Statements.

(\$ in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Crude oil	41,145	28,154	116,030	65,077
Less: blending expense	7,237	4,223	22,680	14,096
Crude oil, net of blending	33,908	23,931	93,350	50,981
Natural gas	27	29	72	82
Total petroleum and natural gas revenues, net of blending	33,935	23,960	93,422	51,063

Total Petroleum and Natural Gas Sales, Net of Blending

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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of the reconciliation of cash flow used in investing activities to capital expenditures is set forth below:

(\$ in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net cash used in investing activities	21,624	18,227	56,912	81,202
Change in non-cash working capital	(4,343)	8,763	1,077	18,160
Capital expenditures	17,281	26,990	57,989	99,362

Advisories

BOE Presentation

The Company uses the following industry terms in the MD&A: "bbl" refers to barrels, "bbl/d" refers to barrels per day, "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 (including negatives or variations thereof) suggesting future outcomes or statements regarding an outlook. Forward-

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 (including certain drilling commitments and the timing thereof); (iv) Lycos' expectations of royalty expenses as a percentage of revenue; (v) the Updated 2024 Guidance related to expected annual average production, annual Q4 2024 production, capital 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 (including greenhouse gas emission reduction requirements and other decarbonization or social policies and including uncertainty with respect to the interpretation of omnibus Bill C-59 and the related amendments to the Competition Act (Canada)); the possibility that governmental approvals may be delayed or withheld; risks and uncertainties involving geology of oil and natural gas deposits; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew leases; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the 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; access to water; 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⁾
Chairman of the Board of Directors
Calgary, Alberta

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

GERI GREENALL ⁽¹⁾⁽³⁾
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

Officers

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

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

LINDSAY GOOS, CPA-CA
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

Special Advisor to the Board

NEIL ROSZELL
Executive Chairman, Headwater Exploration Inc.
Calgary, Alberta

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

Sproule Associates Limited
Calgary, Alberta

(1) Audit Committee

(2) Corporate Governance and Compensation Committee

(3) Reserves, Environment and Health and Safety Committee