



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (the "MD&A") as provided by the management team ("Management") of Lycos Energy Inc. ("Lycos" or the "Company") is dated April 8, 2025, and should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2024 and 2023, and the notes thereto (the "Annual Financial Statements"). The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are referenced in Canadian dollars unless otherwise stated. Additional information relating to Lycos, including Lycos' Annual Information Form for the year ended December 31, 2024, 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.

Description of the Business

Lycos is a Canadian resource company engaged in the exploration for and development of petroleum and natural gas production in western Canada. The Company is currently developing its core heavy oil assets, targeting the Mannville stack, in the Lloydminster and Greater Lloydminster area of Alberta and Saskatchewan. Lycos also operated certain non-core heavy oil asset and facilities in Gull Lake and Lloydminster Saskatchewan, which were disposed on December 31, 2024.

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

Q4 2024 Highlights

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

- Average production volumes increased to 4,570 boe/d (97% crude oil) in the fourth quarter of 2024 compared to 4,121 boe/d (99% crude oil) in the fourth quarter of 2023, representing an 11% increase. Q4 2024 production was negatively impacted by approximately 310 boe/d of shut-in volumes due to gas egress issues.
- Realized adjusted funds flow from operations⁽¹⁾ of \$14.4 million in the fourth quarter of 2024 compared to \$11.4 million in the fourth quarter of 2023, representing a 27% increase.
- Operating netback⁽¹⁾ of \$38.20 per boe in the fourth quarter of 2024, representing a 15% increase from \$33.08 per boe in the comparable period of 2023.
- Net operating expenses remained flat at \$21.88 per boe in the fourth quarter of 2024 as compared to \$21.87 per boe in the comparable period, even with the Company experiencing shut-in volumes in the current quarter. Year over year, net operating expenses decreased significantly to \$22.90 per boe for the year ended December 31, 2024 as compared to \$25.02 per boe in the comparable year.
- Executed a \$9.8 million capital expenditures⁽¹⁾ program in the fourth quarter of 2024, bringing on stream 3 gross (3.0 net) multi-lateral wells by the end of December 2024. These wells included a new Middle Waseca pool discovery at Moose Lake, that achieved an IP30 of 284 bbl/d. Of the Q4 capital expenditures, \$0.7 million relates to the spud of 1 gross (1.0 net) multi-lateral well that was brought on stream in Q1 2025 and pad construction for the Q1 2025 drilling program. The Company invested \$0.4 million on gas handling infrastructure and \$0.8 million on land and seismic expenditures in the quarter.

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- On December 31, 2024, the Company completed a disposition of non-core assets in the Gull Lake and Lloydminster Saskatchewan areas for total consideration of \$10.2 million, subject to final closing adjustments. In the fourth quarter of 2024, the Company also completed a disposition of lands in the Greater Lloydminster Alberta area for a total consideration of \$2.9 million.
- Exit net debt⁽¹⁾ of \$17.9 million, representing 0.3X annualized net debt to adjusted funds flow ratio⁽¹⁾.

⁽¹⁾ See the sections titled "Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures".

Fourth Quarter Operational and Financial Highlights

(\$ in thousands, except per share)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Total petroleum and natural gas sales, net of blending⁽¹⁾	30,196	24,748	22%	123,722	76,597	62%
Cash flow from operating activities	12,898	14,235	(9)%	50,791	26,143	94%
Per share - basic	\$ 0.24	0.28	(14)%	\$ 0.96	\$ 0.61	57%
Per share - diluted	\$ 0.24	0.27	(11)%	\$ 0.96	\$ 0.58	66%
Adjusted funds flow from operations⁽¹⁾	14,421	11,382	27%	59,044	31,834	85%
Per share - basic	\$ 0.27	\$ 0.22	23%	\$ 1.11	\$ 0.75	48%
Per share - diluted	\$ 0.27	\$ 0.21	29%	\$ 1.11	\$ 0.71	56%
Net income (loss)⁽³⁾	(13,442)	1,172	(1247)%	(905)	24,719	(104)%
Per share - basic	\$ (0.25)	\$ 0.02	(1350)%	\$ (0.02)	\$ 0.58	(103)%
Per share - diluted	\$ (0.25)	\$ 0.02	(1350)%	\$ (0.02)	\$ 0.55	(104)%
Capital expenditures - exploration & development	9,824	18,520	(47)%	67,813	62,996	8%
Capital expenditures - net acquisitions & dispositions	(1,235)	12,954	(110)%	56,754	67,840	(16)%
Adjusted working capital (net debt)⁽¹⁾	(17,896)	(17,057)	5%	(17,896)	(17,057)	5%
Weighted average shares outstanding (thousands)						
Basic	53,238	50,876	5%	53,160	42,621	25%
Diluted	53,238	53,055	0%	53,160	44,865	18%
Average daily production:						
Crude oil (bbls/d)	4,421	4,081	8%	4,393	2,983	47%
Natural gas (mcf/d)	893	238	275%	494	158	213%
Total (boe/d)	4,570	4,121	11%	4,475	3,009	49%
Realized prices:						
Crude oil (\$/bbl) ⁽²⁾	73.91	65.56	13%	76.76	69.44	11%
Natural gas (\$/mcf)	0.92	2.38	(61)%	0.81	2.33	(65)%
Total (\$/boe)	71.68	65.06	10%	75.44	68.95	9%
Operating netback (\$/boe)⁽¹⁾						
Petroleum and natural gas revenues ⁽²⁾	71.68	65.06	10%	75.44	68.95	9%
Realized gain (loss) on financial derivatives	(0.20)	0.97	(121)%	(0.20)	(0.12)	67%
Royalties	(9.93)	(9.29)	7%	(10.81)	(10.02)	8%
Net operating expenses ⁽¹⁾	(21.88)	(21.87)	0%	(22.90)	(25.02)	(8)%
Transportation expenses	(1.47)	(1.79)	(18)%	(1.49)	(1.19)	25%
Operating netback, including financial derivatives (\$/boe)⁽¹⁾	38.20	33.08	15%	40.04	32.60	23%
Adjusted funds flow from operations (\$/boe)⁽¹⁾	34.30	30.03	14%	36.05	28.99	24%

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

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

⁽³⁾ The three months and year ended December 31, 2024 includes a non-cash loss on disposals of \$22.2 million.

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Results of Operations

Production

(6:1 boe conversion)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Daily production:						
Crude oil (bbls/d)	4,421	4,081	8%	4,393	2,983	47%
Natural gas (mcf/d)	893	238	275%	494	158	213%
Total (boe/d)	4,570	4,121	11%	4,475	3,009	49%
% Crude oil	97%	99%	(2)%	98%	99%	(1)%

Production for the three months and year ended December 31, 2024, averaged 4,570 boe/d (97% crude oil) and 4,475 boe/d (98% crude oil), an increase of 11% and 49%, respectively, over production of 4,121 boe/d (99% crude oil) and 3,009 (99% crude oil) in the comparable periods of 2023.

The production increase for the three months ended December 31, 2024, is the result of the Company's successful 2023 and 2024 drilling program targeted in the Company's Lloydminster and Greater Lloydminster core areas, offset by approximately 310 boe/d of shut-in volumes due to gas egress issues. Production for the year ended December 31, 2024, was further impacted by a full year of production from the 2023 corporate acquisitions.

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

Petroleum and Natural Gas Sales

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Crude oil	37,162	30,337	22%	153,191	95,414	61%
Less: Blending expense	7,100	5,728	24%	29,780	19,824	50%
Crude oil, net of blending ⁽¹⁾	30,062	24,609	22%	123,411	75,590	63%
Natural gas	75	52	44%	147	134	10%
Total petroleum and natural gas						
revenues, net of blending ⁽¹⁾	30,137	24,661	22%	123,558	75,724	63%
Processing income	59	87	(32)%	164	873	(81)%
Total petroleum and natural gas						
sales, net of blending ⁽¹⁾	30,196	24,748	22%	123,722	76,597	62%

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

Total petroleum and natural gas revenues, net of blending for the three months and year ended December 31, 2024, was \$30.1 million and \$123.6 million, respectively, as compared to \$24.7 million and \$75.7 million in the comparable periods of 2023.

For the three months ended December 31, 2024, the increase in petroleum and natural gas revenues was primarily the result of an 8% increase in crude oil production volumes combined with a 13% increase in the realized crude oil price over the comparative period of 2023. Despite West Texas Intermediate ("WTI") decreasing in the period, realized pricing increased over the comparative period of 2023 due to the narrowing of Western Canadian Select ("WCS") differential and marketing initiatives to optimize the blending process and sales points.

For the year ended December 31, 2024, the increase in petroleum and natural gas revenues was primarily the result of a 47% increase in crude oil production volumes combined with an 11% increase in the realized crude oil price over the comparative period of 2023. WTI pricing decreased slightly 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.

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Benchmark and Realized Prices

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Averaged realized prices:						
Crude oil (\$/bbl) ⁽¹⁾⁽³⁾	73.91	65.56	13%	76.76	69.44	11%
Natural gas (\$/mcf) ⁽¹⁾	0.92	2.38	(61)%	0.81	2.33	(65)%
Barrels of oil equivalent (\$/boe) ⁽²⁾⁽³⁾	71.68	65.06	10%	75.44	68.95	9%
Benchmark prices:						
WTI (\$US/bbl)	70.27	78.32	(10)%	75.72	77.62	(2)%
WCS differential to WTI (US\$/bbl)	(12.55)	(21.89)	(43)%	(14.76)	(18.71)	(21)%
WCS (\$Cdn/bbl)	80.75	76.95	5%	83.53	79.52	5%
Condensate at Edmonton (\$Cdn/bbl)	98.60	103.17	(4)%	99.56	102.37	(3)%
Exchange rate (\$Cdn/\$US)	1.40	1.36	3%	1.37	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 net income (loss), 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 fourth quarter of 2024, WTI pricing declined due to weakening global demand and concerns of increased supply. WCS differentials narrowed significantly due to increased demand for Canadian heavy crude oil resulting from increased capacity from the Trans Mountain Pipeline and increased capacity at United States refineries.

For the year ended December 31, 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 months and year ended December 31, 2024, was \$73.91/bbl and \$76.76/bbl respectively, as compared to \$65.56/bbl and \$69.44/bbl in the comparable periods of 2023, consistent with the increase in benchmark WCS pricing over the periods.

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Risk Management

Financial Derivatives

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Realized gain (loss)	(83)	369	(122)%	(324)	(133)	144%
Unrealized gain (loss)	478	1,436	(67)%	(670)	759	(188)%
Financial derivative gain (loss)	395	1,805	(78)%	(994)	626	(259)%
Realized gain (loss) per boe (\$)	(0.20)	0.97	121%	(0.20)	(0.12)	67%

The Company incurred a realized loss of \$0.1 million and \$0.3 million for the three months and year ended December 31, 2024, compared to a realized gain of \$0.4 million and a realized loss of \$0.1 million for the comparable periods of 2023. The realized loss in the three months and year ended December 31, 2024 was the result of the fixed price of the financial derivative commodity contracts being lower than the settlement price in the comparable period.

The Company recognized an unrealized gain of \$0.5 million and an unrealized loss of \$0.7 million for the three months and year ended December 31, 2024, compared to an unrealized gain of \$1.4 million and \$0.8 million in both the comparable periods of 2023. The unrealized gain (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 December 31, 2024, the Company had the following financial derivative commodity contracts:

Type	Type	Term	Volume	Contract Price
WCS Differential	Swap	January 1, 2025 to September 30, 2025	500 bbl/d	USD (\$14.10)
WCS Differential	Swap	January 1, 2025 to December 31, 2025	250 bbl/d	USD (\$14.35)

Subsequent to December 31, 2024, the Company entered into the following financial derivative contracts:

Type	Type	Term	Volume	Contract Price
WTI	Swap	January 1, 2025 to January 31, 2025	250 bbl/d	CAD \$105.90
WTI	Swap	January 1, 2025 to March 31, 2025	500 bbl/d	CAD \$103.35
WTI	Swap	February 1, 2025 to February 28, 2025	250 bbl/d	CAD \$107.00
WTI	Swap	March 1, 2025 to March 31, 2025	250 bbl/d	CAD \$105.90

Subsequent to December 31, 2024, the Company entered into the following physical delivery contracts:

Type	Type	Term	Volume	Contract Price
WTI	Fixed	April 1, 2025 to April 30, 2025	250 bbl/d	USD \$70.00
WTI	Fixed	April 1, 2025 to April 30, 2025	250 bbl/d	USD \$69.50

Royalties

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Royalty expenses	4,176	3,521	19%	17,698	11,005	61%
Royalty rate ⁽¹⁾	13.9%	14.3%	(3)%	14.3%	14.5%	(1)%
Per boe (\$)	9.93	9.29	7%	10.81	10.02	8%

⁽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

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to each type of royalty, commodity produced, royalty contract terms, and royalty incentive schemes. Under the Alberta Modernized Royalty Framework, 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 multi-lateral oil well program drilling incentive whereby volumetric drilling incentive for eligible multi-lateral horizontal oil wells drilled on or after April 1, 2024, and on or before March 31, 2028. The amount of additional volumetric incentive provided depends on the number of laterals drilled.

Royalties for the three months and year ended December 31, 2024, were \$4.2 million or a 13.9% royalty rate and \$17.7 million or a 14.3% royalty rate, respectively, as compared to \$3.5 million or a 14.3% royalty rate and \$11.0 million or a 14.5% 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 and year ended December 31, 2024, royalties decreased slightly from the comparable periods of 2023 due to royalty incentives on newly drilled wells.

Net Operating Expenses

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Operating expenses	9,259	8,375	11%	37,675	28,355	33%
Less: processing income	59	87	(32)%	164	873	(81)%
Total net operating expenses ⁽¹⁾	9,200	8,288	11%	37,511	27,482	36%
Per boe (\$)	21.88	21.87	0%	22.90	25.02	(8)%

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

For the three months and year ended December 31, 2024, net operating expenses increased to \$9.2 million and \$37.5 million, respectively, from \$8.3 million and \$27.5 million in the comparable periods due to increased production volumes.

On a per boe basis, net operating expenses for the three months and year ended December 31, 2024, were \$21.88 and \$22.90, respectively, compared to \$21.87 and \$25.02 in the comparable periods. For the three months ended December 31, 2024, net operating expenses per boe remained relatively flat but were impacted by higher emulsion trucking and workover costs, offset by higher production. For the year ended December 31, 2024, 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 December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Transportation expenses	619	677	(9)%	2,433	1,311	86%
Per boe (\$)	1.47	1.79	(18)%	1.49	1.19	25%

Transportation expenses include the cost of transporting natural gas and the cost to truck clean crude oil from the field to sales points and can fluctuate month to month depending on the product mix and the proximity of each well to a sales point. For the three months ended December 31, 2024, total transportation expenses on an absolute and boe basis decreased 9% and 18% from the comparable period due to decreased clean oil trucking and higher production volumes. For the year ended December 31, 2024, total transportation expenses on an absolute and boe basis increased by 86% and 25% from the comparable period due to increased clean oil trucking on higher volumes to optimize received pricing.

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Operating Netback

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾	30,137	24,661	22%	123,558	75,724	63%
Royalties	(4,176)	(3,521)	19%	(17,698)	(11,005)	61%
Net operating expenses ⁽¹⁾	(9,200)	(8,288)	11%	(37,511)	(27,482)	36%
Transportation expenses	(619)	(677)	(9)%	(2,433)	(1,311)	86%
Operating netback⁽¹⁾	16,142	12,175	33%	65,916	35,926	83%
Realized gain (loss) on financial derivatives	(83)	369	(122)%	(324)	(133)	144%
Operating netback⁽¹⁾, including financial derivatives	16,059	12,544	28%	65,592	35,793	83%

(\$/boe)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾⁽²⁾	71.68	65.06	10%	75.44	68.95	9%
Royalties	(9.93)	(9.29)	7%	(10.81)	(10.02)	8%
Net operating expenses ⁽¹⁾	(21.88)	(21.87)	0%	(22.90)	(25.02)	(8)%
Transportation expenses	(1.47)	(1.79)	(18)%	(1.49)	(1.19)	25%
Operating netback⁽¹⁾	38.40	32.11	20%	40.24	32.72	23%
Realized gain (loss) on financial derivatives	(0.20)	0.97	(121)%	(0.20)	(0.12)	67%
Operating netback⁽¹⁾, including financial derivatives	38.20	33.08	15%	40.04	32.60	23%

⁽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 December 31, 2024, operating netback was 33% higher than the comparable period of 2023 due to increased production, higher realized pricing and lower transportation expenses, partially offset by higher royalties and net operating expenses. On a per boe basis, operating netback was 20% higher primarily due to higher realized pricing and lower transportation expenses, partially offset by higher royalties compared to the same period of 2023.

For the year ended December 31, 2024, operating netback was 83% higher than the comparable periods of 2023 primarily due to increased production and higher realized pricing, partially offset by higher royalties, transportation expenses and net operating expenses. On a per boe basis, operating netback was 23% higher primarily due to higher realized pricing and lower net operating expense, partially offset by higher royalties and transportation expenses as compared to the same period of 2023.

General and Administrative ("G&A") Expenses

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
G&A expenses	2,003	1,924	4%	8,551	7,098	20%
Capitalized G&A and overhead recoveries	(794)	(921)	(14)%	(3,486)	(2,894)	20%
Net G&A expenses	1,209	1,003	21%	5,065	4,204	20%
Per boe (\$)	2.88	2.65	9%	3.09	3.83	(19)%

For the three months and year ended December 31, 2024, the Company incurred net G&A expenses of \$1.2 million and \$5.1 million, respectively, from \$1.0 million and \$4.2 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 months ended December 31, 2024, capitalized G&A expenses decreased over the comparable period of 2023 due to lower capital expenditures in the period. For the year ended December 31, 2024, the Company had increased capitalized G&A due to Lycos' higher capital expenditure program and the associated technical

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staff additions as compared to the same period of 2023. On a per boe basis, G&A expenses increased in the three months ended December 31, 2024, due to slightly higher expenditures associated with the Company's growth, offset by increased production. For the year ended December 31, 2024, G&A expense per boe decreased primarily due to a significant increase in production over the period, partially offset by higher expenditure associated with the Company's growth.

Stock-based Compensation

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Stock options	775	1,239	(37)%	3,765	3,793	(1)%
Capitalized stock-based compensation	(325)	(508)	(36)%	(1,553)	(1,502)	3%
Stock-based compensation	450	731	(38)%	2,212	2,291	(3)%
Per boe (\$)	1.07	1.93	(45)%	1.35	2.09	(35)%

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 months and year ended December 31, 2024, the Company recorded gross stock-based compensation expense of \$0.8 million and \$3.8 million, respectively, compared to \$1.2 million and \$3.8 million in the comparable periods. Stock-based compensation expense decreased for the three months and year ended December 31, 2024, as compared to the same periods of 2023, due to fewer options granted combined with a lower fair value due to a decrease in the Company's share price.

The Company capitalizes stock-based compensation expense related to petroleum and natural gas exploration and development activities. For the three months and year ended December 31, 2024, Lycos recorded capitalized stock-based compensation expense of \$0.3 million and \$1.6 million, respectively, compared to \$0.5 million and \$1.5 million in the comparable periods of 2023.

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

	December 31, 2024		December 31, 2023	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Options outstanding, beginning of period	3,716,250	\$ 4.07	-	\$ -
Granted	244,225	\$ 2.80	3,811,875	\$ 4.07
Forfeited	(74,750)	\$ 2.71	(95,625)	\$ 4.40
Options outstanding, end of period	3,885,725	\$ 4.02	3,716,250	\$ 4.07

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

Outstanding options				Exercisable options		
Exercise price	Number of Options Outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of Options Outstanding	Weighted average exercise price	
\$ 2.80 - \$ 4.40	3,885,725	3.49	\$ 4.02	1,221,333	\$ 4.08	

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Depletion and Depreciation ("D&D")

(\$ in thousands)	Three months ended			Year ended		
	December 31,			December 31,		
	2024	2023	% change	2024	2023	% change
Depletion and depreciation	9,470	8,092	17%	37,383	22,837	64%
Per boe (\$)	22.52	21.35	5%	22.82	20.79	10%

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. D&D expense for the three months and year ended December 31, 2024 was \$9.5 million and \$37.4 million, respectively, compared to \$8.1 million and \$22.8 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 months and year ended December 31, 2024 was \$22.52/boe and \$22.82/boe, respectively, compared to \$21.35/boe and \$20.79/boe for the comparable periods. This increase in the D&D rate is mainly the result of the 2023 acquisitions, exploration and evaluation asset ("E&E") transfers in the periods, and increased development expenditures which increased the Company's depletable base.

Impairment

Exploration and Evaluation Assets

At December 31, 2024, the Company transferred land, drilling and completion costs to PP&E at a value of \$31.2 million. As a result of the transfer to PPE, an impairment test was required. There were no impairments recorded to E&E as at December 31, 2024 and 2023.

Property, Plant & Equipment ("PP&E")

The Company conducted an assessment of indicators of impairment and concluded that there were no indicators of impairment for its CGUs as at December 31, 2024 and 2023.

Non-core Dispositions

Southwest Saskatchewan

On December 31, 2024 the Company disposed of certain non-core assets and facilities in Gull Lake and Lloydminster Saskatchewan to an arm's length purchaser for total consideration of \$10.2 million net of transaction costs of \$0.1 million, subject to final closing adjustments. The assets disposed of had a carrying value of \$38.8 million and an associated decommissioning liability of \$6.2 million, resulting in a loss on disposal of \$22.3 million.

As part of the consideration, Lycos received \$8.3 million in cash, a processing credit of \$1.8 million (\$0.8 million classified as current in prepaid expenses and deposits and \$1.0 million classified as other long-term asset) and other working capital adjustments of \$0.2 million. Lycos retains the rights to drill on any and all undeveloped lands by way of a sublease issued from the acquirer to Lycos and is subject to an 8% GORR on new drills in the area. This lease is renewed annually subject to Lycos drilling one well in the calendar year on the subject lands.

Greater Lloydminster

In connection with a 2023 land acquisition, the Company paid a \$2.8 million deposit for certain lands 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 total cash consideration of \$2.9 million after closing adjustments. A gain on disposition of \$0.1 million was recorded as the proceeds less cost of disposal exceeded the carrying amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent Event

Disposition

On February 24, 2025, the Company executed a purchase and sale agreement to dispose of certain assets in the Greater Lloydminster area subject to certain post-close conditions, for total cash consideration of \$2.8 million, subject to closing adjustments.

Transaction Costs

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Transaction costs related to acquisitions	(33)	577	(106)%	215	2,003	(89)%
Transaction costs related to credit facilities	-	5	(100)%	-	104	(100)%
Transaction costs	(33)	582	(106)%	215	2,107	(90)%
Per boe (\$)	(0.08)	1.54	(105)%	0.13	1.92	(93)%

Transaction costs for the three months and year ended December 31, 2024 were \$(33) thousand and \$0.2 million, compared to \$0.6 million and \$2.1 million in the comparative periods of 2023. In the three months and year ended December 31, 2024, transaction costs were lower than the comparable periods of 2023, due to reduced deal flow.

Finance Expense

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Accretion of decommissioning liabilities	247	305	(19)%	1,081	924	17%
Interest expense	432	233	85%	1,538	385	299%
Interest on lease obligations	12	15	(20)%	54	52	4%
Finance expense	691	553	25%	2,673	1,361	96%
Per boe (\$)	1.64	1.46	12%	1.63	1.24	31%

The Company's finance expense for the three months and year ended December 31, 2024, was \$0.7 million and \$2.7 million, respectively, compared to finance expense of \$0.6 million and \$1.4 million in the comparable periods. The increase in finance expense is primarily due to the interest expense associated with higher debt borrowings. Finance expenses is further impacted by accretion of the decommissioning liabilities which varies based on interest rates, drilling activity and acquisitions and disposals.

Other Income

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Other income	4	74	(95)%	55	630	(91)%
Per boe (\$)	0.01	0.20	(95)%	0.03	0.57	(95)%

Other income consists primarily of interest income earned on cash deposits and in the comparative period includes interest income earned on cash on hand. For the three months and year ended December 31, 2024, the Company recognized other income of \$4 thousand and \$55 thousand, respectively, compared to \$74 thousand and \$0.6 million in the comparative periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Taxes

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

(\$ in thousands)	December 31, 2024	Annual Deductibility
Undepreciated capital cost	5,584	Primarily 25% declining balance
Canadian development expense	68,423	30% declining balance
Canadian development expense - successored	4,655	30% declining balance
Canadian oil and gas property expense	12,265	10% declining balance
Canadian oil and gas property expense - successored	11,514	10% declining balance
Non-capital loss carry forward	67,164	100%
Share & debt issue costs	4,251	20% straight line
Total	173,856	

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Deferred income tax expense (recovery)	(3,986)	1,921	(307)%	(3,847)	(8,920)	(57)%

For the three months and year ended December 31, 2024, the Company recognized a deferred income tax recovery of \$4.0 million and \$3.8 million compared to a \$1.9 million deferred income tax expense and a \$8.9 million deferred income tax recovery in the comparable periods. For the three months ended December 31, 2024, the change from the comparable period is related to a net loss before income taxes recorded in the quarter, partially offset by a lower effective tax rate. For the year ended December 31, 2024, the deferred income tax recovery relates to net loss before income taxes recognized in the year, partially offset by the recognition of additional tax pools. The comparative period had a deferred income tax recovery of \$8.9 million due to the deferred income tax liabilities recognized in the corporate acquisitions 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 (Loss)

(\$ in thousands, except per share)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Cash flow from operating activities	12,898	14,235	(9)%	50,791	26,143	94%
Adjusted funds flow from operations⁽¹⁾	14,421	11,382	27%	59,044	31,834	85%
Net income (loss)	(13,442)	1,172	(1247)%	(905)	24,719	(104)%
Per share - basic	\$ (0.25)	\$ 0.02	(1350)%	\$ (0.02)	\$ 0.58	(103)%
Per share - diluted	\$ (0.25)	\$ 0.02	(1350)%	\$ (0.02)	\$ 0.55	(104)%

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

The Company recorded a net loss of \$13.4 million (\$(0.25) per basic and diluted share) and \$0.9 million (\$0.02 per basic and diluted share) for the three months and year ended December 31, 2024, respectively, compared to net income of \$1.2 million (\$0.02 per basic and diluted share) and \$24.7 million (\$0.58 per basic and \$0.55 per diluted share) in the comparable periods.

The decrease in net income (loss) for the three months ended December 31, 2024, as compared to the same period in 2023, is primarily the result of the \$22.2 million loss on dispositions and higher royalties, operating, blending, and depletion and depreciation expenses, partially offset by higher petroleum and natural gas sales.

The decrease in net income (loss) for the year ended December 31, 2024, as compared to the same period in 2023, is primarily the result of the \$22.2 million loss on dispositions in the comparable period compared to the in the current period and higher royalties, operating, blending, and depletion and depreciation expenses, partially offset by higher petroleum and natural gas sales.

Cash flow from operating activities for the three months ended December 31, 2024 decreased by 9% and increased 94% in the year ended December 31, 2024 compared to the same periods in 2023. The fluctuations

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 months and year ended December 31, 2024, increased 27% and 85%, respectively, compared to the same periods in 2023. This was primarily due to an increase in petroleum and natural gas sales, offset by higher royalties and operating, blending and G&A expenses.

Capital Expenditures

(\$ in thousands)	Three months ended December 31,			Year ended December 31,		
	2024	2023	% change	2024	2023	% change
Land and geological and geophysical	751	1,904	(61)%	3,430	5,347	(36)%
Drilling and completions	6,563	10,707	(39)%	48,839	40,774	20%
Equipping and facilities	1,674	2,539	(34)%	12,555	8,947	40%
Other	836	3,370	(75)%	2,989	7,928	(62)%
Exploration and development	9,824	18,520	(47)%	67,813	62,996	8%
Acquisition through business combination	-	12,954	(100)%	-	67,840	(100)%
Property dispositions	(11,059)	-	100%	(11,059)	-	100%
Capital expenditures⁽¹⁾	(1,235)	31,474	(104)%	56,754	130,836	(57)%

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

Exploration and development expenditures for the three months and year ended December 31, 2024, were \$9.8 million and \$67.8 million, respectively, compared to \$18.5 million and \$63.0 million in the comparable periods of 2023. In the three months ended December 31, 2024, the Company incurred \$0.8 million on lease acquisitions and seismic, \$6.6 million on drilling and completions, \$1.7 million on equipping and facilities (includes \$0.4 million of gas handling and infrastructure costs for certain wells in Alberta that were drilled in 2024) and \$0.8 million related to other costs.

During the year ended December 31, 2024, the Company incurred \$3.4 million on lease acquisitions and seismic, \$48.8 million on drilling and completions, \$12.6 million on equipping and facilities (includes \$3.6 million of gas handling and infrastructure costs for certain wells in Alberta that were drilled in 2024), and \$3.0 million related to other costs.

In the three months and year ended December 31, 2024, the Company completed the dispositions of non-core assets in Gull Lake and Lloydminster Saskatchewan and lands in the Greater Lloydminster Alberta area for total consideration of \$13.1 million (\$11.1 million cash consideration and \$2.0 million of non-cash consideration).

The Company's Q4 2024 capital program included the drilling and completion of 3.0 multi-lateral wells (3.0 net wells) and bringing on stream all 3.0 wells (3.0 net wells). The Company continued to invest in facility infrastructure on newly drilled wells and gas handling infrastructure.

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

	Three months ended December 31,				Year ended December 31,			
	2024		2023		2024		2023	
	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net
Crude oil	3.0	3.0	5.0	5.0	26.0	25.6	17.0	17.0
Disposal	-	-	-	-	1.0	1.0	2.0	2.0
Total	3.0	3.0	5.0	5.0	27.0	26.6	19.0	19.0
Success rate	100%	100%	100%	100%	100%	100%	100%	100%

⁽¹⁾ All 3.0 (3.0 net) crude oil wells drilled during the three months ended December 31, 2024, were brought on production in the fourth quarter of 2024.

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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 December 31, 2024 and December 31, 2023:

	December 31, 2024		December 31, 2023	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period ⁽¹⁾	53,081,147	\$ 224,292	39,768,500	\$ 177,032
Shares issued - Wyatt acquisition ⁽¹⁾	-	-	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

⁽¹⁾ The number of Common Shares has been adjusted retrospectively to reflect the 8:1 share consolidation that was approved by Lycos' shareholders on June 14, 2023 and effected on September 1, 2023 (2023 consolidation).

As at April 8, 2025, the Company had the following securities outstanding:

<i>(in thousands)</i>	As at April 8, 2025
Outstanding securities:	
Common shares	53,238
Stock options	3,784
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 December 31, 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. In computing the diluted net income (loss) per share for the periods, the effect of 5,549,869 warrants were excluded (for the year ended December 31, 2023 – 5,706,250 warrants were included) and 3,885,725 stock options were excluded (December 31, 2023 – 3,716,250) as their effect was anti-dilutive.

Liquidity and Capital Resources

As at December 31, 2024, the Company's capital structure is comprised of net debt of \$17.9 million and shareholders' equity of \$187.4 million. Lycos' net debt fluctuated from a net debt of \$17.1 million at December 31, 2023 to \$17.9 million as at December 31, 2024 primarily due to the Company's exploration and development expenditures program, offset by the dispositions of non core assets and adjusted funds flow generated in the year.

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.

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Credit Facility

As at December 31, 2024, the Company had an uncommitted demand revolving credit facility with the National Bank of Canada ("the Lender") for up to \$50.0 million, of which \$35.0 million is immediately available for general corporate purposes and an additional \$15.0 million is available at the discretion of the Lender. A semi-annual borrowing base review is scheduled to occur on or before May 31 and November 30 of each year.

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 December 31, 2024, the Company had an interest rate of prime plus 1.25% per annum on the credit facility.

The credit facility is secured by a demand debenture in the amount of \$100.0 million. 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 December 31, 2024, the Company was compliant with all covenants.

Contractual Obligations and Commitments

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

The Company has two well commitments to be drilled by September 30, 2025 and December 31, 2025, which are planned in the 2025 drilling program. In the event the Company fails to fulfill the drilling commitments, the Company is required to pay \$0.1 million and \$0.3 million respectfully for each well not spud by the commitment dates.

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

	December 31, 2024
Less than 1 year	\$ 673
1-2 years	-
Total commitments	\$ 673

Strategic Review Process

Lycos has been one of the most active drillers in the Mannville Stack, validating its technical thesis with respect to multi-lateral development with recent wells realizing strong production rates. Despite the successful delineation of its asset base, substantial additions to its inventory and ongoing operational success, the Common Shares continue to trade at a significant discount to the intrinsic value of its assets. In addition, the junior oil-weighted peer group continues to lag its larger, public markets peers and suffers from a lack of liquidity.

On March 4, 2025, Lycos announced that the Company's board of directors (the "Board"), acting in the best interests of Lycos and its shareholders, has determined that it is timely and prudent to initiate a comprehensive process to explore, review and evaluate a number of strategic repositioning alternatives available to the Company with a view to maximizing and accelerating value to its shareholders (the "Strategic Review"). The Strategic Review will include the evaluation of a broad range of alternatives including, but not limited to, a corporate sale, merger, corporate restructuring, sale of select assets, purchase of assets, or any combination of these potential alternatives.

Lycos has not yet established a definitive timeline to complete its Strategic Review. The Company does not intend to disclose developments with respect to the Strategic Review, periodically or otherwise, until the Board has approved a definitive transaction or strategic alternative or otherwise determines that disclosure is necessary or appropriate. The Company cautions that there are no assurances or guarantees that the process will result in a transaction or, if a transaction is undertaken, the terms or timing of such a transaction. The Board and Management believe that the Strategic Review will ultimately benefit the shareholders of Lycos. The Company's business will not be impacted by the Strategic Review, and it will continue to execute on its 2025 drilling program.

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Lycos has engaged National Bank Financial Inc. to act as its exclusive financial advisor in connection with the Strategic Review.

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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Total petroleum and natural gas sales, net of blending ⁽¹⁾	30,196	33,986	35,649	23,892	24,748	24,087	17,475	10,287
Cash flow from operating activities	12,898	19,764	14,024	4,105	14,235	7,534	9,022	(3,424)
Adjusted funds flow from operations ⁽¹⁾	14,421	17,005	18,027	9,591	11,382	10,826	7,004	2,622
Net income (loss)	(13,442)	3,706	10,245	(1,414)	1,172	1,699	36	21,812
Per share - basic	\$ (0.25)	\$ 0.07	\$ 0.19	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00	0.55
Per share - diluted	\$ (0.25)	\$ 0.07	\$ 0.19	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00	0.52
Adjusted working capital (net debt) ⁽¹⁾	(17,896)	(31,727)	(30,592)	(27,148)	(17,057)	(29,015)	(10,319)	(4,982)
Capital expenditures ⁽¹⁾	(1,235)	17,281	21,258	19,450	31,474	26,990	11,909	61,687
Weighted average shares outstanding (thousands)								
Basic	53,238	53,215	53,104	53,081	50,876	39,976	39,769	39,769
Diluted	53,238	54,818	55,118	53,081	53,055	42,143	41,903	42,300
Shares outstanding, end of period (thousands)								
Basic	53,238	53,238	53,126	53,081	53,081	40,404	39,769	39,769
Diluted	53,238	54,841	55,139	53,081	55,260	42,571	41,903	42,300
Operational								
Average daily production								
Crude oil (bbls/d)	4,421	4,728	4,614	3,804	4,081	3,017	2,890	1,919
Natural gas (mcf/d)	893	651	209	218	238	155	110	125
Total (boe/d)	4,570	4,836	4,648	3,840	4,121	3,043	2,908	1,940

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

Lycos was positioned for significant growth in 2023, exiting 2022 with \$56.8 million of adjusted working capital. In 2023, Lycos completed four acquisitions 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. Capital expenditures over 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 increase in the Company's daily average production through 2023 resulted in an increase in sales and cash flow from operating activities over the periods.

The growth momentum continued in 2024, with Lycos incurring \$67.8 million of exploration and development expenditures (\$54.7 net of dispositions), which included drilling and completing 25.6 net producing wells and 1.0 net disposal well. Lycos grew average daily production to 4,570 boe/d in the fourth quarter of 2024 from 3,840 boe/d in the first quarter of 2024. The strengthening of the WCS crude oil price 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 (loss) 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 in the section titled "Contractual Obligations and Commitments".

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

This document contains the terms "net operating expenses", "operating netback", "total crude oil, petroleum and natural gas revenue, and total petroleum and natural gas sales, net of blending" and "royalty rate" which are non-IFRS financial measures, or ratios if calculated on a per boe or percentage basis. The Company uses these measures to help evaluate Lycos' performance. These non-IFRS financial measures and ratios do not

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 December 31,		Year ended December 31,	
	2024	2023	2024	2023
Cash flow from operating activities	12,898	14,235	50,791	26,143
Change in non-cash working capital	1,476	(3,617)	6,680	2,039
Funds flow from operations	14,374	10,618	57,471	28,182
Decommissioning expenditures	80	182	1,358	1,545
Transaction costs	(33)	582	215	2,107
Adjusted funds flow from operations	14,421	11,382	59,044	31,834
Per boe (\$)	34.30	30.03	36.05	28.99

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)	December 31, 2024	December 31, 2023
Working capital	(19,207)	(17,798)
Current portion of decommissioning liabilities	1,400	1,500
Financial derivative (asset) liability	(89)	(759)
Adjusted working capital (net debt)	(17,896)	(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 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.

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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 Annual Financial Statements.

(\$ in thousands)	Three months ended December 31,		Year ended December 31,	
	2024	2023	2024	2023
Crude oil	37,162	30,337	153,191	95,414
Less: blending expense	7,100	5,728	29,780	19,824
Crude oil, net of blending	30,062	24,609	123,411	75,590
Natural gas	75	52	147	134
Total petroleum and natural gas revenues, net of blending	30,137	24,661	123,558	75,724

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 Annual 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 Annual 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 December 31,		Year ended December 31,	
	2024	2023	2024	2023
Net cash used in investing activities	12,891	33,129	69,803	114,331
Change in non-cash working capital	(14,126)	(1,655)	(13,049)	16,505
Capital expenditures	(1,235)	31,474	56,754	130,836

Advisories

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 titled "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' Annual Financial Statements or in the associated text. Certain other amounts that appear in this MD&A may similarly not sum due to rounding.

BOE Presentation

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

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 Annual 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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", "can", "continue", "develop", "evaluate", "expect", "plan", "intend", "estimate", "maintains", "manage", "potential", "propose", "project", "target", "use", "budget", "forecast", "should", "will", "may" and similar expressions (or grammatical variations or negatives thereof) suggesting future outcomes or statements regarding an outlook. Forward-looking statements or forward-looking information in this MD&A include, but are not limited to, statements or information with respect to: (i) Lycos' business strategy and objectives; (ii) statements with respect to the performance characteristics of Lycos' oil and natural gas properties, including anticipated production, capital expenditures, drilling plans, adjusted funds flow and adjusted working capital (net debt); (iii) Lycos' expectation and plans regarding drilling and the completions of wells (including certain drilling commitments and the timing thereof); (iv) Lycos' expectations of royalty expenses as a percentage of revenue; (v) Lycos' crude oil pricing assumptions and Canadian to US dollar exchange rates; (vi) 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); (vii) the Company's expectations in respect of G&A expenses; (viii) the Company's expectations in respect of commodity prices and WCS differentials; (ix) expectations in respect of the Company's sweeper fishbone wells and wine rack wells, including anticipated benefits and results; (x) the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and the effects thereof; (xi) ability of the Company to achieve drilling success consistent with Management's expectations, and (xii) the expectation that the Strategic Review process may elicit change and enhance shareholder value. 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Risks and uncertainties

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. These risks and uncertainties which may cause actual results to differ materially from the forward-looking statements or information include, among other things: the ability of Management to execute its business plan; general economic and business conditions; the risk of instability affecting the jurisdictions in which the Company operates; risks associated with the oil and natural gas industry in general (e.g. operational risks in exploring for, developing and producing crude oil and natural gas; market demand and volatility; changes to market valuations; 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); changes in industry regulations and legislation (including, but not limited to, tax laws, royalties, and environmental regulations); the imposition or expansion of tariffs imposed by domestic and foreign governments or the imposition of other restrictive trade measures, retaliatory or countermeasures implemented by such governments, including the introduction of regulatory barriers to trade and the potential effect on the demand and/or market price for the Company's products and/or otherwise adversely affects the Company; 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; changes in the political landscape both domestically and abroad; wars (including ongoing military actions in the Middle East and Russia's invasion of Ukraine); competition; the lack of availability of qualified personnel or management; the lack of availability of or access to services; the results of exploration and development drilling related activities; 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; fluctuations and uncertainty with respect to foreign currency exchange rates, interest rates and commodity prices (including pursuant to determinations by the Organization of Petroleum Exporting Countries and other countries (collectively referred to as OPEC+) regarding production levels); stock market and financial system volatility; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of royalty payments; health, safety and environmental risks; risks with respect to unplanned third-party pipeline outages; adverse weather or break-up conditions, including severe weather events and natural disasters such as fires, droughts, flooding and extreme hot or cold temperatures; the Company's ability to secure sufficient amounts of 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.

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.

The Company's operations have been, and in the future may be, affected by political developments and by national, federal, provincial, state and local laws and regulations such as restrictions on production, the imposition of tariffs, embargoes or export restrictions on the Company's products (including the tariffs on a variety of goods recently announced by the US government and Canadian countermeasures subsequently announced, both of which are anticipated to continue to evolve).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Additional risks and information on risk factors are included in the Company's Annual Information Form for the year ended December 31, 2024, 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
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