



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 May 29, 2025, and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended March 31, 2025 and 2024 and the notes thereto (the "Interim Financial Statements") and 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 in accordance with International Financial Reporting Accounting 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.

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

Q1 2025 Highlights

Highlights for the three months ended March 31, 2025, include:

- Average production volumes increased to 4,072 boe/d (97% crude oil) in Q1 2025 compared to 3,840 boe/d (99% crude oil) in Q1 2024, representing a 6% increase.
- Realized adjusted funds flow from operations⁽¹⁾ of \$12.5 million in Q1 2025 compared to \$9.6 million in Q1 2024, representing a 30% increase.
- Operating netback⁽¹⁾ of \$38.44 per boe in Q1 2025, representing a 22% increase from \$31.49 per boe in the comparable period of 2024.
- Executed a \$22.9 million capital expenditure program, drilling and completing 8.0 wells (7.9 net wells), of which 7.0 wells (6.9 net wells) were on stream by the end of the quarter. This included a new upper Waseca pool discovery and two additional Middle Waseca delineation wells at Moose Lake, which achieved average IP30⁽²⁾ of 262 bbl/d and an IP60⁽²⁾ of 254 bbl/d for the three wells. Of the Q1 2025 capital expenditures, \$1.4 million relates to the facility construction of a Moose Lake pad for future drills and \$1.1 million was spent on an additional well on this pad, which was rig released and commenced production in Q2 2025. The Company invested \$0.7 million on land and seismic in the quarter.
- Exit net debt⁽¹⁾ of \$25.5 million, representing 0.5X annualized net debt to adjusted funds flow from operations ratio⁽¹⁾.

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

⁽²⁾ See the sections titled "Advisories - Short-Term Results".

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First Quarter Operational and Financial Highlights

		Three months ended March 31,		
(\$ in thousands, except per share)		2025	2024	% change
Total petroleum and natural gas sales, net of blending⁽¹⁾				
		26,842	23,892	12%
Cash flow from operating activities				
		12,656	4,105	208%
Per share - basic	\$	0.24	\$ 0.08	200%
Per share - diluted	\$	0.24	\$ 0.08	200%
Adjusted funds flow from operations⁽¹⁾				
		12,512	9,591	30%
Per share - basic	\$	0.24	\$ 0.18	33%
Per share - diluted	\$	0.23	\$ 0.18	28%
Net income (loss)				
		2,373	(1,414)	268%
Per share - basic	\$	0.04	\$ (0.03)	233%
Per share - diluted	\$	0.04	\$ (0.03)	233%
Capital expenditures - exploration & development				
		22,922	19,450	18%
Adjusted working capital (net debt)⁽¹⁾				
		(25,498)	(27,148)	(6)%
Weighted average shares outstanding (thousands)				
Basic		53,238	53,081	0%
Diluted		53,532	53,081	1%
Average daily production:				
Crude oil (bbls/d)		3,940	3,804	4%
Natural gas (mcf/d)		793	218	264%
Total (boe/d)		4,072	3,840	6%
Realized prices:				
Crude oil (\$/bbl) ⁽²⁾		75.37	68.81	10%
Natural gas (\$/mcf)		1.23	2.07	(41)%
Total (\$/boe)		73.17	68.27	7%
Operating netback (\$/boe)⁽¹⁾				
Petroleum and natural gas revenues⁽²⁾		73.17	68.27	7%
Realized gain (loss) on financial derivatives		(0.06)	1.00	(106)%
Royalties		(10.14)	(10.61)	(4)%
Net operating expenses⁽¹⁾		(22.96)	(25.48)	(10)%
Transportation expenses		(1.57)	(1.69)	(7)%
Operating netback, including financial derivatives (\$/boe)⁽¹⁾				
		38.44	31.49	22%
Adjusted funds flow from operations (\$/boe)⁽¹⁾				
		34.14	27.45	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.

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Results of Operations

Production

(6:1 boe conversion)	Three months ended		
	March 31,		
	2025	2024	% change
Daily production:			
Crude oil (bbls/d)	3,940	3,804	4%
Natural gas (mcf/d)	793	218	264%
Total (boe/d)	4,072	3,840	6%
% Crude oil	97%	99%	(2)%

Production for the three months ended March 31, 2025 averaged 4,072 boe/d (97% crude oil), representing a 6% increase over production of 3,840 boe/d (99% crude oil) in the comparable period of 2024. The increase in production is directly associated with the Company's first quarter drilling program, offset by approximately 310 boe/d of shut-in volumes due to gas egress issues and approximately 325 boe/d from the Southwest Saskatchewan disposition that closed on December 31, 2024. The Company also disposed of its Frog Lake assets effective February 1, 2025 and experienced cold weather conditions in the current period resulting in lower volumes.

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

Petroleum and Natural Gas Sales

(\$ in thousands)	Three months ended		
	March 31,		
	2025	2024	% change
Crude oil	30,008	30,313	(1)%
Less: Blending expense	3,284	6,496	(49)%
Crude oil, net of blending ⁽¹⁾	26,724	23,817	12%
Natural gas	88	41	115%
Total petroleum and natural gas			
revenues, net of blending ⁽¹⁾	26,812	23,858	12%
Processing income	30	34	(12)%
Total petroleum and natural gas			
sales, net of blending ⁽¹⁾	26,842	23,892	12%

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

Total petroleum and natural gas revenues, net of blending for the three months ended March 31, 2025 was \$26.8 million as compared to \$23.9 million in the comparable period of 2024. The increase in petroleum and natural gas revenues was primarily the result of a 4% increase in crude oil production volumes combined with a 10% increase in the realized crude oil price over the comparable period of 2024. The increase in the realized price is consistent with the increase in benchmark WCS pricing over the period.

Blending expense for the three months ended March 31, 2025 decreased to \$3.3 million as compared to \$6.5 million in the comparable period of 2024. This change represented a 49% decrease in blending expense primarily due to a change in contractual terms whereby the Company did not act as shipper on the Manito pipeline in the month of March 2025 and therefore blending expense has been netted off crude oil sales.

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Benchmark and Realized Prices

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Averaged realized prices:			
Crude oil (\$/bbl) ⁽¹⁾⁽³⁾	75.37	68.81	10%
Natural gas (\$/mcf) ⁽¹⁾	1.23	2.07	(41)%
Barrels of oil equivalent (\$/boe) ⁽²⁾⁽³⁾	73.17	68.27	7%
Benchmark prices:			
WTI (\$US/bbl)	71.42	76.96	(7)%
WCS differential to WTI (US\$/bbl)	(12.67)	(19.31)	(34)%
WCS (\$Cdn/bbl)	84.30	77.76	8%
Condensate at Edmonton (\$Cdn/bbl)	100.00	96.35	4%
Exchange rate (\$Cdn/\$US)	1.43	1.35	6%

(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.

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 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 Q1 of 2025, benchmark WTI pricing decreased by 7% when compared to Q1 of 2024 due to economic uncertainty attributed to concerns over U.S. tariffs, global trade tensions, and the expected increase in production from OPEC+. WCS differentials narrowed primarily as a result of increased egress for Canadian heavy crude oil given the increased capacity from the Trans Mountain Pipeline.

The Company's realized crude oil price, net of blending, for the three months ended March 31, 2025, was \$75.37/bbl, compared to \$68.81/bbl in the same period of 2024, consistent with the increase in benchmark WCS pricing over the period and the weakening of the Canadian dollar.

Risk Management

Financial Derivatives

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Realized gain (loss)	(23)	348	(107)%
Unrealized loss	(736)	(2,447)	(70)%
Financial derivative loss	(759)	(2,099)	(64)%
Realized gain (loss) per boe (\$)	(0.06)	1.00	106%

The Company incurred a realized loss of \$23 thousand and an unrealized loss of \$0.7 million for the three months ended March 31, 2025, compared to a realized gain of \$0.3 million and an unrealized loss of \$2.4 million for the comparable periods of 2024. The realized loss in the three months ended March 31, 2025, was the result of the fixed price of the financial derivative commodity contracts being lower than the settlement

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price. The unrealized loss in the three months ended March 31, 2025, is a result of the non-cash change in the mark-to-market values over the period on the Company's outstanding financial derivative contracts.

Financial Derivative Commodity Contracts

Lycos maintains an ongoing risk management program to reduce the volatility of revenues to fund operations and capital expenditures.

As at March 31, 2025, the Company had the following financial derivative commodity contracts:

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

As at March 31, 2025, the Company had 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 March 31,		
	2025	2024	% change
Royalty expenses	3,716	3,706	0%
Royalty rate ⁽¹⁾	13.9%	15.5%	(10)%
Per boe (\$)	10.14	10.61	(4)%

⁽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, 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 ended March 31, 2025, were \$3.7 million or a 13.9% royalty rate as compared to \$3.7 million or a 15.5% royalty rate in the comparable period of 2024. On an absolute dollar basis, royalties remained relatively consistent with the comparable period due to higher production and realized pricing, offset by royalty incentives on newly drilled wells. On a royalty rate basis, royalties decreased slightly from the comparable period of 2024 due to royalty incentives on newly drilled wells and the Southwest Saskatchewan disposition as the properties disposed had a higher royalty rate of approximately 16%.

Net Operating Expenses

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Operating expenses	8,444	8,938	(6)%
Less: processing income	30	34	(12)%
Total net operating expenses ⁽¹⁾	8,414	8,904	(6)%
Per boe (\$)	22.96	25.48	(10)%

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

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Net operating expenses decreased to \$8.4 million for the three months ended March 31, 2025, from \$8.9 million in the comparable period of 2024, primarily due to higher production volumes, offset by a full quarter of cost savings from the disposition of the Southwest Saskatchewan operations completed on December 31, 2024.

On a per boe basis, net operating expenses for the three months ended March 31, 2025, were \$22.96 compared to \$25.48 in the comparable period of 2024. The decrease in net operating expenses per boe was primarily due to the Southwest Saskatchewan disposition as the properties had higher net operating expenses of approximately \$46.98 per boe in the comparable period of 2024. This was partially offset by higher workovers and repairs and maintenance costs associated with the shut-in production and cold weather in the current period.

Transportation Expenses

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Transportation expenses	577	591	(2)%
Per boe (\$)	1.57	1.69	(7)%

Transportation expenses include the cost of transporting natural gas and the cost to truck clean crude oil from the field to sales points and can fluctuate month to month depending on the product mix and the proximity of each well to a sales point. For the three months ended March 31, 2025, total transportation expenses on an absolute dollar basis remained relatively flat compared to the same period in 2024. On a per boe basis, transportation expenses decreased from the comparable period of 2024 due to higher production volumes and a decrease in price related to clean oil hauling.

Operating Netback

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾	26,812	23,858	12%
Royalties	(3,716)	(3,706)	0%
Net operating expenses ⁽¹⁾	(8,414)	(8,904)	(6)%
Transportation expenses	(577)	(591)	(2)%
Operating netback⁽¹⁾	14,105	10,657	32%
Realized gain (loss) on financial derivatives	(23)	348	(107)%
Operating netback⁽¹⁾, including financial derivatives	14,082	11,005	28%

(\$/boe)	Three months ended March 31,		
	2025	2024	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾⁽²⁾	73.17	68.27	7%
Royalties	(10.14)	(10.61)	(4)%
Net operating expenses ⁽¹⁾	(22.96)	(25.48)	(10)%
Transportation expenses	(1.57)	(1.69)	(7)%
Operating netback⁽¹⁾	38.50	30.49	26%
Realized gain (loss) on financial derivatives	(0.06)	1.00	(106)%
Operating netback⁽¹⁾, including financial derivatives	38.44	31.49	22%

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

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

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For the three months ended March 31, 2025, operating netback was 32% higher than the comparable period of 2024 due to increased production, higher realized pricing and lower net operating expenses and transportation expenses. On a per boe basis, operating netback was 26% higher primarily due to higher realized pricing and lower royalties, net operating expenses and transportation expenses.

General and Administrative (“G&A”) Expenses

(\$ in thousands)	Three months ended		
	March 31,		
	2025	2024	% change
G&A expenses	2,017	2,206	(9)%
Capitalized G&A and overhead recoveries	(702)	(883)	(20)%
Net G&A expenses	1,315	1,323	(1)%
Per boe (\$)	3.59	3.79	(5)%

For the three months ended March 31, 2025, the Company's net G&A expenses remained consistent at \$1.3 million as compared to the same period of 2024. On a per boe basis, G&A expenses decreased as compared to the same period of 2024 due to the increase in production.

Stock-based Compensation

(\$ in thousands)	Three months ended		
	March 31,		
	2025	2024	% change
Stock options	490	1,135	(57)%
Capitalized stock-based compensation	(207)	(466)	(56)%
Stock-based compensation	283	669	(58)%
Per boe (\$)	0.77	1.91	(60)%

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 ended March 31, 2025, the Company recorded gross stock-based compensation expense of \$0.5 million compared to \$1.1 million in the comparable period of 2024, primarily due to the impact of graded amortization resulting in a lower expense in the current period.

The Company capitalizes stock-based compensation expense related to petroleum and natural gas exploration and development activities. For the three months ended March 31, 2025, Lycos recorded capitalized stock-based compensation expense of \$0.2 million compared to \$0.5 million in the comparable period of 2024.

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

	March 31, 2025		December 31, 2024	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Options outstanding, beginning of period	3,885,725	\$ 4.02	3,716,250	\$ 4.07
Granted	-	\$ -	244,225	\$ 2.80
Forfeited	(101,250)	\$ 3.67	(74,750)	\$ 2.71
Options outstanding, end of period	3,784,475	\$ 4.02	3,885,725	\$ 4.02

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The range of exercise price of stock options outstanding and exercisable as at March 31, 2025, 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	3,784,475	3.24	\$ 4.03	1,818,625	\$ 4.19

Depletion and Depreciation ("D&D")

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Depletion and depreciation	8,150	7,612	7%
Per boe (\$)	22.24	21.78	2%

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 months ended March 31, 2025, was \$8.2 million compared to \$7.6 million for the comparable period of 2024. The increase is the result of an increase in the Company's production volumes and depletable base, partially offset by the Southwest Saskatchewan disposition on December 31, 2024.

D&D per boe for the three months ended March 31, 2025, was \$22.24/boe, compared to \$21.78/boe for the three months ended March 31, 2024. This increase in the D&D rate is mainly the result of the exploration and evaluation asset ("E&E") transfers in the period and increased development expenditures which increased the Company's depletable base.

Cash-Generating Unit ("CGU") Composition

During the period ended March 31, 2025, the Company completed an internal assessment of its operations following the disposition of its Southwest Saskatchewan CGU on December 31, 2024. As a result of this assessment, and in accordance with International Accounting Standard 36 – *Impairment of Assets*, which forms part of the IFRS as issued by the IASB, management determined that it was appropriate to consolidate its remaining asset base into a single CGU, the Lloyd CGU.

The revised CGU structure reflects the manner in which the Company now generates independent cash inflows and monitors performance internally. The amalgamation of CGUs did not impact the carrying amount of assets with no impairment indicators identified resulting from the CGU reorganization and no impairment losses were recognized during the period.

Impairment

Exploration and Evaluation Assets

At March 31, 2025 the Company transferred land, geological costs and drilling and completion costs to Property, Plant & Equipment ("PP&E") at a value of \$13.6 million. As a result of the transfer, an impairment test was performed on transfer to PP&E. There were no impairments recorded to E&E as at March 31, 2025.

Property, Plant & Equipment

The Company conducted an assessment of indicators of impairment and concluded that there were no indicators of impairment as at March 31, 2025.

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Asset Held for Sale

On February 24, 2025, the Company executed a purchase and sale agreement to dispose of certain assets in the Greater Lloydminster area subject to customary post-close conditions, for total cash consideration of \$2.9 million. The assets had a net book value of \$3.6 million and associated decommissioning liabilities of \$0.7 million which were classified as held for sale at March 31, 2025.

Transaction Costs

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Transaction costs related to acquisitions	24	-	100%
Transaction costs related to credit facilities	-	-	0%
Transaction costs	24	-	100%
Per boe (\$)	0.07	-	100%

The Company's transaction costs for the three months ended March 31, 2025, was \$24 thousand as compared to \$nil in the comparable period of 2024 which were related to deal flow in the period.

Finance Expense

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Accretion of decommissioning liabilities	231	258	(10)%
Interest expense	255	131	95%
Interest on lease obligations	10	14	(29)%
Finance expense	496	403	23%
Per boe (\$)	1.35	1.15	17%

The Company's finance expense for the three months ended March 31, 2025 was \$0.5 million, compared to finance expense of \$0.4 million in the comparable period of 2024. The increase in finance expense is primarily due to the interest expense associated with higher debt borrowings, offset by lower accretion of decommissioning liabilities primarily due to the Southwest Saskatchewan disposition on December 31, 2024.

Taxes

The following table outlines the Company's estimated tax pools as at March 31, 2025:

(\$ in thousands)	March 31, 2025	Annual Deductibility
Undepreciated capital cost	5,718	Primarily 25% declining balance
Canadian development expense	82,432	30% declining balance
Canadian development expense - successored	4,311	30% declining balance
Canadian oil and gas property expense	12,621	10% declining balance
Canadian oil and gas property expense - successored	11,230	10% declining balance
Non-capital loss carry forward	64,286	100%
Share & debt issue costs	3,932	20% straight line
Total	184,530	

(\$ in thousands)	Three months ended March 31,		
	2025	2024	% change
Deferred income tax expense	705	5	14000%

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For the three months ended March 31, 2025, the Company recognized a deferred income tax expense of \$0.7 million, compared to a \$5 thousand deferred income tax expense in the comparable period. The deferred income tax expense recorded in the current period relates to net income before income taxes being recognized.

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

(\$ in thousands, except per share)	Three months ended		
	2025	March 31, 2024	% change
Cash flow from operating activities	12,656	4,105	208%
Adjusted funds flow from operations⁽¹⁾	12,512	9,591	30%
Net income (loss)	2,373	(1,414)	268%
Per share - basic	\$ 0.04	\$ (0.03)	233%
Per share - diluted	\$ 0.04	\$ (0.03)	233%

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

The Company recorded net income of \$2.4 million (\$0.04 per basic and diluted share) for the three months ended March 31, 2025, compared to a net loss of \$1.4 million (\$(0.03) per basic and diluted share) in the comparable period of 2024. The increase in net income for the three months ended March 31, 2025 compared to the same period in 2024 is primarily the result of higher petroleum and natural gas revenues, net of blending and lower net operating expenses and transportation expenses, partially offset by higher depletion and depreciation expense. In addition, the Company recorded an unrecognized loss on financial instruments of \$0.7 million in Q1 of 2025, compared to \$2.4 million in the comparable period.

Cash flow from operating activities for the three months ended March 31, 2025 increased by 208% as compared to the same period in 2024. The fluctuations 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 ended March 31, 2025 increased 30% as compared to the same period in 2024. This was primarily due to an increase in petroleum and natural gas revenues, net of blending combined with lower net operating expenses and transportation expenses.

Capital Expenditures

(\$ in thousands)	Three months ended		
	2025	March 31, 2024	% change
Land and geological and geophysical	679	320	112%
Drilling and completions	18,338	16,084	14%
Equipping and facilities	3,193	2,300	39%
Other	712	746	(5)%
Capital expenditures⁽¹⁾	22,922	19,450	18%

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

During the three months ended March 31, 2024, the Company invested a total of \$22.9 million on exploration and development capital expenditures. Expenditures on exploration and development included \$0.7 million on lease acquisitions and seismic, \$18.3 million on drilling and completions, \$3.2 million on equipping and facilities and \$0.7 million on other costs.

The Company's Q1 2025 capital program included the drilling and completion of 8.0 multi-lateral wells (7.9 net wells) and bringing on stream 7.0 wells (6.9 net wells). The Company continued to invest in facility infrastructure on newly drilled wells and gas handling infrastructure.

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

	2025		Three months ended March 31, 2024	
	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net
Crude oil	8.0	7.9	6.0	6.0
Disposal	-	-	1.0	1.0
Total	8.0	7.9	7.0	7.0
Success rate	100%	100%	100%	100%

⁽¹⁾ Of the 8.0 (7.9 net) crude oil wells drilled during the three months ended March 31, 2025, 7.0 (6.9 gross) were brought on production in Q1 2025.

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 March 31, 2025 and December 31, 2024:

	March 31, 2025		December 31, 2024	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	53,237,528	\$ 224,642	53,081,147	\$ 224,292
Shares issued - warrant exercise	-	-	156,381	350
Balance, end of period	53,237,528	\$ 224,642	53,237,528	\$ 224,642

As at May 29, 2025, the Company had the following securities outstanding:

(in thousands)	As at May 29, 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 March 31, 2025, the Company had 5,549,869 warrants outstanding and exercisable (December 31, 2024 – 5,549,869). 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 months ended March 31, 2025, in computing the diluted net income per share, the effect of 5,549,869 warrants were included (March 31, 2024 – 5,706,250 warrants were excluded as their effect was anti-dilutive) and 3,784,475 (March 31, 2024 – 3,753,750) stock options were excluded from the calculation as their effect was anti-dilutive.

Liquidity and Capital Resources

As at March 31, 2025, the Company's capital structure is comprised of net debt of \$25.5 million and shareholders' equity of \$190.2 million. Lycos' net debt fluctuated from a net debt of \$17.9 million at December 31, 2024, to \$25.5 million as at March 31, 2025, primarily due to the Company's exploration and development

MANAGEMENT'S DISCUSSION AND ANALYSIS

expenditures program, partially offset by the adjusted funds flow generated in the period and the impact of the asset held for sale at March 31, 2025.

The Company expects to have adequate liquidity to execute on its short-term and longer-term growth strategy through a combination of cash provided by operating activities and its \$50.0 million credit facility. Alternatively, the Company may issue equity as consideration to complete any future acquisitions and undertake its exploration and development activities. Lycos maintains the flexibility to adjust its capital spending to manage working capital requirements.

Credit Facility

As at March 31, 2025, 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 March 31, 2025, the Company had an interest rate of prime plus 1.5% 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 March 31, 2025, 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.

As at March 31, 2025, the Company had two well commitments in the Greater Lloydminster area to be drilled by September 30, 2025 and December 31, 2025.

Subsequent to March 31, 2025, the Company acquired certain lands in the Greater Lloydminster area for a net purchase price of \$20 thousand, which resulted in the extension of the existing September 30, 2025 well commitment by twelve months to September 30, 2026 and two additional well commitments to be drilled by November 1, 2026 and a 6% gross overriding royalty for all wells drilled on the lands acquired.

Future minimum payments relating to variable office rent payments, which are a non-lease component of the Company's head office sublease, as at March 31, 2025 are as follows:

	March 31, 2025
Less than 1 year	\$ 505
1-2 years	-
Total commitments	\$ 505

Outlook

Due to the current low and volatile commodity price environment and global economic uncertainty, Lycos has terminated its previously announced strategic review process and temporarily suspend its capital expenditures program until September 2025. The Company believes current market conditions are not conducive to a transaction beneficial to shareholders and remains focused on maintaining a conservative balance sheet, financial discipline and operational stability. Lycos will continue to monitor commodity prices and maintain optionality to accelerate the resumption of budgeted capital expenditures as the year and commodity price environment develop. Anticipated Q2 2025 production is approximately 4,000 boe/d (98% crude oil) and estimated total capital expenditures to date are \$28 million. For the balance of 2025 we anticipate capital expenditures to be in the range of \$7 million to \$15 million under current pricing conditions.

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Quarterly Results

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

	2025			2024			2023	
(\$ in thousands, except share data)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Total petroleum and natural gas sales, net of blending ⁽¹⁾	26,842	30,196	33,986	35,649	23,892	24,748	24,087	17,475
Cash flow from operating activities	12,656	12,898	19,764	14,024	4,105	14,235	7,534	9,022
Adjusted funds flow from operations ⁽¹⁾	12,512	14,421	17,005	18,027	9,591	11,382	10,826	7,004
Net income (loss)	2,373	(13,442)	3,706	10,245	(1,414)	1,172	1,699	36
Per share - basic	\$ 0.04	\$ (0.25)	\$ 0.07	\$ 0.19	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00
Per share - diluted	\$ 0.04	\$ (0.25)	\$ 0.07	\$ 0.19	\$ (0.03)	\$ 0.02	\$ 0.04	\$ 0.00
Adjusted working capital (net debt) ⁽¹⁾	(25,498)	(17,896)	(31,727)	(30,592)	(27,148)	(17,057)	(29,015)	(10,319)
Capital expenditures ⁽¹⁾	22,922	(1,235)	17,281	21,258	19,450	31,474	26,990	11,909
Weighted average shares outstanding (thousands)								
Basic	53,238	53,238	53,215	53,104	53,081	50,876	39,976	39,769
Diluted	53,532	53,238	54,818	55,118	53,081	53,055	42,143	41,903
Shares outstanding, end of period (thousands)								
Basic	53,238	53,238	53,238	53,126	53,081	53,081	40,404	39,769
Diluted	53,532	53,238	54,841	55,139	53,081	55,260	42,571	41,903
Operational								
Average daily production								
Crude oil (bbls/d)	3,940	4,421	4,728	4,614	3,804	4,081	3,017	2,890
Natural gas (mcf/d)	793	893	651	209	218	238	155	110
Total (boe/d)	4,072	4,570	4,836	4,648	3,840	4,121	3,043	2,908

⁽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 Q4 2024 from 3,840 boe/d in Q1 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.

In Q1 2025 the Company executed an exploration and development program targeted at proving up the Company's lands and adding future drilling inventory. The Company incurred \$22.9 million of capital expenditures in the period to drill 7.9 net producing wells and to spud 1.0 net well that was rig released and brought on stream in Q2 2025.

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	
	March 31,	
	2025	2024
Cash flow from operating activities	12,656	4,105
Change in non-cash working capital	(339)	5,208
Funds flow from operations	12,317	9,313
Decommissioning expenditures	171	278
Transaction costs	24	-
Adjusted funds flow from operations	12,512	9,591
Per boe (\$)	34.14	27.45

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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)	March 31, 2025	December 31, 2024
Working capital	(27,545)	(19,207)
Current portion of decommissioning liabilities	1,400	1,400
Financial derivative (asset) liability	647	(89)
Adjusted working capital (net debt)	(25,498)	(17,896)

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.

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 March 31,	
	2025	2024
Crude oil	30,008	30,313
Less: blending expense	3,284	6,496
Crude oil, net of blending	26,724	23,817
Natural gas	88	41
Total petroleum and natural gas revenues, net of blending	26,812	23,858

Total Petroleum and Natural Gas Sales, Net of Blending

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs in the MD&A.

Operating netback

Operating netback is total petroleum and natural gas revenues, net of blending, less royalties, less net operating expenses and transportation expenses, excluding the effects of financial derivatives. These metrics can also be calculated on a per boe basis, which results in them being considered a non-IFRS financial ratio. Management considers operating netback an important measure to evaluate Lycos' operational performance, as it demonstrates field level profitability relative to current commodity prices. Operating netback, including financial derivatives is defined as operating netback plus realized gains or losses on financial derivatives.

Capital Expenditures

Management uses the term "capital expenditures" as a measure of capital investment in exploration and production activity, as well as property acquisitions and dispositions, as such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable IFRS measure for total capital expenditures is cash flow used in investing activities. Capital expenditures represents capital expenditures – exploration and evaluation, capital expenditures – property, plant and equipment, acquisition through business combination and proceeds on disposition in the Interim Financial Statements.

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

(\$ in thousands)	Three months ended March 31,	
	2025	2024
Net cash used in investing activities	11,947	17,767
Change in non-cash working capital	10,975	1,683
Capital expenditures	22,922	19,450

Advisories

Unless otherwise indicated, all production information presented herein is 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' Interim 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.

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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.

Short Term Results

References in this MD&A to peak rates, production rates since inception, current production rates, IP30, IP60 and other short-term production rates are useful in confirming the presence of hydrocarbons. However, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. While encouraging, these results are considered preliminary, and readers are cautioned not to place reliance on such rates in calculating the aggregate production of Lycos.

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", "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) 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) the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and the effects thereof; (x) ability of the Company to achieve drilling success consistent with Management's expectations; (xi) the suspension of the Company's capital program and drilling plans until September 2025; (xii) the Company's outlook and operational results for the remainder of 2025; and (xiii) the timing and expected production recently spud / drilled wells. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 material adverse effect on the Canadian, U.S. and global economies, and by extension the Canadian oil and natural gas industry and 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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) and the risk of an extended period of low oil and natural gas prices; 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).

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.

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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

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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