Condensed Interim Financial Statements

For the three and six months ended
June 30, 2025
(unaudited)

Lycos Energy Inc.

Condensed Interim Statements of Financial Position

(unaudited)

(in thousands)

	Notes		June 30, 2025		December 31, 2024
Assets					
Current assets					
Accounts receivable	13	**$**	**13,968**	$	11,439
Financial derivatives	13		**42**		89
Prepaid expenses and deposits			**1,692**		2,900
Total current assets			**15,702**		14,428
Other long-term asset	6		**-**		1,000
Exploration and evaluation assets	4		**8,586**		14,231
Property, plant and equipment	5		**162,820**		226,319
Total assets		**$**	**187,108**	$	255,978
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities	13	**$**	**11,239**	$	16,906
Current portion of lease obligations			**176**		235
Current portion of decommissioning liabilities	7		**900**		1,400
Bank debt	14		**23,698**		15,094
Total current liabilities			**36,013**		33,635
Lease obligations			**29**		85
Decommissioning liabilities	7		**15,083**		26,431
Deferred income tax			**-**		8,444
Total liabilities			**51,125**		68,595
Shareholders' equity					
Share capital	8		**224,642**		224,642
Contributed surplus			**15,351**		14,512
Deficit			**(104,010)**		(51,771)
Total shareholders' equity			**135,983**		187,383
Total liabilities and shareholders' equity		**$**	**187,108**	$	255,978

Commitments (note 15)

See accompanying notes to the unaudited condensed interim financial statements.

Lycos Energy Inc.

Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(unaudited)
(in thousands, except per share data)

	Notes	Three Months Ended June 30, **2025**	2024	Six Months Ended June 30, **2025**	2024
Revenue					
Petroleum and natural gas sales	10	**$ 23,146**	$ 44,596	**$ 53,272**	$ 74,984
Royalties		**(3,896)**	(4,876)	**(7,612)**	(8,582)
Petroleum and natural gas sales, net of royalties		**19,250**	39,720	**45,660**	66,402
Other income		**10**	7	**10**	47
Realized loss on financial derivatives	13	**(373)**	(729)	**(396)**	(381)
Unrealized gain (loss) on financial derivatives	13	**689**	1,710	**(47)**	(737)
Total revenue and other income		**19,576**	40,708	**45,227**	65,331
Expenses					
Operating		**6,789**	9,604	**15,232**	18,542
Blending		**-**	8,947	**3,285**	15,443
Transportation		**905**	647	**1,482**	1,238
General and administrative		**1,239**	1,248	**2,554**	2,571
Stock-based compensation	9	**239**	536	**522**	1,205
Transaction costs		**1,048**	133	**1,072**	133
Finance expense	11	**560**	834	**1,056**	1,237
Depletion and depreciation	5	**8,161**	9,656	**16,311**	17,268
Loss on dispositions	6	**41,196**	-	**41,196**	-
Impairment expense	5	**23,200**	-	**23,200**	-
Total expenses		**83,337**	**31,605**	**105,910**	**57,637**
Net income (loss) before income taxes		**$(63,761)**	$ 9,103	**$(60,683)**	$ 7,694
Deferred income tax recovery		**(9,149)**	(1,142)	**(8,444)**	(1,137)
Net income (loss) and comprehensive income (loss)		**$(54,612)**	$ 10,245	**$(52,239)**	$ 8,831
Net income (loss) per share					
Basic	8	**$ (1.03)**	$ 0.19	**$ (0.98)**	$ 0.17
Diluted	8	**$ (1.03)**	$ 0.19	**$ (0.98)**	$ 0.16

See accompanying notes to the unaudited condensed interim financial statements.

Lycos Energy Inc.

Condensed Interim Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands, except share amounts)

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2023		53,081,147	$ 224,292	$ 10,747	$ (50,866)	$ 184,173
Stock-based compensation		-	-	2,044	-	2,044
Net income		-	-	-	8,831	8,831
Exercise of warrants		44,643.00	100	-	-	100
Balance, June 30, 2024		**53,125,790**	**$ 224,392**	**$ 12,791**	**$ (42,035)**	**$ 195,148**
Balance, December 31, 2024		53,237,528	$ 224,642	$ 14,512	$ (51,771)	$ 187,383
Stock-based compensation	9	-	-	839	-	839
Net loss		-	-	-	(52,239)	(52,239)
Balance, June 30, 2025		**53,237,528**	**$ 224,642**	**$ 15,351**	**$ (104,010)**	**$ 135,983**

See accompanying notes to the unaudited condensed interim financial statements.

Lycos Energy Inc.

Condensed Interim Statements of Cash Flows

(unaudited)

(in thousands)

	Notes	Three Months Ended June 30, **2025**	2024	Six Months Ended June 30, **2025**	2024
Operating Activities					
Net income (loss)		**$(54,612)**	$ 10,245	**$(52,239)**	$ 8,831
Adjustments for:		**-**	-		
Unrealized (gain) loss on financial derivatives	13	**(689)**	(1,710)	**47**	737
Finance expense	11	**560**	834	**1,056**	1,237
Interest expense paid	11	**(326)**	(525)	**(581)**	(656)
Depletion and depreciation	5	**8,161**	9,656	**16,311**	17,268
Stock-based compensation	9	**239**	536	**522**	1,205
Deferred income tax recovery		**(9,149)**	(1,142)	**(8,444)**	(1,137)
Loss on dispositions	6	**41,196**	-	**41,196**	-
Impairment expense	5	**23,200**	-	**23,200**	-
Decommissioning expenditures	7	**(173)**	(79)	**(344)**	(357)
Change in non-cash operating working capital	12	**(11)**	(3,791)	**328**	(8,999)
Cash flow from operating activities		**8,396**	14,024	**21,052**	18,129
Financing Activities					
Payments on lease obligations		**(66)**	(61)	**(133)**	(119)
Proceeds from exercise of warrants		**-**	100	**-**	100
Change in bank debt	14	**9,246**	3,458	**8,604**	13,356
Cash flow from financing activities		**9,180**	3,497	**8,471**	13,337
Investing Activities					
Capital expenditures - exploration and evaluation	4	**(2,419)**	(316)	**(18,580)**	(5,537)
Capital expenditures - property, plant and equipment	5	**(2,932)**	(20,942)	**(9,693)**	(35,171)
Proceeds from dispositions	6	**5,066**	-	**5,066**	-
Change in non-cash investing working capital	12	**(17,291)**	3,737	**(6,316)**	5,420
Cash flow used in investing activities		**(17,576)**	(17,521)	**(29,523)**	(35,288)
Change in cash		**-**	-	**-**	(3,822)
Cash, beginning of period		**-**	-	**-**	3,822
Cash, end of period		**$ -**	$ -	**$ -**	$ -

See accompanying notes to the unaudited condensed interim financial statements.

1. Corporate information

Lycos Energy Inc. ("Lycos" or the "Company") is a Canadian resource company engaged in the exploration for and development of petroleum and natural gas production in western Canada. The unaudited condensed interim financial statements (the "financial statements") of the Company are comprised solely of the accounts of Lycos for the periods ended June 30, 2025 and June 30, 2024.

Lycos is a public company existing under the Alberta Business Corporations Act with common shares listed on the TSX Venture Exchange ("TSXV") under the symbol "LCX".

Lycos principal place of business is located at 1900, 215 – 2nd Street S.W., Calgary, Alberta and its registered office is located at 4200 Bankers Hall West, 888-3rd Street S.W. Calgary, Alberta.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2024.

These financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2024.

The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2024.

These financial statements were authorized for issue by the Board of Directors on August 25, 2025.

3. Material accounting policies

These financial statements have been prepared following the same accounting policies as the most recent audited annual financial statements. The unaudited condensed interim financial statements note disclosures do not include all of those required by IFRS Accounting Standards applicable for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2024, except as noted below.

Cash-Generating Unit ("CGU") Composition

In Q1 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 Lloydminster CGU from January 1, 2025.

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 related to the CGU consolidation process.

4. Exploration and evaluation assets

Exploration and evaluation assets ("E&E assets") consist of the Company's undeveloped land and exploration projects which are pending the determination of proved and probable petroleum and natural gas reserves. Additions represent the Company's share of the cost of E&E assets.

The following table reconciles the movements of the Company's E&E assets for the periods:

	Notes		**June 30, 2025**		December 31, 2024
Balance, beginning of period		**$**	**14,231**	$	24,777
Additions			**18,580**		24,754
Dispositions	6		**(43)**		(4,053)
Transfers to PP&E	5		**(24,182)**		(31,247)
Balance, end of period		**$**	**8,586**	$	14,231

Exploration and evaluation additions for the six months ended June 30, 2025, included approximately $18.0 million of drilling and completion costs and $0.6 million of land and geological costs in the Lloydminster, Alberta area.

Indicators of Impairment

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

At June 30, 2025 the Company transferred land, geological costs and drilling and completion costs to Property, Plant & Equipment ("PP&E") at a value of $24.2 million (Q1 2025 - $13.6 million, Q2 2025 - $10.6 million). As a result of the transfers, impairment tests were performed on transfers to PP&E. There were no impairments recorded to E&E as a result of transfers as at June 30, 2025.

5. Property, plant and equipment

The following table reconciles the movements of the Company's property, plant & equipment ("PP&E") assets for the periods:

Cost	Notes		**Total property, plant and equipment**
Balance, December 31, 2023		$	300,907
Additions[(1)]			46,357
Changes in right-of-use assets			90
Transfer from E&E assets			31,247
Dispositions			(97,279)
Changes in decommissioning liabilities			157
Capitalized stock-based compensation			1,553
Balance, December 31, 2024		$	283,032
Additions[(1)]			9,693
Transfer from E&E assets	4		24,182
Changes in decommissioning liabilities	7		(216)
Capitalized stock-based compensation	9		317
Dispositions[(2)]	6		(70,862)
Balance, June 30, 2025		**$**	**246,146**

Accumulated depletion, depreciation and impairment			
Balance, December 31, 2023		$	78,625
Depletion and depreciation			37,383
Dispositions			(59,295)
Balance, December 31, 2024		$	56,713
Depletion and depreciation			16,311
Impairment			23,200
Dispositions[2]	6		(12,898)
Balance, June 30, 2025		**$**	**83,326**
Net carrying value:			
December 31, 2024		$	226,319
June 30, 2025		**$**	**162,820**

(1) Includes capitalized general and administrative expenses of $1.2 million (December 31, 2024 - $2.9 million).
(2) Includes the Lloydminster, Alberta and the Lloydminster, Saskatchewan dispositions (note 6)

As at June 30, 2025, estimated future development costs of $124.1 million (December 31, 2024 - $129.0 million) associated with the development of the Company's proved and probable petroleum and natural gas reserves were added to the Company's carrying value in the depletion calculation.

Indicators of Impairment

The Company identified indicators of impairment at June 30, 2025 for its Lloydminster CGU. In accordance with IAS 36, the Company performed an impairment test to estimate its recoverable amount where it was determined that the carrying value of the CGU exceeded its recoverable amount, and an impairment loss of $23.2 million was recognized during the period. The indicators of impairment existed as a result of the decrease in the Company's market capitalization, along with the loss recorded on the Lloydminster Saskatchewan disposition contained within the CGU.

The recoverable amount of the CGU was estimated using value-in-use, based on the net present value of before tax cash flows from proved and probable petroleum and natural gas reserves estimated by the Company's internal reserve engineers at rate of 17 percent.

The following table outlines forecasted commodity prices and exchange rates used in the Company's impairment test as at June 30, 2025. The forecasted commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing recoverable amount. The internal reserve evaluators also included financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which is assigned based on historical rates and future anticipated activities by management.

Year	WTI Price - Oil (US$/bbl) [1]	WCS Price - Oil ($/bbl)	AECO Price - Gas ($/MMBtu) [1]	Exchange Rate ($Cdn/$US)
2025	64.00	71.53	2.43	0.72
2026	68.00	76.55	3.42	0.73
2027	68.00	74.00	3.28	0.75
2028	69.36	75.48	3.35	0.75
2029	70.75	76.99	3.41	0.75
2030	72.16	78.53	3.48	0.75
2031	73.61	80.10	3.55	0.75
2032	75.08	81.70	3.62	0.75
2033	76.58	83.34	3.69	0.75
2034	78.11	85.00	3.77	0.75
2035	79.67	86.70	3.84	0.75
Escalation rate of 2% per year thereafter				

(1) The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment test.

6. Dispositions

Frog Lake, Alberta

On February 28, 2025, the Company executed a purchase and sale agreement to dispose of certain non-core assets in the Frog Lake area subject to customary post-close conditions, for total cash consideration of $2.9 million, net of transaction costs of $0.1 million and subject to final closing adjustments. The assets had a net book value of $3.5 million and associated decommissioning liabilities of $0.7 million, resulting in a gain on disposal of $50 thousand. The assets were previously classified as held for sale at March 31, 2025.

Lloydminster, Saskatchewan

On June 30, 2025, the Company closed the disposition of the remaining non-core assets in Lloydminster, Saskatchewan to an arm's length purchaser for total consideration of $2.2 million, net of transaction costs of $0.3 million and subject to final closing adjustments. The assets disposed of had a net book value of $54.4 million, E&E lands of $43 thousand and associated decommissioning liabilities of $11.0 million, resulting in a loss on disposal of $41.2 million. In conjunction with this transaction, Lycos settled the processing credit that was recorded in prepaid expenses and deposits and other long-term asset. Collection of the proceeds of disposition and processing credit receivable will occur through four equal quarterly installments, plus accrued interest. All amounts are expected to be collected by March 31, 2026.

7. Decommissioning liabilities

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. The Company estimates the total future inflated and undiscounted amount of estimated cash flows required to settle its decommissioning liabilities as at June 30, 2025, is approximately $28.7 million (December 31, 2024 - $44.8 million). These payments are expected to be made over the next 40 years. A risk-free rate of 3.6% (December 31, 2024 – 3.3%) and an inflation rate of 1.9% (December 31, 2024 – 1.8%) was used to calculate the decommissioning liabilities.

The following table reconciles the movements of the Company's decommissioning liability for the periods:

	Notes		**June 30, 2025**		December 31, 2024
Balance, beginning of period		**$**	**27,831**	$	34,148
Change in estimates[(1)]	5		**(642)**		(1,504)
Additions	5		**426**		2,209
Dispositions	6		**(11,745)**		(6,745)
Decommissioning expenditures			**(344)**		(1,358)
Accretion	10		**457**		1,081
Balance, end of period		**$**	**15,983**	$	27,831
Expected to be incurred within one year		**$**	**900**	$	1,400
Expected to be incurred beyond one year		**$**	**15,083**	$	26,431

(1) The change in estimates in 2025 is primarily due to changes in timing, discount rates and inflation rates.

8. Share capital

(a) Authorized

The Company's authorized share capital consists of an unlimited number of common voting shares and an unlimited number of preferred shares, issuable in series.

(b) Issued and outstanding

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

	June 30, 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
Exercise of warrants	**-**	**-**	156,381	350
Balance, end of period	**53,237,528**	**224,642**	53,237,528	224,642

(c) Per share amounts

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2025	2024	**2025**	2024
Weighted average shares outstanding - basic	**53,237,528**	53,104,204	**53,237,528**	53,092,676
Effect of dilutive warrants	**-**	2,013,423	**-**	1,894,365
Weighted average shares outstanding - diluted	**53,237,528**	55,117,627	**53,237,528**	54,987,041

The Company uses the treasury stock method to determine the impact of dilutive securities. As the Company recorded a net loss for the three and six months ended June 30, 2025, in computing the diluted net loss per share, the effect of 5,549,869 warrants were excluded as their effect was anti-dilutive (June 30, 2024 – 5,661,607 warrants were included) and 3,618,850 (June 30, 2024 – 3,746,125) stock options (note 9) were excluded from the calculation as their effect was anti-dilutive.

Warrants

On December 12, 2022, the Company issued 5,706,250 warrants in connection with the reverse takeover transaction which were recorded in share capital. As at June 30, 2025 the Company had 5,549,869 warrants outstanding and exercisable (December 31, 2024 – 5,549,869).

The following table summarizes the Company's issued, outstanding, and exercisable warrants for the period:

	Warrants outstanding			**Warrants exercisable**		
	Number outstanding	Weighted average exercise price	Weighted average life remaining (periods)	Number outstanding	Weighted average exercise price	Weighted average life remaining (periods)
Balance, end of period	**5,549,869**	**$ 2.24**	**2.5**	**5,549,869**	**$ 2.24**	**2.5**

9. Stock-based compensation

The Company has a stock option plan in place pursuant to which the Company may grant options to eligible participants 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.

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

	June 30, 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	**(266,875)**	**$ 3.49**	(74,750)	$ 2.71
Options outstanding, end of period	**3,618,850**	**$ 4.06**	3,885,725	$ 4.02

The range of exercise price of stock options outstanding as at June 30, 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
$ 3.19 - $ 4.40	**3,618,850**	**2.96**	**$ 4.06**	**1,816,625**	**$ 4.18**

During the three and six months ended June 30, 2025, the Company recorded gross stock-based compensation expense of $0.3 million and $0.8 million, respectively (three and six months ended June 30, 2024 - $0.9 million and $2.0 million), and capitalized stock-based compensation expense of $0.1 million and $0.3 million, respectively (three and six months ended June 30, 2023 - of $0.4 million and $0.8 million) for stock options granted.

10. Revenue

The Company sells its production pursuant to fixed or variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, condensate, natural gas or natural gas liquids to the customer. Revenue is recognized when a unit of production is delivered to the customer.

The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Petroleum and natural gas are sold under contracts of varying terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's petroleum and natural gas sales, all of which are from revenue with contracts with customers:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2025	2024	**2025**	2024
Crude oil	**$ 23,056**	$ 44,572	**$ 53,064**	$ 74,885
Natural gas	**109**	4	**197**	45
Petroleum and natural gas revenue	**23,165**	44,576	**53,261**	74,930
Processing income	**(19)**	20	**11**	54
Total petroleum and natural gas sales	**$ 23,146**	$ 44,596	**$ 53,272**	$ 74,984

Included in accounts receivable as at June 30, 2025, is $8.2 million (December 31, 2024 - $10.0 million) of accrued petroleum and natural gas sales related to June 2025 production.

11. Finance expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	**2025**	2024
Accretion on decommissioning liabilities	**$ 226**	$ 294	**$ 457**	$ 552
Interest expense	**326**	525	**581**	656
Interest on lease obligations	**8**	15	**18**	29
Finance expense	**$ 560**	$ 834	**$ 1,056**	$ 1,237

12. Supplementary cash flow information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	**2025**	2024
Accounts receivable	**$ (3,357)**	$ (3,407)	**$ (2,529)**	$ (9,108)
Prepaid expenses and deposits	**1,116**	(1,019)	**1,208**	(768)
Accounts payable and accrued liabilities	**(15,840)**	4,372	**(5,667)**	6,297
Other long-term asset	**779**	-	**1,000**	-
	$ (17,302)	$ (54)	**$ (5,988)**	$ (3,579)
Relating to:				
Operating activities	**$ (11)**	$ (3,791)	**$ 328**	$ (8,999)
Investing activities	**(17,291)**	3,737	**(6,316)**	5,420
	$ (17,302)	$ (54)	**$ (5,988)**	$ (3,579)

13. Financial instruments and risk management

The Company has exposure to credit and liquidity risks from its financial assets and liabilities and exposure to market risks relating to commodity prices, interest rates and foreign exchange rates. This note presents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Fair value of financial instruments

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based

on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The carrying value of cash, accounts receivable, deposits, other long term assets, bank debt, and accounts payable and accrued liabilities included in the Condensed Interim Statement of Financial Position approximate fair value due to the short-term nature of those instruments or the indexed rate of interest.

The fair value of financial derivatives is based on models that use published information with respect to volatility, prices, and interest rates. The fair value of financial derivatives is determined by discounting the difference between the contracted prices and published forward price curves as at the date of the statement of financial position, using the remaining contracted petroleum and natural gas volumes and a risk-free interest rate (based on published government rates). The Company's financial derivative asset/liability is considered Level 2 in the fair value hierarchy.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and United States dollar and also world economic events that dictate the levels of supply and demand. The Company may utilize both financial derivatives and physical delivery contracts to manage commodity price risks in accordance with the Company's expected sale requirements.

As at June 30, 2025, the Company had the following financial derivative commodity contracts:

Type	Type	Term	Volume	Contract Price
WCS Differential	Swap	July 1, 2025 to December 31, 2025	250 bbl/d	USD ($14.35)
WCS Differential	Swap	July 1, 2025 to September 30, 2025	500 bbl/d	CAD ($19.25)
WTI	Swap	July 1, 2025 to September 30, 2025	500 bbl/d	CAD $95.20
WTI	Swap	July 1, 2025 to July 31, 2025	250 bbl/d	CAD $98.65

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	**2025**	2024
Realized loss	**$ (373)**	$ (729)	**$ (396)**	$ (381)
Unrealized gain (loss)	**689**	1,710	**(47)**	(737)
Gain (loss) on financial derivatives	**$ 316**	$ 981	**$ (443)**	$ (1,118)

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

	June 30, 2025	December 31, 2024
Net financial derivative asset, beginning of period	**$ 89**	$ 759
Unrealized change in fair value	**(47)**	(670)
Net financial derivative asset, end of period	**$ 42**	$ 89

Market risk

Market risk is the risk that changes in market prices, such as commodity prices for petroleum and natural gas, foreign exchange rates and interest rates will affect the Company's valuation of financial instruments, the debt levels of the Company, as well as its income and cash flow from operations.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's returns. All such transactions are conducted in accordance with the Company's risk management policy that has been approved by the Board of Directors.

Interest rate risk

The Company is exposed to interest rate risk on cash balances and bank debt to the extent of changes in market interest rates. As at June 30, 2025, the Company had no interest rate swap or derivative contracts in place.

Foreign exchange risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. The Company is exposed to foreign exchange risk in relation to its crude oil sales. As at June 30, 2025, the Company had no foreign exchange swap or derivative contracts in place and mitigates the risk by entering into commodity contracts in Canadian dollars.

Credit risk

As at June 30, 2025, the Company's receivables consisted of $8.2 million due from petroleum and natural gas purchasers (December 31, 2024 - $10.0 million), $4.1 million due from dispositions (see note 6) (December 31, 2024 - $nil million) and $0.5 million due from joint venture partners and other receivables, and a processing credit receivable of $1.2 million (see note 6) (December 31, 2024 - $1.3 million). Receivables from purchasers of the Company's petroleum and natural gas are normally collected on the 25th day of the month following shipment. Joint venture receivables are typically collected within one to four months of the joint venture bill being issued to the partner. The majority of receivables have been collected subsequent to June 30, 2025 except for the amounts due from dispositions and processing credit receivable which are expected to be received quarterly over the next four periods as determined in the purchase and sale agreement (see note 6).

The carrying amount of accounts receivable, financial derivative asset and deposits represents the maximum credit exposure. The Company has calculated the expected credit losses using the simplified approach and no loss provision was recorded for the periods ended June 30, 2025, or December 31, 2024.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity risk through cash and debt management strategies to mitigate the likelihood of encountering difficulties in meeting its financial obligations. The Company's strategy is designed to maintain a flexible capital structure and to respond to changes in economic conditions and the risk characteristics of the underlying crude oil assets.

The following are the contractual maturities of financial obligations and associated interest payments as at June 30, 2025:

	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	$ 11,239	$ -	$ 11,239
Bank debt	$ 23,698	$ -	$ 23,698
Lease obligations	$ 176	$ 29	$ 205

Capital management

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including changes in economic conditions and resulting changes in capital markets, the current and forecasted net debt levels, the forecasted commodity prices and resulting cash flow from operations and adjusted funds flow from operations, adjusted working capital (net debt), and capital expenditures.

The Company prepares annual capital expenditure budgets and longer-term plans, which are continually monitored and updated as necessary depending on varying factors including current and forecast commodity prices, earning and expiry commitments, weather and access restrictions, and project investment risk return profile. The annual and updated budgets are approved by the Board of Directors. The Company will adjust its capital structure through the issuance of shares and make adjustments to capital spending to balance the capital structure.

Adjusted funds flow from operations, adjusted working capital (net debt), and total capital expenditures are not standardized measures and therefore may not be comparable with the calculation of similar measures of other entities.

i) Adjusted funds flow from operations

Management considers adjusted funds flow from operations to be a key measure to assess the performance of the Company's petroleum and natural gas properties and the Company's ability to fund future capital investment. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of costs.

Changes in non-cash working capital, decommissioning costs incurred, and transaction costs vary from period to period and Management believes that excluding the impact of these provides a useful measure of Lycos' ability to generate the funds necessary to manage the capital needs of the Company.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	**2025**	2024
Cash flow from operating activities	**$ 8,396**	$ 14,024	**$ 21,052**	$ 18,129
Change in non-cash working capital	**11**	3,791	**(328)**	8,999
Funds flow from operations	**8,407**	17,815	**20,724**	27,128
Decommissioning expenditures	**173**	79	**344**	357
Transaction costs	**1,048**	133	**1,072**	133
Adjusted funds flow from operations	**$ 9,628**	$ 18,027	**$ 22,140**	$ 27,618

ii) Adjusted working capital (net debt)

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

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 (note 14). 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.

		June 30, 2025		December 31, 2024
Working capital	**$**	**(20,311)**	$	(19,207)
Current portion of decommissioning liabilities		**900**		1,400
Financial derivative (asset)		**(42)**		(89)
Adjusted working capital (net debt)	**$**	**(19,453)**	$	(17,896)

iii) Capital expenditures

Management considers capital expenditures to be a key measure to assess the Company's capital investment in exploration and production activity, as well as property acquisitions and dispositions.

	Three Months Ended June 30,				**Six Months Ended June 30,**			
		2025		2024		**2025**		2024
Net cash used in investing activities	**$**	**17,576**	$	17,521	**$**	**29,523**	$	35,288
Change in non-cash working capital		**(17,291)**		3,737		**(6,316)**		5,420
Capital expenditures	**$**	**285**	$	21,258	**$**	**23,207**	$	40,708

14. Bank debt

As at June 30, 2025, the Company had an uncommitted demand revolving credit facility with the National Bank of Canada ("the Lender") for up to $50 million, of which $35.0 million is immediately available for general corporate purposes and an additional $15.0 million is available at the discretion of the Lender. A semi-annual borrowing base review is scheduled to occur on or before May 31 and November 30 of each year.

As at June 30, 2025, the Company had $23.7 million (December 31, 2024 - $15.1 million) drawn on the facility.

Interest rates vary depending on the ratio of Net Debt to Cash Flow (as defined in the lending agreement). At June 30, 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 June 30, 2025, the Company was compliant with all covenants.

15. Commitments

Future minimum payments relating to variable office rent payments, which are a non-lease component of the Company's head office sublease, as at June 30, 2025 are as follows:

		June 30, 2025
Less than 1 period	**$**	**321**
1-2 periods		**-**
Total commitments	**$**	**321**

The variable office rent payments will be recorded to general and administrative expenses in the period in which incurred.

As at June 30, 2025 the Company has four outstanding well commitments in the Greater Lloydminster/Cold Lake area, one to be drilled by December 31, 2025, one to be drilled by September 30, 2026 and two additional well commitments to be drilled by November 1, 2026.