Annual Financial Statements

For the year ended
December 31, 2025

KPMG LLP
KPMG Tower
2200 - 240 4th Avenue SW
Calgary, AB T2P 4H4
Canada
Tel 403 691 8000
Fax 403 691 8008

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lycos Energy Inc.

Opinion

We have audited the financial statements of Lycos Energy Inc. ("the Company"), which comprise:

- the statements of financial position as at December 31, 2025 and December 31, 2024
- the statements of loss and comprehensive loss for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025 and December 31, 2024, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable petroleum and natural gas reserves on development and production assets included in property, plant and equipment ("PP&E")

Description of the matter

We draw attention to note 2, note 3 and note 5 to the financial statements. The Company uses estimated proved and probable petroleum and natural gas reserves to deplete its development and production assets included in PP&E, to assess for indicators of impairment or impairment reversal on the Company's cash-generating unit ("CGU"), and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU.

The Company has $104.6 million of development and production assets included in PP&E as at December 31, 2025.

The Company identified indicators of impairment as at June 30, 2025 for its CGU and performed an impairment test to estimate its recoverable amount. It was determined that the carrying value of the CGU exceeded its recoverable amount, resulting in $23.2 million impairment being recognized.

The estimated recoverable amount of the Company's CGU involves significant estimates including:

- The estimate of proved and probable petroleum and natural gas reserves
- The discount rate.

The Company depletes its net carrying value of development and production assets included within PP&E at the CGU level using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable petroleum and natural gas reserves before royalties, taking into account expenditures incurred to date together with estimated future development costs necessary to bring those reserves into production. Depletion expense on development and production assets was $26.7 million for the year ended December 31, 2025.

The estimate of proved and probable petroleum and natural gas reserves include significant estimates and assumptions related to:

- Forecasted petroleum and natural gas commodity prices
- Forecasted production volumes
- Forecasted operating costs

- Forecasted royalty costs
- Forecasted future development costs.

The Company engages an external independent qualified reserves evaluator to estimate the proved and probable petroleum and natural gas reserves and the related cash flows. For purposes of the June 30, 2025 impairment test, the Company's internal reserves evaluator updated the significant assumptions from the external independent qualified reserves evaluator's estimate of proved and probable petroleum and natural gas reserves and the related cash flows from December 31, 2024.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable petroleum and natural gas reserves on development and production assets included in PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable petroleum and natural gas reserves as well as the discount rate. Additionally, the assessment of the recoverable amount of a CGU requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved and probable petroleum and natural gas reserves and the related cash flows as at December 31, 2024 for the purposes of the June 30, 2025 impairment:

- We evaluated the competence, capabilities and objectivity of the external independent qualified reserves evaluator engaged by the Company
- We compared forecasted petroleum and natural gas commodity prices to those published by other external independent qualified reserves evaluators
- We evaluated the appropriateness of forecasted production volumes and forecasted operating costs, royalty costs and future development cost assumptions by comparing to 2024 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

With respect to the estimate of proved and probable petroleum and natural gas reserves and the related cash flows as at June 30, 2025 prepared for the purpose of the June 30, 2025 impairment:

- We evaluated the competence, capabilities and objectivity of the internal reserve evaluators
- We compared forecasted petroleum and natural gas commodity prices to those published by other external independent qualified reserves evaluators

- We evaluated the appropriateness of forecasted production volumes and forecasted operating costs, royalty costs and future development cost assumptions by comparing them to corresponding amounts in the proved and probable petroleum and natural gas reserves estimated by the external independent qualified reserves evaluators as at December 31, 2024 and December 31, 2025, and by comparing to 2025 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

With respect to the estimate of proved and probable petroleum and natural gas reserves and the related cash flows as at December 31, 2025 for the purposes of depletion and the June 30, 2025 impairment:

- We evaluated the competence, capabilities and objectivity of the external independent qualified reserves evaluator engaged by the Company
- We compared forecasted petroleum and natural gas commodity prices to those published by other external independent qualified reserves evaluators
- We compared the 2025 actual production volumes, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved petroleum and natural gas reserves to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development cost assumptions by comparing to 2025 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the CGU discount rate by comparing the discount rate to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of the CGU by comparing the Company's estimates to market metrics and other external data.

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Ernest Trevor Hammond.

Calgary, Canada

April 8, 2026

Lycos Energy Inc.

Statements of Financial Position

(in thousands)

	Notes	December 31, 2025	December 31, 2024
Assets			
Current assets			
Accounts receivable	16	**$ 6,473**	$ 11,439
Financial derivatives	16	**-**	89
Prepaid expenses and deposits		**1,346**	2,900
Total current assets		**7,819**	14,428
Other long-term asset		**-**	1,000
Exploration and evaluation assets	4	**-**	14,231
Property, plant and equipment	5	**105,837**	226,319
Total assets		**$ 113,656**	$ 255,978
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	16	**$ 5,444**	$ 16,906
Current portion of lease obligations	8	**325**	235
Current portion of decommissioning liabilities	7	**900**	1,400
Bank debt	17	**2,366**	15,094
Total current liabilities		**9,035**	33,635
Lease obligations	8	**934**	85
Decommissioning liabilities	7	**12,490**	26,431
Deferred income tax	14	**-**	8,444
Total liabilities		**22,459**	68,595
Shareholders' equity			
Share capital	9	**176,728**	224,642
Contributed surplus		**15,845**	14,512
Deficit		**(101,376)**	(51,771)
Total shareholders' equity		**91,197**	187,383
Total liabilities and shareholders' equity		**$ 113,656**	$ 255,978

Commitments (note 18)
Subsequent events (notes 16 & 19)

See accompanying notes to the financial statements.

Approved on behalf of the Board,

(signed) "Dave Burton"
Dave Burton, Director

(signed) "Steve Buytels"
Steve Buytels, CFA, Director

Lycos Energy Inc.

Statements of Loss and Comprehensive Loss

(in thousands, except per share data)

	Notes	For the year ended December 31, 2025	2024
Revenue			
Petroleum and natural gas sales	12	**$ 82,901**	$ 153,502
Royalties		**(12,273)**	(17,698)
Petroleum and natural gas sales, net of royalties		**70,628**	135,804
Other income		**176**	55
Realized loss on financial derivatives	16	**(254)**	(324)
Unrealized loss on financial derivatives	16	**(89)**	(670)
Total revenue and other income		**70,461**	134,865
Expenses			
Operating		**22,830**	37,675
Blending		**3,285**	29,780
Transportation		**2,928**	2,433
General and administrative		**4,636**	5,065
Stock-based compensation	10	**813**	2,212
Transaction		**1,259**	215
Finance	13	**1,831**	2,673
Depletion and depreciation	5	**26,895**	37,383
Loss on dispositions	6	**40,833**	22,181
Impairment	5	**23,200**	-
Total expenses		**128,510**	139,617
Net loss before income taxes		**$ (58,049)**	$ (4,752)
Deferred income tax recovery	14	**(8,444)**	(3,847)
Net loss and comprehensive loss		**$ (49,605)**	$ (905)
Net income loss per share			
Basic	9	**$ (0.93)**	$ (0.02)
Diluted	9	**$ (0.93)**	$ (0.02)

See accompanying notes to the financial statements.

Lycos Energy Inc.

Statements of Changes in Shareholders' Equity

(in thousands, except share amounts)

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, January 1, 2024		53,081,147	$ 224,292	$ 10,747	$ (50,866)	$ 184,173
Stock-based compensation		-	-	3,765	-	3,765
Exercise of warrants		156,381	350	-	-	350
Net loss		-	-	-	(905)	(905)
Balance, December 31, 2024		**53,237,528**	**$ 224,642**	**$ 14,512**	**$ (51,771)**	**$ 187,383**
Balance, January 1, 2025		53,237,528	$ 224,642	$ 14,512	$ (51,771)	$ 187,383
Stock-based compensation	10	-	-	1,333	-	1,333
Reduction of stated capital	9	-	(47,914)	-	-	(47,914)
Net loss		-	-	-	(49,605)	(49,605)
Balance, December 31, 2025		**53,237,528**	**$ 176,728**	**$ 15,845**	**$ (101,376)**	**$ 91,197**

See accompanying notes to the financial statements.

Lycos Energy Inc.

Statements of Cash Flows

(in thousands)

	Notes	For the year ended December 31, 2025	2024
Operating Activities			
Net loss		**$ (49,605)**	$ (905)
Adjustments for:			
Unrealized loss on financial derivatives	16	**89**	670
Finance	13	**1,831**	2,673
Interest paid	13	**(1,072)**	(1,538)
Depletion and depreciation	5	**26,895**	37,383
Stock-based compensation	10	**813**	2,212
Deferred income tax recovery	14	**(8,444)**	(3,847)
Loss on dispositions	6	**40,833**	22,181
Impairment	5	**23,200**	-
Decommissioning expenditures	7	**(1,109)**	(1,358)
Change in non-cash operating working capital	15	**3,349**	(6,680)
Cash flow from operating activities		**36,780**	50,791
Financing Activities			
Payments on lease obligations	8	**(290)**	(254)
Proceeds from exercise of warrants		**-**	350
Reduction of stated capital	9	**(47,914)**	-
Change in bank debt	17	**(12,728)**	15,094
Cash flow (used in) from financing activities		**(60,932)**	15,190
Investing Activities			
Capital expenditures - exploration and evaluation	4	**(18,580)**	(21,456)
Capital expenditures - property, plant and equipment	5	**(13,092)**	(46,357)
Proceeds from dispositions	6	**63,115**	11,059
Change in non-cash investing working capital	15	**(7,291)**	(13,049)
Cash flow from (used in) investing activities		**24,152**	(69,803)
Change in cash		**-**	(3,822)
Cash, beginning of year		**-**	3,822
Cash, end of year		**$ -**	$ -

See accompanying notes to the 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 financial statements of the Company are comprised solely of the accounts of Lycos for the years ended December 31, 2025 and December 31, 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 Centennial Place – East Tower, Suite 1010, 520 – 3 Ave S.W. Calgary, Alberta, T2P 0R3 and its registered office is located at 4200 Bankers Hall West, 888-3rd Street S.W. Calgary, Alberta, T2P 5C5.

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared using accounting policies consistent with IFRS as set forth in note 3.

The financial statements were authorized for issue by the Board of Directors on April 8, 2026.

Basis of measurement and functional and presentation currency

The financial statements have been prepared on a historical cost basis, except for certain financial and non-financial assets and liabilities which have been measured at fair value.

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of accounting estimates and judgements

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Evolving Demand for Energy

Emissions, carbon and other regulations impacting climate and climate related matters are dynamic and constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board ("ISSB") has issued an IFRS Sustainability Disclosure Standard, and the Canadian Securities Administrators ("CSA") have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters which sets forth additional reporting requirements for Canadian Public Companies. On April 23, 2025, the CSA announced it would be pausing its work on this instrument, noting it expects to revisit the project in the future. The cost to comply with any standards, should they be implemented or adopted, and others that may be developed or evolve over time, has not yet been quantified by the Company.

The Company has considered the impact of the evolving worldwide demand for carbon-based energy in its assessment of depletion of its petroleum and natural gas properties. Depletion of the Company's petroleum and natural gas properties was based on proved and probable reserves. The ultimate period in which global energy markets can transition from carbon-based sources to alternative energy is highly uncertain, however, the majority of the Company's proved and probable petroleum and natural gas reserves per the 2025 reserve report should be realized prior to the elimination of carbon-based energy. At this time, the Company has not capped its reserve life for purposes of calculating depletion expense, however, this estimate will be monitored as the energy evolution continues.

The Company engages an external independent qualified reserves evaluator to estimate proved and probable petroleum and natural gas reserves. The reserve report includes the estimated carbon charge related to the Company's operations based on current legislated rates.

Critical accounting judgments in applying accounting policies

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

(i) Identification of cash-generating units ("CGU")

The Company's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. The determination of these CGUs was based on management's judgment regarding shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. By their nature, these estimates and assumptions are subject to judgement and may impact the carrying value of the Company's assets in future periods.

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 East Central, Alberta CGU effective January 1, 2025.

The revised CGU structure reflects the manner in which the Company now generates independent cash inflows. 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.

(ii) Impairment and impairment reversals of petroleum and natural gas assets

Judgments are required to assess when internal or external indicators of impairment or impairment reversal exist and impairment testing is required. Management considers internal and external sources of information including forecasted petroleum and natural gas commodity prices, forecasted production volumes, estimated recoverable quantities of proved and probable petroleum and natural gas reserves and rates used to discount the related future cash flow estimates. Judgement is required to assess these factors when determining if the carrying amount of an asset or CGU is impaired, or in the case of a previously impaired asset or CGU, whether the carrying amount of the asset or CGU has been restored.

(iii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of proved and probable petroleum and natural gas reserves have been found in assessing economic and technical feasibility.

Key sources of estimation uncertainty

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in these financial statements.

(i) Reserves

The Company uses estimated proved and probable petroleum and natural gas reserves to deplete its development and production assets included in property, plant and equipment ("PP&E"), to assess for indicators of impairment or impairment reversal on the Company's CGU, and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU, to determine the abandonment date of decommissioning obligations, and in a business combination, to estimate the fair value of assets acquired and liabilities assumed. Accordingly, changes in circumstances may impact these estimates which could have a material financial impact in future periods.

The estimate of proved and probable petroleum and natural gas reserves include significant estimates and assumptions related to forecasted petroleum and natural gas commodity prices, forecasted production volumes, forecasted operating costs, forecasted royalty costs, and forecasted future development costs. It also requires interpretation of geological and geophysical models to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological, and technical factors used to estimate reserves may change from period to period. Changes in reported proved and probable petroleum and natural gas reserves can impact the carrying values of the Company's PP&E, the calculation of depletion, and the recognition of deferred tax assets (liabilities) due to changes in expected future cash flows. The estimate of proved and probable petroleum and natural gas reserves and the related cash flows from the Company's PP&E are estimated by external independent qualified reserves evaluators at least annually.

The Company's proved and probable petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such petroleum and natural gas reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all of the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Petroleum and natural gas reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. The Company's proved and probable petroleum and natural gas reserves are determined pursuant National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

(ii) Decommissioning obligations

The Company estimates future remediation costs of petroleum and natural gas assets including well sites, gathering systems and processing facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(iii) Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the Statements of Income (Loss) and Comprehensive Income (Loss) both in the period of change, which would include recognition of income tax assets, any impact on cumulative provisions, and in future periods.

3. Material accounting policies

a) Jointly owned assets

A portion of the Company's petroleum and natural gas activities involve jointly owned assets. The financial statements include the Company's share of these jointly owned assets and its proportionate share of the relevant revenue and related costs.

b) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired, or when the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported on the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial instruments are included in current assets and liabilities except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets and liabilities.

(i) Non-derivative financial assets

Cash is comprised of cash held with Canadian chartered banks on deposit and/or in highly liquid investments. Accounts receivable and deposits are non-derivative financial assets that have fixed or determinable payment terms and are recorded at amortized cost using the effective interest method less expected credit losses. The carrying values of these financial assets approximate fair values because of the short term to maturity.

The Company measures expected credit losses using a lifetime expected loss allowance for accounts receivable with expected lifetime losses recognized from initial recognition. Each period, the Company assesses the expected credit losses on a forward-looking basis.

(ii) Non-derivative financial liabilities

Accounts payable and accrued liabilities and bank debt are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers or repay borrowings from lenders. Initially they are measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method. The carrying values of these financial liabilities approximate fair values because of the short term to maturity.

(iii) Derivative financial instruments

The Company may enter into certain financial derivative contracts to manage the exposure to market risks from fluctuations in commodity prices, interest rates and the exchange rate between Canadian and United States dollars. These instruments will not be used for trading or speculative purposes.

All financial derivative contracts are classified at fair value through the Statements of Income (Loss) and Comprehensive Income (Loss) and are recorded on the Statements of Financial Position at fair value based on quoted market prices at each reporting date.

Physical delivery sales contracts, which are entered into and continue to be held for the purpose of receipt or delivery of non-financial items, are not considered to be derivative financial instruments and are not recorded at fair value on the Statements of Financial Position. Settlements on physical sales contracts will be recognized in petroleum and natural gas revenues.

(iv) Share capital

Proceeds from the issuance of common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any related income tax.

c) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation (“E&E”) expenditures:

Pre-license costs are recognized in earnings as incurred. E&E costs, including the costs of acquiring leases and licenses and directly attributable general and administrative costs, initially are capitalized as E&E assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

The Company assesses the recoverability of exploration and evaluation assets before reclassification to property, plant and equipment. E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to the related CGU. The technical feasibility and commercial viability of extracting a mineral resource is generally considered to be determinable when proved and/or probable petroleum and natural gas reserves are determined to exist.

A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable petroleum and natural gas reserves have been discovered. Upon determination of proved and/or probable petroleum and natural gas reserves, E&E assets attributable to those proved and probable petroleum and natural gas reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment. The cost of undeveloped land that expires is recognized in the Statements of Income (Loss) and Comprehensive Income (Loss).

E&E assets are not depleted.

Development and production costs:

Items of property, plant and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses and impairment reversals. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

The Company assesses at each reporting date whether there is an indication that PP&E within its CGU may be impaired. Development and production assets are grouped into a CGU for impairment testing. When significant parts of an item of property, plant and equipment, including petroleum and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds from disposal or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in the Statements of Income (Loss) and Comprehensive Income (Loss).

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the Statements of Income (Loss) and Comprehensive Income (Loss) as incurred.

(iii) Depletion and depreciation

The Company depletes its net carrying value of development and production assets included within property, plant and equipment at the CGU level using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable petroleum and natural gas reserves before royalties, taking into account expenditures incurred to date together with estimated future development costs necessary to bring those reserves into production.

d) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each reporting date to determine whether there is any indication of impairment or that historical impairment may be reversed. The estimate of proved and probable petroleum and natural gas reserves is significant to the Company's assessment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing and impairment reversal testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGU. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable petroleum and natural gas reserves.

Fair value less costs to sell is determined as the amount that would be obtained from the sale of an asset or a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs to sell is generally determined as the net present value of the estimated future cash flows expected to arise from production of proved and probable petroleum and natural gas reserves in a CGU including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted using a rate that would be applied by a market participant to arrive at a net present value of the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statements of Income (Loss) and Comprehensive Income (Loss).

An impairment loss in respect of property, plant and equipment recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

e) Share based payments

The grant date fair value of options granted to directors, officers, employees and certain consultants are recognized as stock-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. The fair value is determined using the Black-Scholes option pricing model.

When stock options are exercised, the consideration received and the amount previously recognized in contributed surplus are recorded as an increase to share capital.

The Company capitalizes a portion of stock-based compensation that is directly attributable to exploration and development activities.

f) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the Statement of Financial Position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

g) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer.

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary

responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Tariffs, tolls and other fees charged to other entities for use of pipelines and facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

h) Transportation

The costs associated with the transportation of clean oil are recognized in transportation expense on the Statements of Income (Loss) and Comprehensive Income (Loss) when the product is sold or when transportation is incurred.

i) Blending

The Company is required to purchase commodity products from third parties to utilize in blending activities. The Company subsequently sells the blended products to its customers. These transactions are recognized when the product is sold and presented in revenue with the related expense included in blending expense.

j) Finance

Finance expense is comprised primarily of interest expense on borrowings and accretion of the discount on decommissioning liabilities.

k) Income tax

Income tax expense (recovery) comprises current and deferred tax. Income tax expense (recovery) is recognized in the Statements of Income (Loss) and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

l) Lease obligations

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option with a corresponding adjustment to the carrying amount of the right-of-use asset.

Lease payments are allocated between the lease liability and finance charges. Cash outflows for repayment of the principal portion of the lease liability is classified as cash flows provided by financing activities. The interest portion of the lease payments is classified as cash flows provided by operating activities.

The Company has elected to apply the practical expedient in IFRS 16 for the office lease. Under this practical expedient, the Company does not separate lease components and non-lease components and instead accounts for all components as a single lease component. This election is applied consistently within each class of underlying asset.

The Company does not recognize assets and lease liabilities for short-term leases with a term of twelve months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the Statement of Income (Loss) and Comprehensive Income (Loss) over the lease term.

m) Net income (loss) per share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. For the diluted net income (loss) per share calculation, the weighted average number of common shares outstanding is adjusted for the potential number of common shares which may have a dilutive effect on net loss per share. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

n) Future accounting pronouncements

On April 9, 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18"), which will replace IAS 1. The Standard requires new subtotals and categories in the Statements of Income (Loss) and Comprehensive Income (Loss) to better align with key business activities, disclosure of management performance measures, and greater disaggregation of information. The Standard is required to be adopted retrospectively and is effective for fiscal years beginning on or after January 1, 2027, with early adoption permitted.

On May 30, 2024, the IASB amended both IFRS 9 Financial Instruments and IFRS 7 Financial Instruments to clarify the classification and measurement of financial instruments. The amendments are effective for fiscal years beginning on or after January 1, 2026, with early adoption permitted.

The Company is assessing the impact of adopting IFRS 18 and the impact of the amendments to IFRS 9 and IFRS 7 on the Company's financial statements.

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 years:

	Notes	**December 31, 2025**	December 31, 2024
Balance, beginning of year		**$ 14,231**	$ 24,777
Additions		**18,580**	24,754
Dispositions	6	**(8,566)**	(4,053)
Transfers to PP&E	5	**(24,245)**	(31,247)
Balance, end of year		**$ -**	$ 14,231

Exploration and evaluation additions for the year ended December 31, 2025, included approximately $18.0 million of drilling and completion costs and $0.6 million of land and geological costs in the East Central, Alberta area. Exploration and evaluation dispositions for the year ended December 31, 2025, included $8.5 million of land associated with the Northern, Alberta disposition and $43 thousand associated with the Lloydminster, Saskatchewan disposition (note 6).

Indicators of Impairment

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

As at December 31, 2025 the Company transferred land, geological costs and drilling and completion costs to PP&E at a value of $24.2 million (Q1 2025 - $13.6 million, Q2 2025 - $10.5 million, Q4 2025 - $0.1 million). Impairment tests were performed on transfers to PPE and no impairments were recorded to E&E as a result of the transfers during the year-ended December 31, 2025.

5. Property, plant and equipment

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

Cost	Notes	**D&P Assets**	**ROU Assets**	**Total PP&E**
Balance, December 31, 2023		$ 300,336	$ 571	**$ 300,907**
Additions[(1)]		46,357	90	**46,447**
Transfer from E&E assets		31,247	-	**31,247**
Dispositions		(97,279)	-	**(97,279)**
Changes in decommissioning liabilities		157	-	**157**
Capitalized stock-based compensation		1,553	-	**1,553**
Balance, December 31, 2024		$ 282,371	$ 661	**$ 283,032**
Additions[(1)]		13,092	1,261	**14,353**
Transfer from E&E assets	4	24,245	-	**24,245**
Changes in decommissioning liabilities	7	(321)	-	**(321)**
Capitalized stock-based compensation	10	519	-	**519**
Dispositions[(2)(3)]	6	(150,613)	(224)	**(150,837)**
Balance, December 31, 2025		**$ 169,293**	**$ 1,698**	**$ 170,991**

Accumulated depletion, depreciation and impairment	Notes			
Balance, December 31, 2023		$ 78,444	$ 181	$ 78,625
Depletion and depreciation		37,186	197	37,383
Dispositions		(59,295)	-	(59,295)
Balance, December 31, 2024		$ 56,335	$ 378	$ 56,713
Depletion and depreciation		26,662	233	26,895
Impairment		23,200	-	23,200
Dispositions[(2)(3)]	6	(41,491)	(163)	(41,654)
Balance, December 31, 2025		**$ 64,706**	**$ 448**	**$ 65,154**
Net carrying value:				
December 31, 2024		$ 226,036	$ 283	$ 226,319
December 31, 2025		**$ 104,587**	**$ 1,250**	**$ 105,837**

(1) Includes capitalized general and administrative expenses of $2.0 million (December 31, 2024 - $2.9 million).
(2) Includes the Frog Lake, Alberta, the Lloydminster, Saskatchewan, the Elnora, Alberta and the Northern, Alberta dispositions (note 6).
(3) Includes land disposed of in the East Central, Alberta area of $0.1 million

As at December 31, 2025, estimated future development costs of $76.3 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 East Central, Alberta 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 of $146.8 million, resulting in an impairment loss of $23.2 million being recognized at June 30, 2025. 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 along with forecasted oil and gas commodity prices estimated by the Company's internal reserve evaluator discounted at a rate of 17 percent to consider risks specific to the CGU.

For purposes of the June 30, 2025 impairment test, the Company's internal reserve evaluator updated the significant assumptions from the external independent qualified reserve evaluator's estimate of proved and probable petroleum and natural gas reserves and the related cash flows from December 31, 2024. The forecasted commodity prices are consistent with those used by the Company's external reserve evaluators as at June 30, 2025 and are a key assumption in assessing recoverable amount. The internal reserve evaluator 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.

A one percent increase in the assumed discount rate and/or a five percent decrease in the forecast operating cash flows would result in the following additional total pre-tax impairment being recognized:

	1% increase in discount rate	5% decrease in cash flows	1% increase in discount rate and 5% decrease in cash flows
East Central Alberta	(4,598)	(8,892)	(13,239)

The following table outlines forecasted commodity prices and exchange rates used in the Company's impairment test as at June 30, 2025:

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.

The Company conducted an assessment of indicators of impairment and concluded that there were no new indicators of impairment or impairment reversal identified as at December 31, 2025. Accordingly, the impairment loss recognized at June 30, 2025 remains unchanged at December 31, 2025.

6. Dispositions

Financial Year Ended December 31, 2025

The Company completed the following dispositions in the year ending December 31, 2025.

	Notes	Frog Lake, Alberta	Lloydminster, Saskatchewan	Elnora, Alberta	Northern, Alberta	Total
Cash consideration[1][2]		2,954	2,500	242	58,683	64,379
Transaction costs		(52)	(300)	(13)	(958)	(1,323)
PP&E disposed[1]	5	(3,624)	(54,413)	(1,024)	(49,998)	(109,059)
E&E disposed	4	-	(43)	-	(8,523)	(8,566)
Decommissioning liabilities	7	724	11,021	1,024	967	13,736
Gain (loss) on dispositions		2	(41,235)	229	171	(40,833)

[1] Cash consideration and PP&E disposed do not include land disposed in the East Central, Alberta area for $0.1 million
[2] Cash consideration reflects total gross proceeds inclusive of customary closing adjustments.

Frog Lake, Alberta

On May 29, 2025, the Company closed the Frog Lake Disposition, disposing of certain assets in the Frog Lake area of Alberta for gross proceeds of $2.8 million before closing adjustments and transaction costs.

Lloydminster, Saskatchewan

On June 30, 2025, the Company closed the Lloydminster, Saskatchewan disposition, disposing of its remaining non-core assets in Lloydminster, Saskatchewan for gross proceeds of $2.5 million before closing adjustments and transaction costs. Lycos retains the rights to drill on any and all undeveloped lands by way of a sublease issued from the acquirer to Lycos which lands are subject to an 8% GORR on new drills in the area. This lease is renewed annually subject to Lycos drilling one well in the calendar year on the subject lands. In conjunction with this transaction, Lycos settled the processing credit that was recorded in prepaid expenses and deposits and other long-term assets and the sublease on the Southwest Saskatchewan lands was extended to December 31, 2026.

Elnora, Alberta

On October 1, 2025, the Company closed the Elnora Disposition, disposing of certain assets in the Elnora area of Alberta for gross proceeds of $0.3 million before closing adjustments and transaction costs.

Northern, Alberta

On October 15, 2025, the Company closed an agreement to dispose of certain assets in the Lindbergh, Moose Lake and Fishing Lake areas of Alberta for gross proceeds of $60.0 million before closing adjustments and transaction costs.

Financial Year Ended December 31, 2024

The Company completed the following dispositions in the year ending December 31, 2024:

	Notes	Southwest Saskatchewan	Greater Lloydminster, Alberta	Total
Cash consideration[(1)(2)]		10,316	2,939	13,255
Transaction costs		(71)	(73)	(144)
PP&E disposed	5	(37,984)	-	(37,984)
E&E disposed	4	(755)	(3,298)	(4,053)
Decommissioning liabilities	7	6,197	548	6,745
Gain (loss) on dispositions		(22,297)	116	(22,181)

(1) Cash consideration includes the processing credit of $1.8 million and other working capital adjustments of $0.2 million included in the transaction.
(2) Cash consideration reflects total gross proceeds inclusive of customary closing adjustments

Southwest Saskatchewan

On December 31, 2024 the Company disposed of certain non-core assets and facilities in Gull Lake and Lloydminster Saskatchewan for gross proceeds of $9.8 million before closing adjustments and transaction costs. As part of the consideration, Lycos received a processing credit of $1.8 million ($0.8 million was classified as current in prepaid expenses and deposits and $1.0 million was classified as other long-term asset).

Lycos retains the rights to drill on any and all undeveloped lands by way of a sublease issued from the acquirer to Lycos and is subject to an 8% GORR on new drills in the area. This lease is renewed annually subject to Lycos drilling one well in the calendar year on the subject lands.

Greater Lloydminster, Alberta

In connection with a 2023 land acquisition, the Company paid a $2.8 million deposit for certain lands that were held in escrow pending closing conditions. In July 2024, the escrow funds were released and the land and related decommissioning liabilities transferred to the Company. In connection with the closing of this transaction, the Company entered into a purchase and sale agreement to dispose of the lands for gross proceeds of $2.8 million before closing adjustments and transaction costs.

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 December 31, 2025, is approximately $24.2 million (December 31, 2024 - $44.8 million). These payments are expected to be made over the next 40 years. A risk-free rate of 3.9% (December 31, 2024 – 3.3%) and an inflation rate of 2.0% (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 years:

	Notes	December 31, 2025	December 31, 2024
Balance, beginning of year		**$ 27,831**	$ 34,148
Change in estimates[(1)]		**(803)**	(1,504)
Additions		**482**	2,209
Dispositions	6	**(13,736)**	(6,745)
Decommissioning expenditures		**(1,109)**	(1,358)
Accretion	13	**725**	1,081
Balance, end of year		**$ 13,390**	$ 27,831
Expected to be incurred within one year		**$ 900**	$ 1,400
Expected to be incurred beyond one year		**$ 12,490**	$ 26,431

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

8. Lease obligations

	Notes	December 31, 2025	December 31, 2024
Balance, beginning of year		**$ 320**	$ 430
Additions[(1)]		**1,231**	90
Dispositions		**(36)**	-
Lease payments[(1)]		**(290)**	(254)
Interest on lease obligations	13	**34**	54
Balance, end of year[(2)]		**$ 1,259**	$ 320
Expected to be incurred within one year		**$ 325**	$ 235
Expected to be incurred beyond one year		**$ 934**	$ 85

(1) Additions to lease obligations of $1.3 million are presented net of a $30 thousand upfront payment made in respect of the related lease arrangements.
(2) A contractual maturity of the undiscounted payments due under the Company's lease agreements is provided in note 16.

On December 1, 2025, Lycos entered into a head office sublease agreement resulting in the recognition of a $1.1 million right-of-use asset and lease obligation. In addition, during the year ended December 31, 2025, the Company has recognized $0.1 million in right-of-use assets and lease obligations related to field trucks.

9. 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 years:

	December 31, 2025		December 31, 2024	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**53,237,528**	**$ 224,642**	53,081,147	$ 224,292
Exercise of warrants	**-**	**-**	156,381	350
Reduction of stated capital	**-**	**(47,914)**	-	-
Balance, end of year	**53,237,528**	**$ 176,728**	53,237,528	$ 224,642

On November 13, 2025, Lycos declared a cash distribution of $0.90 per common share which was paid out as a reduction of stated capital on November 28, 2025.

(c) Per share amounts

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

	December 31, 2025	December 31, 2024
Weighted average shares outstanding - basic	**53,237,528**	53,159,735
Effect of dilutive options and warrants	**-**	-
Weighted average shares outstanding - diluted	**53,237,528**	53,159,735

The Company uses the treasury stock method to determine the impact of dilutive securities. In computing the diluted net loss per share for the years, the effect of 5,549,869 warrants were excluded (December 31, 2024 – 5,549,869) and 3,090,425 stock options were excluded (December 31, 2024 – 3,885,725) as their effect was anti-dilutive.

(d) Normal course issuer bid ("NCIB")

On October 15, 2025, the Company announced its NCIB which will commence on November 3, 2025, permitting Lycos to repurchase up to 4,661,208 Common Shares within a twelve-month period. During the year ended December 31, 2025, the Company did not purchase any shares for cancellation.

Warrants

On December 12, 2022, the Company issued 5,706,250 warrants in connection with the reverse takeover transaction which were recorded in share capital. As at December 31, 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 year:

	Warrants outstanding			**Warrants exercisable**		
	Number outstanding	Weighted average exercise price [1]	Weighted average life remaining (years)	Number outstanding	Weighted average exercise price [1]	Weighted average life remaining (years)
Balance, end of year	**5,549,869**	**$ 1.34**	**2.0**	**5,549,869**	**$ 1.34**	**2.0**

[1] In conjunction with the return of capital, the original warrant exercise price of $2.24 was adjusted to reflect the $0.90 distribution paid to each common share with immediate effect.

10. 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 years:

	December 31, 2025		December 31, 2024	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Options outstanding, beginning of year	**3,885,725**	**$ 4.02**	3,716,250	$ 4.07
Granted	**-**	**-**	244,225	$ 2.80
Forfeited	**(795,300)**	**$ 3.84**	(74,750)	$ 2.71
Options outstanding, end of year	**3,090,425**	**$ 4.07**	3,885,725	$ 4.02

The range of exercise price of stock options outstanding as at December 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
$ 3.19 - $ 4.40	**3,090,425**	**2.46**	**$ 4.07**	**2,033,475**	**$ 4.08**

During the year ended December 31, 2025, the Company recorded gross stock-based compensation expense of $1.3 million (December 31, 2024 - $3.8 million), and capitalized stock-based compensation expense of $0.5 million (December 31, 2024 - $1.6 million) for stock options granted.

11. Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company. The key management personnel compensation before capitalization is comprised of the following:

	December 31, 2025	December 31, 2024
Salaries and benefits	**$ 1,708**	$ 2,439
Stock-based compensation	**$ 1,215**	$ 2,867

Salaries and benefits to key management personnel include salary, bonuses and benefits accrued during the year. Stock-based compensation includes non-cash expenses accrued under the Company's option plan for both key management personnel and directors of the Company.

Employee compensation expense

The Statement of Loss and Comprehensive Loss is prepared primarily by nature of item, with the exception of employee compensation expense which is included in both operating and general and administrative line items.

The following table details the amount of total employee compensation expense included in operating and general and administrative line items in the Statement of Loss and Comprehensive Loss:

	December 31, 2025	December 31, 2024
General and administrative less capitalized portion	**$ 2,515**	$ 3,454
Operating	**900**	978
Total employee compensation expense	**$ 3,415**	$ 4,432

12. 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:

	December 31, 2025	December 31, 2024
Crude oil	**$ 82,651**	$ 153,191
Natural gas	**238**	147
Petroleum and natural gas revenue	**82,889**	153,338
Processing income	**12**	164
Total petroleum and natural gas sales	**$ 82,901**	$ 153,502

Included in accounts receivable as at December 31, 2025, is $3.1 million (December 31, 2024 - $10.0 million) of accrued petroleum and natural gas sales related to December 2025 production.

13. Finance

The following table details the finance expense incurred:

	Notes	**December 31, 2025**	December 31, 2024
Accretion on decommissioning liabilities	7	**$ 725**	$ 1,081
Interest		**1,072**	1,538
Interest on lease obligations	8	**34**	54
Finance		**$ 1,831**	$ 2,673

14. Income tax

(i) Deferred income tax recovery

The provision for future tax in the financial statements differs from the result, which would have been obtained by applying the combined federal and provincial tax rate to the Company's net loss. This difference results from the following items:

	December 31, 2025	December 31, 2024
Net loss before taxes	**$ (58,049)**	$ (4,752)
Combined federal and provincial rate	**23.13%**	23.51%
Computed "expected" income tax expense (recovery)	**(13,429)**	(1,117)
Increase (decrease) in income tax resulting from:		
Non-deductible expenses	**188**	520
Rate change and other	**(136)**	(750)
Return to provision	**11**	(2,500)
Change in unrecognized tax assets	**4,922**	-
Income tax recovery	**$ (8,444)**	$ (3,847)

(ii) Deferred income tax liability

The components of the Company's recognized deferred income tax asset (liability) are as follows:

	December 31, 2025	December 31, 2024
Deferred income tax liabilities:		
Property, plant and equipment	**$ (11,453)**	$ (31,832)
Financial derivatives	**-**	(21)
Deferred income tax assets:		
Decommissioning liabilities	**3,098**	6,543
Non-capital losses	**7,381**	15,791
Share issue costs	**683**	1,000
Lease obligation	**291**	75
Deferred income tax liability	**$ -**	**$ (8,444)**

At December 31, 2025, the Company has $53.2 million (December 31, 2024 - $67.2 million) in non-capital losses that will begin to expire in 2031.

The Company's unrecognized deductible temporary differences are as follows:

	December 31, 2025	December 31, 2024
Non-capital losses	**$ 21,277**	$ -

15. Supplementary cash flow information

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

	Notes	December 31, 2025	December 31, 2024
Accounts receivable		**$ 4,966**	$ (4,781)
Prepaid expenses and deposits		**1,554**	1,449
Accounts payable and accrued liabilities		**(11,462)**	(14,699)
Working capital on disposal[(1)]	6	**1,000**	(1,698)
		$ (3,942)	$ (19,729)
Relating to:			
Operating activities		**$ 3,349**	$ (6,680)
Investing activities		**(7,291)**	(13,049)
		$ (3,942)	$ (19,729)

(1) Change is related to the settlement of the processing credit recorded in other long term assets from the Southwest Saskatchewan disposition as part of the Lloydminster, Saskatchewan disposition.

16. 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 accounts receivable, deposits, other long-term assets, bank debt, and accounts payable and accrued liabilities included in the 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 December 31, 2025, the Company had no financial derivative commodity contracts.

Subsequent to December 31, 2025, the Company entered into the following financial derivative commodity contracts:

Type	Type	Remaining Term	Volume	Put Price	Call Price	Swap Price
WCS	Swap	April 2026	250 bbl/d			CAD $101.50
WTI	Collar	Apr - Jun 2026	250 bbl/d	CAD $90.00	CAD $103.35	
WTI	Collar	Jul - Sep 2026	250 bbl/d	CAD $83.00	CAD $109.85	
WTI	Collar	Jul - Sep 2026	250 bbl/d	CAD $95.00	CAD $142.20	
WCS Differential	Swap	Jul - Sep 2026	250 bbl/d			USD ($12.25)

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

	December 31, 2025	December 31, 2024
Realized loss	**$ (254)**	$ (324)
Unrealized loss	**(89)**	(670)
Loss on financial derivatives	**$ (343)**	$ (994)

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

	December 31, 2025	December 31, 2024
Net financial derivative asset, beginning of year	**$ 89**	$ 759
Unrealized change in fair value	**(89)**	(670)
Net financial derivative asset, end of year	**$ -**	$ 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. For the year ended December 31, 2025, if interest rates changed by 1% with all other variables held constant, the impact on annualized interest expense and net loss and comprehensive loss would be $0.1 million. As at December 31, 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 December 31, 2025, the Company had no foreign exchange swap or derivative contracts in place.

Credit risk

As at December 31, 2025, the Company's receivables consisted of $3.1 million due from petroleum and natural gas purchasers (December 31, 2024 - $10.0 million), $2.7 million due from dispositions (December 31, 2024 - $nil), $0.1 million from financial derivative commodity contract counterparties December 31, 2024 - $0.1 million), and $0.6 million due from joint venture partners and other receivables (December 31, 2024 - $1.3 million).

Receivables from petroleum and natural gas purchasers are collected on the 25th day of the month following shipment. Joint venture and other receivables are typically collected within one to four months of billing. Subsequent to year end, $565K has been collected of the Lloydminster, Saskatchewan disposition and processing credit receivable, with the remaining balance expected to be collected through monthly offsets against amounts owing under future processing fees and take-or-pay provisions.

For the year ended December 31, 2025, the Company sold its petroleum and natural gas production to various counterparties with four counterparties accounting for 99% of sales (December 31, 2024, a single counterparty accounted for 92% of sales). Receivables from purchasers of the Company's petroleum and natural gas are normally collected on the 25th day of the month following shipment. As a result, the Company's production revenues are current. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, credit worthy petroleum marketers. Financial derivative contracts are only entered into with credit worthy institutions. Joint venture receivables are typically collected within one to four months of the joint venture bill being issued to the partner.

The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to commencement of the joint venture project and smaller partners are cash called to pay for their share of costs in advance of a project commencing. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection.

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 year ended December 31, 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 Company also has a credit facility to further strengthen its liquidity (see note 17).

The following are the contractual maturities of financial obligations and associated interest payments as at December 31, 2025:

	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	$ 5,444	$ -	$ 5,444
Bank debt	$ 2,366	$ -	$ 2,366
Lease obligations	$ 325	$ 934	$ 1,259

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 year to year 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.

	December 31, 2025	December 31, 2024
Cash flow from operating activities	**$ 36,780**	$ 50,791
Change in non-cash working capital	**(3,349)**	6,680
Funds flow from operations	**33,431**	57,471
Decommissioning expenditures	**1,109**	1,358
Transaction costs	**1,259**	215
Adjusted funds flow from operations	**$ 35,799**	$ 59,044

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 calculates adjusted working capital (net debt) as the total of the Company's current assets, less current liabilities, excluding derivative financial instruments, decommissioning obligations, and lease liabilities.

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 17). 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.

		December 31, 2025		December 31, 2024
Working capital	**$**	**(1,216)**	$	(19,207)
Current portion of lease obligations		**325**		235
Current portion of decommissioning liabilities		**900**		1,400
Financial derivative asset		**-**		(89)
Adjusted working capital (net debt)	**$**	**9**	$	(17,661)

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.

		December 31, 2025		December 31, 2024
Net cash used in investing activities	**$**	**(24,152)**	$	69,803
Change in non-cash working capital		**(7,291)**		(13,049)
Capital expenditures	**$**	**(31,443)**	$	56,754

17. Bank debt

As at December 31, 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. In the last review the Company's borrowing base was reconfirmed at $50 million and the next scheduled borrowing base review is scheduled to occur on or before May 31, 2026.

As at December 31, 2025, the Company had $2.4 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 December 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 December 31, 2025, the Company was compliant with all covenants.

18. Commitments

The Company has two well commitments to be drilled by September 30, 2026 and July 13, 2027, which are planned in the Company's drilling program. In the event the Company fails to fulfill the drilling commitments, the Company is required to pay $0.1 million and $0.3 million respectfully, for each well not spud by the commitment dates.

19. Subsequent events

Mahikan Oil Corporation ("Mahikan") Acquisition

On March 30, 2026, the Company closed the previously announced business combination with Mahikan. Pursuant to the transaction, Lycos acquired all of the issued and outstanding common shares of Mahikan in exchange for 29,781,301 common shares of Lycos, representing an exchange ratio of 0.60 Lycos common shares for each Mahikan share held, and the assumption of Mahikan's outstanding indebtedness.

Concurrent with closing, the Company completed a non-brokered private placement of 25,000,000 common shares at a price of $1.20 per share for gross proceeds of $30.0 million. Certain directors, officers and employees of the combined entity subscribed for approximately $5.0 million of the offering.