



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (the "MD&A") as provided by the management team ("Management") of Lycos Energy Inc. ("Lycos" or the "Company") is dated August 11, 2026, and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2026 and 2025 and the notes thereto (the "Interim Financial Statements") and the audited financial statements as at and for the year ended December 31, 2025 and 2024, and the notes thereto (the "Annual Financial Statements"). The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles which require publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are referenced in Canadian dollars unless otherwise stated. Additional information relating to Lycos, including the Company's Annual Information Form for the year ended December 31, 2025, is available on the Company's website at www.lycosenergy.com and under the Company's profile on SEDAR+ at www.sedarplus.ca. This MD&A should also be read in conjunction with Lycos' disclosure under "Forward-Looking Information and Statements" below.

Description of the Business

Lycos is a Canadian resource company engaged in the exploration for and development of petroleum and natural gas production in western Canada. The Company is currently developing heavy oil assets, targeting the Mannville stack, in East Central, Alberta.

Strategic Transactions

The Company's results of operations for the three and six months ended June 30, 2026 are not directly comparable to the corresponding periods in 2025 as a result of certain strategic transactions completed during 2025 and 2026, as described below. Readers should consider the effects of these transactions when evaluating the Company's production, revenue, operating costs, capital expenditures⁽¹⁾, and adjusted working capital (net debt)⁽¹⁾ on a period-over-period basis.

Lloydminster Disposition

On June 30, 2025, the Company closed the disposition of certain non-core assets and associated facilities located in Lloydminster, Saskatchewan to an arm's length purchaser for total consideration of \$2.5 million (the "Lloydminster Disposition"). The disposed assets produced approximately 470 boe/d at the time of closing.

North Disposition

On October 15, 2025, the Company closed the disposition of certain assets located in the Lindbergh, Moose Lake, and Fishing Lake areas of Alberta (the "North Disposition") for total cash consideration of \$60.0 million, before closing adjustments. The disposed assets produced approximately 940 bbl/d at the time of closing. The Company distributed \$47.9 million of the net proceeds to shareholders as a return of capital of \$0.90 per common share (the "Return of Capital").

Mahikan Business Combination

On March 30, 2026, the Company closed a business combination with Mahikan Oil Corporation ("Mahikan"), a privately held, arm's length heavy oil producer (the "Mahikan Business Combination"). Pursuant to the Mahikan Business Combination, the Company acquired all of the issued and outstanding common shares of Mahikan in exchange for 29,781,301 common shares of the Lycos, representing an exchange ratio of 0.60 Lycos common shares for each Mahikan share held, and the assumption of Mahikan's outstanding indebtedness.

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Concurrent with the closing of the Mahikan Business Combination, the Company completed a non-brokered private placement of common shares at a price of \$1.20 per share for aggregate gross proceeds of \$30.0 million (the "Offering"). The proceeds of the Offering were used, in part, to fund the Mahikan Business Combination and to support the Company's post-combination capital program.

As the Mahikan Business Combination closed on March 30, 2026, the results of operations of the Company for the three and six months ended June 30, 2026 include the contribution of the acquired Mahikan assets, whereas the comparative periods ended June 30, 2025 include the contribution of the assets disposed in the Lloydminster Disposition and North Disposition.

Subsequent Event

On August 6, 2026, the Company closed an acquisition of certain assets in the Greater Provost area of Alberta (the "Provost Acquisition") for cash consideration of \$70.0 million, before closing adjustments. The assets add approximately 1,000 boe/d (91% heavy crude oil, 1% natural gas liquids and 8% natural gas) of production supported by waterflood operations. Concurrent with closing, the Company completed a bought-deal equity offering at \$1.52 per share for gross proceeds of \$34.5 million, including the exercise of the overallotment option in full (the "Bought-Deal Offering"). Net proceeds from the Bought-Deal Offering were used to fund the Provost Acquisition. Concurrently with the Provost Acquisition and Bought-Deal Offering, the Company expanded its existing credit facility to \$55.0 million, with an uncommitted accordion feature to increase total capacity up to \$75.0 million.

Q2 2026 Highlights

Highlights for the three months ended June 30, 2026, include:

- Drilled and completed 7.0 gross (7.0 net) wells in the Moonshine area, six of which were drilled from a single pad, achieving an average drill, complete and tie-in cost of \$1.5 million per well. Wet weather on location extended the timing of the drilling program, with the wells brought on stream late in Q2 2026. The quarter reflects limited production contribution from the new wells, and the Company expects the benefit of the program to be realized in the third quarter of 2026.
- Production averaged 1,887 boe/d (96% crude oil), a 14% increase over Q1 2026 average production of 1,653 boe/d (95% crude oil), driven by the first full quarter of production from the assets acquired in the Mahikan Business Combination, together with the stability of the Company's legacy asset base. Production decreased 52% from Q2 2025 primarily due to the Lloydminster and North Dispositions, combined with natural declines, partially offset by the contribution of the Mahikan assets.
- Generated adjusted funds flow from operations⁽¹⁾ of \$7.3 million, a 60% increase over \$4.6 million in Q1 2026, on stronger realized pricing of \$97.65/boe, up 34% from Q1 2026 and higher production volumes. Operating netback improved to \$51.91/boe from \$37.25/boe in Q1 2026. Adjusted funds flow from operations decreased 24% from Q2 2025, as the volume impact of the 2025 dispositions was substantially offset by materially stronger commodity pricing.
- Invested \$13.9 million in capital expenditures⁽¹⁾, of which \$2.6 million related to lease preparation and long-lead materials for the second half 2026 exploration and development program. Capital spending in excess of adjusted funds flow from operations was funded from the proceeds of the March 2026 private placement, consistent with the Company's plan to accelerate development of the Moonshine assets.
- Exited the quarter with positive adjusted working capital⁽¹⁾ of \$8.4 million.

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

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Second Quarter Operational and Financial Highlights

(\$ in thousands, except per share)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Total petroleum and natural gas sales, net of blending⁽¹⁾	16,770	23,146	(28)%	27,619	49,987	(45)%
Cash flow from operating activities	16,691	8,396	99%	23,485	21,052	12%
Per share - basic	\$ 0.15	\$ 0.16	(6)%	\$ 0.29	\$ 0.40	(28)%
Per share - diluted	\$ 0.15	\$ 0.16	(6)%	\$ 0.29	\$ 0.40	(28)%
Adjusted funds flow from operations⁽¹⁾	7,328	9,628	(24)%	11,899	22,140	(46)%
Per share - basic	\$ 0.07	\$ 0.18	(61)%	\$ 0.15	\$ 0.43	(65)%
Per share - diluted	\$ 0.07	\$ 0.18	(61)%	\$ 0.14	\$ 0.43	(67)%
Net income (loss)⁽³⁾	3,493	(54,612)	(106)%	1,488	(52,239)	(103)%
Per share - basic	\$ 0.03	\$ (1.03)	(103)%	\$ 0.02	\$ (0.98)	(102)%
Per share - diluted	\$ 0.03	\$ (1.03)	(103)%	\$ 0.02	\$ (0.98)	(102)%
Capital expenditures⁽¹⁾ - exploration & development	13,924	5,351	160%	15,965	28,273	(44)%
Capital expenditures⁽¹⁾ - net acquisitions & dispositions	13,924	285	4786%	15,965	23,207	(31)%
Adjusted working capital (net debt)⁽¹⁾	8,391	(19,277)	(144)%	8,391	(19,277)	(144)%
Weighted average shares outstanding (thousands)						
Basic	108,861	53,238	104%	81,505	53,238	53%
Diluted	110,553	53,238	108%	82,274	53,238	55%
Average daily production:						
Crude oil (bbls/d)	1,821	3,795	(52)%	1,713	3,867	(56)%
Natural gas (mcf/d)	399	869	(54)%	458	831	(45)%
Total (boe/d)	1,887	3,940	(52)%	1,789	4,006	(55)%
Realized prices:						
Crude oil (\$/bbl) ⁽²⁾	101.11	66.77	51%	88.93	71.13	25%
Natural gas (\$/mcf)	0.49	1.37	(64)%	0.59	1.30	(55)%
Total (\$/boe)	97.65	64.62	51%	85.29	68.94	24%
Operating netback (\$/boe)⁽¹⁾						
Petroleum and natural gas revenues ⁽²⁾	97.65	64.62	51%	85.29	68.94	24%
Royalties	(16.25)	(10.87)	49%	(13.12)	(10.50)	25%
Net operating expenses ⁽¹⁾	(23.67)	(18.99)	25%	(22.30)	(21.00)	6%
Transportation expenses	(5.82)	(2.52)	131%	(5.22)	(2.04)	156%
Operating netback (\$/boe)⁽¹⁾	51.91	32.24	61%	44.65	35.40	26%
Realized gain (loss) on financial derivatives	(4.01)	(1.04)	286%	(2.12)	(0.55)	285%
Operating netback, including financial derivatives (\$/boe)⁽¹⁾	47.90	31.20	54%	42.53	34.85	22%
Adjusted funds flow from operations (\$/boe)⁽¹⁾	42.67	26.86	59%	36.74	30.54	20%

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

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

(3) The three and six months ended June 30, 2025 includes a non-cash loss on disposals of \$41.2 million and a non-cash impairment loss of \$23.2 million.

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Results of Operations

Production

(6:1 boe conversion)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Daily production:						
Crude oil (bbls/d)	1,821	3,795	(52)%	1,713	3,867	(56)%
Natural gas (mcf/d)	399	869	(54)%	458	831	(45)%
Total (boe/d)	1,887	3,940	(52)%	1,789	4,006	(55)%
% Crude oil	96%	96%	0%	96%	97%	(1)%

Production for the three and six months ended June 30, 2026, averaged 1,887 boe/d (96% crude oil) and 1,789 boe/d (96% crude oil), a decrease of 52% and 55%, respectively, as compared against production of 3,940 boe/d (96% crude oil) and 4,006 boe/d (97% crude oil) in the comparable periods of 2025.

The decrease in both periods primarily reflects the Lloydminster and North dispositions and natural production declines, partially offset by initial production from the Mahikan acquisition and second-quarter drilling program, which added approximately 340 boe/d. The wells drilled in the second quarter of 2026 were brought on production between late May and the end of June, so the full impact of these additions will begin to be realized in the third quarter of 2026.

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

Petroleum and Natural Gas Sales

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Crude oil	16,752	23,056	(27)%	27,570	53,064	(48)%
Less: Blending expense	-	-	0%	-	3,285	(100)%
Crude oil, net of blending	16,752	23,056	(27)%	27,570	49,779	(45)%
Natural gas	18	109	(83)%	49	197	(75)%
Total petroleum and natural gas revenues, net of blending	16,770	23,165	(28)%	27,619	49,976	(45)%
Processing income	-	(19)	(100)%	-	11	(100)%
Total petroleum and natural gas sales, net of blending	16,770	23,146	(28)%	27,619	49,987	(45)%

Total petroleum and natural gas revenues, net of blending, for the three months ended June 30, 2026 were \$16.8 million as compared to \$23.2 million in the comparable period of 2025. The 28% decrease was the result of a 52% decrease in crude oil production volumes, partially offset by a 51% increase in the realized crude oil price over the comparable period of 2025. The Company's realized crude oil price increased in line with the increase in benchmark WCS pricing, combined with marketing initiatives to optimize sales points and increase realized pricing.

Total petroleum and natural gas revenues, net of blending, for the six months ended June 30, 2026 were \$27.6 million as compared to \$50.0 million in the comparable period of 2025. The 45% decrease was the result of a 56% decrease in crude oil production volumes, partially offset with a 25% increase in the realized crude oil price over the comparable period of 2025. The Company's realized crude oil price increased in line with the increase in benchmark WCS pricing, combined with marketing initiatives to optimize sales points and increase realized pricing.

Blending expense for the six months ended June 30, 2026 decreased from the comparable period due to a change in contractual terms, whereby the Company did not act as shipper on the Manito pipeline from March 2025 onward. Therefore, blending costs reduce crude oil sales from March 2025 onward.

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Benchmark and Realized Prices

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Averaged realized prices:						
Crude oil (\$/bbl) ⁽¹⁾⁽³⁾	101.11	66.77	51%	88.93	71.13	25%
Natural gas (\$/mcf) ⁽¹⁾	0.49	1.37	(64)%	0.59	1.30	(55)%
Barrels of oil equivalent (\$/boe) ⁽²⁾⁽³⁾	97.65	64.62	51%	85.29	68.94	24%
Benchmark prices:						
WTI (\$US/bbl)	92.79	63.74	46%	82.36	67.58	22%
WCS differential to WTI (US\$/bbl)	(14.66)	(10.27)	43%	(14.41)	(11.47)	26%
WCS (\$Cdn/bbl)	107.97	73.96	46%	93.60	79.13	18%
Condensate at Edmonton (\$Cdn/bbl)	131.64	87.77	50%	114.81	93.88	22%
Exchange rate (\$Cdn/\$US)	1.38	1.38	0%	1.38	1.41	(2)%

(1) "Crude oil" refers to heavy crude oil and natural gas liquids combined. "Natural gas" refers to conventional gas combined.

(2) Disclosure of production on a per boe basis in this MD&A consists of the constituent product types and their respective quantities disclosed in the "Product Type Information" section of this MD&A. Also refer to the "BOE Presentation" section of this MD&A.

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

The Company takes all its working interest production "in kind" which is marketed and sold through various credit-worthy commodity purchasers. Lycos' crude oil is marketed under short-term (30 day) or fixed price contracts with crude oil marketers and through major North American crude oil purchasers. All the Company's natural gas is currently sold as spot gas through significant North American natural gas marketers.

Commodity prices are affected by both domestic and international factors that are beyond the control of the Company. Prices received for crude oil are determined by the quality of the crude oil compared to the benchmark price for WCS crude oil expressed in Canadian dollars, which is determined by the price for WTI, the exchange rate between the Canadian dollar and the US dollar, the heavy oil differential between WTI and WCS denominated in US dollars, and field level price adjustments for quality of crude oil and diluent costs to blend oil to meet pipeline specifications.

For the three and six months ended June 30, 2026, benchmark WTI pricing significantly increased from the comparable periods of 2025 due to concerns of market uncertainty driven by the war in Iran and the temporary closure of the Strait of Hormuz leading to global supply concerns. WCS differentials widened over the period primarily because of an increased global supply of heavy crude oil competing for refining capacity following the US lifting sanctions on Venezuelan crude and releases from the US Strategic Petroleum Reserve.

The Company's realized crude oil price, net of blending, for the three and six months ended June 30, 2026, was \$101.11/bbl and \$88.93/bbl, respectively, compared to \$66.77/bbl and \$71.13/bbl, in the comparable periods of 2025. Realized pricing increased primarily due to higher benchmark WCS pricing and marketing initiatives to optimize sales points and improve netbacks. The six months ended June 30, 2026 was further impacted by the strengthening Canadian dollar.

Risk Management

Financial Derivatives

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Realized loss	(688)	(373)	84%	(688)	(396)	74%
Unrealized gain (loss)	1,028	689	49%	91	(47)	(294)%
Financial derivative gain (loss)	340	316	8%	(597)	(443)	35%
Realized loss per boe (\$)	(4.01)	(1.04)	286%	(2.12)	(0.55)	285%

The Company incurred a realized loss of \$0.7 million for the three and six months ended June 30, 2026, respectively, as compared to a realized loss of \$0.4 million, for the comparable periods of 2025. The realized loss in the periods was the result of the fixed price of the financial derivative commodity contracts being lower than the settlement price in the respective periods.

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The Company recognized an unrealized gain of \$1.0 million and \$0.1 million, respectively, for the three and six months ended June 30, 2026, as compared to an unrealized gain of \$0.7 million and an unrealized loss of \$47 thousand in the comparable periods of 2025. The unrealized gain/loss is a result of the non-cash change in the mark-to-market values over the periods on the Company's outstanding financial derivative contracts.

Financial Derivative Commodity Contracts

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

As at June 30, 2026, the Company had the following financial derivative commodity contracts outstanding:

Type	Type	Remaining Term	Volume	Put Price	Call Price	Swap Price
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)

Subsequent to June 30, 2026, the Company entered into the following financial derivative commodity contracts:

Type	Type	Term	Volume	Put Price	Call Price	Swap Price
WTI	Swap	Aug - Dec 2026	250 bbl/d	-	-	CAD \$107.05
WTI	Swap	Oct - Dec 2026	250 bbl/d	-	-	CAD \$107.05
WTI	Collar	Oct - Dec 2026	250 bbl/d	CAD \$80.00	CAD \$175.50	-
WTI	Swap	Sep - Dec 2026	250 bbl/d	-	-	CAD \$108.75
WTI	Swap	Jan - Mar 2027	250 bbl/d	-	-	CAD \$102.55

Royalties

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Royalty expenses	2,791	3,896	(28)%	4,250	7,612	(44)%
Royalty rate ⁽¹⁾	16.6%	16.8%	(1)%	15.4%	15.2%	1%
Per boe (\$)	16.25	10.87	49%	13.12	10.50	25%

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

Royalties are paid to provincial governments, freehold mineral rights owners and royalty contract owners. Royalties are calculated based on revenue less allowed costs of transportation and processing and are generally expressed as a percentage of revenue. Royalty rates can vary due to several factors including commodity prices, mix of production subject to each type of royalty, commodity produced, royalty contract terms, and royalty incentive schemes. Under the Alberta Modernized Royalty Framework, the Company will pay a flat royalty of 5% on a well's production until the well's total revenue exceeds the Drilling and Completion Cost Allowance (C*), then royalty rates increase on a sliding scale up to 40% depending on commodity reference pricing.

Royalties for the three and six months ended June 30, 2026, were \$2.8 million or a 16.6% royalty rate and \$4.3 million or a 15.4% royalty rate, respectively, as compared to \$3.9 million or a 16.8% royalty rate and \$7.6 million or a 15.2% royalty rate in the comparable periods of 2025. On an absolute dollar basis, royalties decreased from the comparable period due to lower petroleum and natural gas revenues. On a royalty rate basis, royalties remained relatively consistent with the comparable periods due to the royalty rate on the Mahikan assets being relatively consistent with the properties disposed in the Lloydminster and North dispositions.

Net Operating Expenses

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Operating expenses	4,064	6,789	(40)%	7,221	15,232	(53)%
Less: processing income	-	(19)	(100)%	-	11	(100)%
Total net operating expenses ⁽¹⁾	4,064	6,808	(40)%	7,221	15,221	(53)%
Per boe (\$)	23.67	18.99	25%	22.30	21.00	6%

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

For the three and six months ended June 30, 2026, net operating expenses decreased to \$4.1 million and \$7.2 million, respectively, from \$6.8 million and \$15.2 million, in the comparable periods of 2025, primarily due to lower production volumes.

On a per boe basis, net operating expenses for the three and six months ended June 30, 2026, were \$23.67 and \$22.30, respectively, as compared to \$18.99 and \$21.00, in the comparable periods of 2025. The increase was primarily due to higher hauling, lease maintenance, workover costs resulting from an extended spring breakup in the Company's operating areas, which led to poor lease conditions. In addition, net operating expenses per boe for the Mahikan assets were higher than the Company's legacy assets, which the Company expects to normalize in subsequent quarters as production volumes grow.

Transportation Expenses

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Transportation expenses	1,000	905	10%	1,691	1,482	14%
Per boe (\$)	5.82	2.52	131%	5.22	2.04	156%

Transportation expenses include the cost of transporting natural gas and the cost to truck clean crude oil from the field to sales points and may fluctuate based on product mix and the proximity to delivery points. For the three months and six months ended June 30, 2026, total transportation expenses increased compared to the same periods of 2025 due to increased clean oil trucking undertaken to optimize received pricing. Despite wider benchmark WCS differentials during the period, these marketing initiatives contributed to improved realized crude oil pricing relative to the benchmark. On a per boe basis, transportation expenses increased relative to 2025, reflecting lower production volumes and higher clean oil trucking activity.

Operating Netback

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾	16,770	23,165	(28)%	27,619	49,976	(45)%
Royalties	(2,791)	(3,896)	(28)%	(4,250)	(7,612)	(44)%
Net operating expenses ⁽¹⁾	(4,064)	(6,808)	(40)%	(7,221)	(15,221)	(53)%
Transportation expenses	(1,000)	(905)	10%	(1,691)	(1,482)	14%
Operating netback⁽¹⁾	8,915	11,556	(23)%	14,457	25,661	(44)%
Realized gain (loss) on financial derivatives	(688)	(373)	84%	(688)	(396)	74%
Operating netback⁽¹⁾, including financial derivatives	8,227	11,183	(26)%	13,769	25,265	(46)%

(\$/boe)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Total petroleum and natural gas revenues, net of blending ⁽¹⁾⁽²⁾	97.65	64.62	51%	85.29	68.94	24%
Royalties	(16.25)	(10.87)	49%	(13.12)	(10.50)	25%
Net operating expenses ⁽¹⁾	(23.67)	(18.99)	25%	(22.30)	(21.00)	6%
Transportation expenses	(5.82)	(2.52)	131%	(5.22)	(2.04)	156%
Operating netback⁽¹⁾	51.91	32.24	61%	44.65	35.40	26%
Realized gain (loss) on financial derivatives	(4.01)	(1.04)	286%	(2.12)	(0.55)	285%
Operating netback⁽¹⁾, including financial derivatives	47.90	31.20	54%	42.53	34.85	22%

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

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

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Operating netback for the three and six months ended June 30, 2026 decreased compared to the same periods of 2025, primarily as a result of lower production volumes following the 2025 dispositions, together with higher transportation costs, partially offset by lower royalties and net operating expenses.

On a per boe basis, operating netback increased to \$51.91/boe and \$44.65/boe for the three and six months ended June 30, 2026 from \$32.24/boe and \$35.40/boe in the comparable period of 2025, as improved realized pricing more than offset higher per boe royalties and transportation costs, together with the impact of lower production volumes.

General and Administrative ("G&A") Expenses

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
G&A expenses	1,420	1,751	(19)%	2,717	3,768	(28)%
Capitalized G&A and overhead recoveries	(509)	(512)	(1)%	(917)	(1,214)	(24)%
Net G&A expenses	911	1,239	(26)%	1,800	2,554	(30)%
Per boe (\$)	5.30	3.46	53%	5.56	3.52	58%

For the three and six months ended June 30, 2026, the Company's net G&A expenses decreased compared to the same periods of 2025, primarily due to personnel reductions following the Lloydminster and North dispositions. The decrease was partially offset by lower capitalized G&A and overhead recoveries in the current periods. On a per boe basis, G&A expenses increased compared to the same periods of 2025, as the reduction in G&A expenses was proportionally less than the decline in production volumes.

Stock-based compensation

Stock Options

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

On April 22, 2026, the Company granted a total of 3.3 million stock options pursuant to the Company's stock option plan at a price of \$2.20 per common share. The total fair value of each option granted during the periods was estimated on the date of grant using the Black-Scholes pricing model with weighted average assumptions (Refer to Note 10 of the Interim Financial Statements).

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

	June 30, 2026		December 31, 2025	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Options outstanding, beginning of period	3,090,425	\$ 4.07	3,885,725	\$ 4.02
Forfeited	(728,125)	\$ 4.10	(795,300)	\$ 3.84
Cancelled ⁽¹⁾	(2,362,300)	\$ 4.06	-	\$ -
Issued	3,320,000	\$ 2.20	-	\$ -
Options outstanding, end of period	3,320,000	\$ 2.20	3,090,425	\$ 4.07

⁽¹⁾ An aggregate 2,362,300 of the Company's share stock options were cancelled in the period, which were voluntarily surrendered by the holders for no consideration. The remaining unamortized expense was immediately recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Share Incentive Awards

During the period ending June 30, 2026, the Company received conditional approval from the TSX Venture Exchange (the "Exchange") for the adoption of a Share Award Incentive Plan (the "Plan"). The Plan is subject to the satisfaction of customary Exchange conditions, including receipt of shareholder approval at the Company's next annual general meeting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Under the Plan, the Company may grant restricted share awards ("RSAs") and performance share awards ("PSAs") to directors, officers, employees and consultants of the Company. The share awards, being RSAs or PSAs as applicable, granted under the share award incentive plan are intended to be settled through the issuance of new common shares upon vesting for no additional consideration. The Plan, together with the Company's current stock option plan, constitutes a "rolling up to 10%" plan for purposes of Exchange policies.

Restricted Share Awards

On May 26, 2026, the Company's Board of Directors approved the grant of 2.1 million RSAs. Each RSA entitles the holder to receive one common share of the Company upon vesting, with one-third vesting on each of the first, second and third anniversaries of the date of grant. Stock-based compensation is recorded over a three-year vesting period using graded amortization resulting in a higher proportion of expense being recognized earlier in the vesting term.

The following table summarizes the changes in the outstanding share awards for the periods:

	Number of RSAs
Balance, December 31, 2024	-
Balance, December 31, 2025	-
Granted	2,145,000
Balance, June 30, 2026	2,145,000

Stock-based compensation expense

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Stock options	361	349	3%	624	839	(26)%
Share incentive awards	243	-	100%	243	-	100%
Gross stock-based compensation	604	349	73%	867	839	3%
Capitalized stock-based compensation	(245)	(110)	123%	(351)	(317)	11%
Stock-based compensation	359	239	50%	516	522	(1)%
Per boe (\$)	2.09	0.67	212%	1.59	0.72	121%

During the three and six months ended June 30, 2026, the Company recorded gross stock-based compensation expense of \$0.6 million and \$0.9 million, respectively, as compared to \$0.3 million and \$0.8 million in the comparable periods of 2025. The Company capitalizes stock-based compensation expense related to petroleum and natural gas exploration and development activities. For the three and six months ended June 30, 2026, Lycos recorded capitalized stock-based compensation expense of \$0.2 million and \$0.4 million, respectively, as compared to \$0.1 million and \$0.3 million in the comparable periods of 2025. The stock-based compensation expense recognized in the six months ended June 30, 2026 includes \$0.2 million for the cancellation of 2.4 million stock options that were voluntarily surrendered by the holders.

Depletion and Depreciation ("D&D")

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Depletion and depreciation	4,149	8,161	(49)%	7,557	16,311	(54)%
Per boe (\$)	24.16	22.76	6%	23.34	22.50	4%

D&D per boe will fluctuate from one period to the next depending on the amount and type of capital expenditures, the recognition or reversal of impairments, the amount of reserves and future development costs added and production volumes. Depletion of oil and gas assets is calculated using the unit-of-production method based on total proved and probable petroleum and natural gas reserves, including future development costs.

D&D expense for the three and six months ended June 30, 2026, was \$4.1 million and \$7.6 million respectively, as compared to \$8.2 million and \$16.3 million for the comparable periods of 2025. The decrease reflects lower production volumes and a reduced depletable base following the Q2 2025 impairment and the Lloydminster and North dispositions, offset by the Mahikan Business Combination and resulting fair value of assets acquired.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On a per boe basis, D&D expense for the three and six months ended June 30, 2026, increased relative to the comparative period, primarily reflecting the Mahikan Business Combination completed during the year. The acquired assets were recorded at fair value and included future development costs and drilling inventory, resulting in a higher initial D&D rate per boe than the Company's historical average. As the Company executes its development plans and converts these opportunities into producing reserves through future drilling activities, management expects the D&D rate per boe to decrease over time.

Impairment

Exploration and Evaluation Assets

The Company concluded there were no indicators of impairment as at June 30, 2026.

Property, Plant & Equipment

The Company conducted an assessment of indicators of impairment and concluded that there were no indicators of impairment or impairment reversal identified as at June 30, 2026.

Mahikan Business Combination

On March 30, 2026, the Company completed the previously announced Mahikan Business Combination. Immediately prior to the acquisition date, Mahikan held a 92.39% ownership interest in Kihew Resources Inc. ("Kihew"), resulting in the Company indirectly acquiring control of Kihew as part of the transaction.

The results of Mahikan and Kihew have been included in the Company's consolidated financial statements commencing March 30, 2026. The transaction has been accounted for as a business combination in accordance with IFRS 3, Business Combinations. The identifiable assets acquired and liabilities assumed, including those attributable to Kihew, were recognized at their estimated acquisition date fair values. Refer to Note 4 of the Interim Financial Statements for additional information regarding the acquisition, including the preliminary purchase price allocation, fair value assumptions, and recognition of the non-controlling interest associated with Kihew.

The remaining 7.61% ownership interest in Kihew not owned by Mahikan was recognized in the Financial Statements as a non-controlling interest until June 26, 2026, when Mahikan acquired that interest for a nominal amount. As at June 30, 2026, Kihew is a wholly owned subsidiary of Mahikan and the non-controlling interest has been derecognized from the Financial Statements.

Transaction Costs

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Transaction costs related to acquisitions	154	1,048	(85)%	2,079	1,072	94%
Per boe (\$)	0.90	2.92	(69)%	12.11	1.48	718%

Transaction costs were \$0.2 million and \$2.1 million for the three and six months ended June 30, 2026, respectively, as compared to \$1.0 million and \$1.1 million in the same periods of 2025. The current period costs primarily relate to advisory and closing costs associated with the Mahikan Business Combination and other deal flow in the period.

Finance Expense

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Accretion of decommissioning liabilities	151	226	(33)%	280	457	(39)%
Interest expense	91	326	(72)%	173	581	(70)%
Interest on lease obligations	21	8	163%	41	18	128%
Finance expense	263	560	(53)%	494	1,056	(53)%
Per boe (\$)	1.53	1.56	(2)%	1.53	1.46	5%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Finance expense for the three and six months ended June 30, 2026, totaled \$0.3 million and \$0.5 million, respectively, down from \$0.6 million and \$1.1 million in the same periods of 2025. The reduction largely reflects lower interest costs due to decreased bank indebtedness and interest rates, along with reduced accretion of decommissioning liabilities following the Lloydminster and North dispositions, partially offset by higher interest on lease obligations resulting from the lease additions in the periods.

Taxes

The following table outlines the Company's estimated consolidated tax pools as at June 30, 2026:

(\$ in thousands)	June 30, 2026	December 31, 2025	Annual Deductibility
Undepreciated capital cost ⁽¹⁾	6,752	221	Primarily 25% declining balance
Canadian exploration expense	60	-	100%
Canadian development expense	35,680	38,507	30% declining balance
Canadian development expense - successored ⁽¹⁾	16,542	3,259	30% declining balance
Canadian oil and gas property expense	650	-	10% declining balance
Canadian oil and gas property expense - successored ⁽¹⁾	20,983	10,363	10% declining balance
Non-capital loss carry forward ⁽¹⁾	68,065	53,924	100%
Share & debt issue costs	3,666	2,952	20% straight line
Total	152,398	109,226	

⁽¹⁾ The June 30, 2026 estimated consolidated tax pools include \$2.3 million undepreciated capital cost, \$6.0 million Canadian development expense, \$11.3 million Canadian oil and gas property expense and \$15.6 million non-capital losses acquired in the Mahikan Business Combination (note 4 of the Interim Financial Statements). The acquired tax pools are based on Management's best estimates based on information available at the time of preparing these Interim Financial Statements. The reader is cautioned that future revisions to these estimates over the measurement period (one year from the closing date of the acquisition) could result in a change from the amounts reported herein.

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Deferred income tax expense (recovery)	29	(9,149)	(100)%	29	(8,444)	(100)%

For the three and six months ended June 30, 2026, the Company recorded a \$29 thousand deferred income tax expense as compared to a recovery of \$9.1 million and \$8.4 million in the comparable periods of 2025. The deferred income tax expense in the three and six month ended June 30, 2026 represents the temporary differences arising from post-acquisition capital additions and tax pool deductions claimed against operating income in the periods. The deferred income tax recovery in the comparable periods relates to the net loss before income taxes recognised in the periods.

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

(\$ in thousands, except per share)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Cash flow from operating activities	16,691	8,396	99%	23,485	21,052	12%
Adjusted funds flow from operations⁽¹⁾	7,328	9,628	(24)%	11,899	22,140	(46)%
Net income (loss)	3,493	(54,612)	(106)%	1,488	(52,239)	(103)%
Per share - basic	\$ 0.03	\$ (1.03)	(103)%	\$ 0.02	\$ (0.98)	(102)%
Per share - diluted	\$ 0.03	\$ (1.03)	(103)%	\$ 0.02	\$ (0.98)	(102)%

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

The Company recorded net income of \$3.5 million (\$0.03 per basic and diluted share) and \$1.5 million (\$0.02 per basic and diluted share), respectively, for the three and six months ended June 30, 2026, compared to a net loss of \$54.6 million ((\$1.03) per basic and diluted share) and \$52.2 million ((\$0.98) per basic and diluted share) in the comparable periods of 2025.

The net income recorded in the three and six months ended June 30, 2026 as compared to the net loss recorded in the same periods of 2025 is primarily the result of the \$41.2 million loss on the Lloydminster Disposition and a non-cash impairment loss of \$23.2 million recorded in the comparable periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash flow from operating activities for the three and six months ended June 30, 2026, increased by 99% and 12% as compared to the same periods of 2025. The increase in cash flow from operating activities consistent with the decrease in adjusted funds flow from operations (discussed below), adjusted by the changes in non-cash working capital for the periods.

For the three and six months ended June 30, 2026, adjusted funds flow from operations decreased 24% and 46%, respectively, as compared to the same periods of 2025. This was primarily due to a decrease in petroleum and natural gas revenues, net of blending and higher transportation costs and realized financial derivative losses, offset by lower royalties, net operating expenses and G&A expenses recorded in the current periods.

Capital Expenditures

(\$ in thousands)	Three months ended June 30,			Six months ended June 30,		
	2026	2025	% change	2026	2025	% change
Land and geological and geophysical	109	281	(61)%	771	960	(20)%
Drilling and completions	9,107	3,395	168%	9,581	21,733	(56)%
Equipping and facilities	4,267	1,154	270%	4,771	4,347	10%
Other	441	521	(15)%	842	1,233	(32)%
Exploration and development	13,924	5,351	160%	15,965	28,273	(44)%
Property dispositions	-	(5,066)	(100)%	-	(5,066)	(100)%
Capital expenditures⁽¹⁾	13,924	285	4786%	15,965	23,207	(31)%

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

Exploration and development expenditures for the three and six months ended June 30, 2026, were \$13.9 million and \$16.0 million, respectively, as compared to \$5.4 million and \$28.3 million in the comparable periods of 2025. In the three months ended June 30, 2026, the Company incurred \$0.1 million on lease acquisitions and seismic, \$9.1 million on drilling and completions, \$4.3 million on equipping and facilities and \$0.4 million related to other costs. During the six months ended June 30, 2026, the Company incurred \$0.8 million on lease acquisitions and seismic, \$9.6 million on drilling and completions, \$4.8 million on equipping and facilities, and \$0.8 million related to other capital costs.

The Company's Q2 2026 capital program included drilling and bringing on stream 7.0 gross (7.0 net) High Velocity Solids Management ("HVSM") wells, targeting the Mannville formation, in the Moonshine area of Alberta.

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

	Three months ended June 30,				Six months ended June 30,			
	2026		2025		2026		2025	
	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net	Gross ⁽¹⁾	Net ⁽¹⁾	Gross	Net
Crude oil	7.0	7.0	1.0	1.0	7.0	7.0	9.0	8.9
Disposal	-	-	-	-	-	-	-	-
Total	7.0	7.0	1.0	1.0	7.0	7.0	9.0	8.9
Success rate	100%	100%	100%	100%	100%	100%	100%	100%

⁽¹⁾ Of the 7.0 (7.0 net) crude oil wells drilled during the six months ended June 30, 2026, all 7.0 (7.0 gross) were brought on production in the period. The wells drilled in the second quarter of 2026 were brought on production between late May and the end of June, so the full impact of these additions will begin to be realized in the third quarter of 2026.

Share Capital

Common Shares

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series (of which nil preferred shares are outstanding).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes the Company's issued and outstanding Common Shares for the periods ended June 30 2026 and December 31, 2025:

	June 30, 2026		December 31, 2025	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	53,237,528	\$ 176,728	53,237,528	\$ 224,642
Issued pursuant to acquisition	29,781,301	49,732	-	-
Issued on private placement	25,000,000	30,000	-	-
Share issue costs	-	(1,465)	-	-
Repurchase of NCI	-	667	-	-
Exercise of warrants	1,136,383	1,523	-	-
Reduction of stated capital	-	-	-	(47,914)
Balance, end of period	109,155,212	\$ 257,185	53,237,528	\$ 176,728

On March 30, 2026, the Company acquired all of the issued and outstanding common shares of Mahikan in exchange for 29,781,301 common shares of Lycos. 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. The Company incurred gross share issue costs of \$1.5 million.

Subsequent to June 30, 2026, and concurrently with the Provost Acquisition, the Company closed the Bought-Deal Offering for gross proceeds of \$34.5 million, including exercise of the over allotment in full.

Warrants

The following table summarizes the Company's issued, outstanding, and exercisable warrants, each entitling the holder to acquire one common share at \$1.34 per share until December 12, 2027, for the periods:

	June 30, 2026		December 31, 2025	
	Number of Warrants	Weighted average exercise price ⁽¹⁾	Number of Warrants	Weighted average exercise price ⁽¹⁾
Outstanding and Exercisable				
Balance, beginning of period	5,549,869	\$ 1.34	5,549,869	\$ 1.34
Exercised ⁽²⁾	(1,136,383)	\$ 1.34	-	\$ -
Balance, end of period	4,413,486	\$ 1.34	5,549,869	\$ 1.34

(1) In conjunction with the return of capital completed on November 28, 2025, the original warrant exercise price of \$2.24 was adjusted to reflect the \$0.90 distribution paid to each common share with immediate effect.

(2) During the period ending June 30, 2026, 1,136,383 warrants were exercised for proceeds of \$1.5 million.

Dilution

The Company uses the treasury stock method to determine the impact of dilutive securities. In computing the diluted net income (loss) per share for the periods.

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
WA shares outstanding - basic	108,860,768	53,237,528	81,505,463	53,237,528
Effect of dilutive warrants ⁽¹⁾	1,473,285	-	769,355	-
Effect of dilutive stock options ⁽²⁾	-	-	-	-
Effect of dilutive share incentive awards ⁽³⁾	218,611	-	-	-
WA shares outstanding - diluted	110,552,664	53,237,528	82,274,818	53,237,528

(1) The 4,413,486 warrants outstanding from the date of grant were dilutive for the three and six months ended June 30, 2026, however the 5,549,869 warrants were excluded from the dilutive effect during the three and six months ended June 30, 2025 as they were not dilutive based on the treasury stock method.

(2) The stock options outstanding from the date of grant were excluded from the dilutive effect during the three and six months ended June 30, 2026 and 2025 as they were not dilutive based on the treasury stock method.

MANAGEMENT'S DISCUSSION AND ANALYSIS

⁽³⁾ The share awards outstanding from the date of grant were dilutive based on the treasury stock method for the three months ended June 30, 2026, however they were excluded from the dilutive effect during the six months ended June 30, 2026 based on the treasury stock method.

Normal course issuer bid ("NCIB")

On October 15, 2025, the Company announced its NCIB which commenced on November 3, 2025, permitting Lycos to repurchase up to 4,661,208 Common Shares within a twelve-month period. During the three and six months ended June 30, 2026, the Company did not purchase any shares for cancellation.

Outstanding Securities

As at August 11, 2026, the Company had the following securities outstanding:

<i>(in thousands)</i>	As at August 11, 2026
Outstanding securities:	
Common shares	131,853
Stock options	3,320
Restricted share awards	2,145
Warrants	4,413

Liquidity and Capital Resources

As at June 30, 2026, the Company's capital structure is comprised of adjusted working capital of \$8.4 million and shareholders' equity of \$174.0 million. Lycos' adjusted working capital increased from \$9 thousand at December 31, 2025 to \$8.4 million at June 30, 2026, primarily due to the proceeds of the private placement that closed on March 30, 2026 and adjusted funds flow from operations generated in the period, offset by capital expenditures.

On March 30, 2026, the Company completed the Mahikan Business Combination and the Offering for gross proceeds of approximately \$30.0 million, of which \$12.9 million was used to repay acquired debt upon close of the business combination. The business combination materially enhances the Company's scale and inventory depth through the addition of significant undeveloped land and drilling opportunities.

Subsequent to June 30, 2026, the company closed the Provost Acquisition along with a concurrent \$34.5 million Bought-Deal Offering and an expansion of the existing credit facility to \$55 million, with an uncommitted accordion feature to increase total capacity up to \$75 million.

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 credit facility. Lycos maintains the flexibility to adjust its capital spending to manage working capital requirements and may issue equity to fund future acquisitions and development activities as appropriate.

Credit Facility

As at June 30, 2026, the Company had an uncommitted demand revolving credit facility with the National Bank of Canada ("the Lender") for up to \$50.0 million, of which \$35.0 million is immediately available for general corporate purposes and an additional \$15.0 million is available at the discretion of the Lender. A semi-annual borrowing base review is scheduled to occur on or before May 31 and November 30 of each year.

As at June 30, 2026, the Company had \$nil million (December 31, 2025 - \$2.4 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, 2026, the Company had an interest rate of prime plus 1.25% per annum on the credit facility.

The credit facility is secured by a demand debenture in the amount of \$100.0 million. Repayments of principal are not required until the Lender demands, provided that the borrowings do not exceed the authorized credit facility, and the Company is compliant with all covenants. As at June 30, 2026, the Company was compliant with all covenants.

Subsequent to June 30, 2026, and concurrently with the Provost Acquisition and Bought-Deal Offering, the Company extended its uncommitted demand revolving credit facility up to \$75.0 million, of which \$55.0 million is immediately available for general corporate purposes and an additional \$20.0 million is available at the discretion of the Lender.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations and Commitments

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

The Company has the following drill commitments: drill one (1) well by September 30, 2026; three (3) wells by March 3, 2027; one (1) well by July 13, 2027; and two (2) wells by March 3, 2028. In the event the Company fails to fulfill these drilling commitments, a penalty ranging from \$0.1 million to \$0.3 million is payable for each well not spud by the applicable commitment date.

Quarterly Results

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

(\$ in thousands, except share data)	2026			2025			2024	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Total petroleum and natural gas sales, net of blending ⁽¹⁾	16,770	10,849	10,250	19,379	23,146	26,842	30,196	33,986
Cash flow from operating activities	16,691	6,794	5,358	10,370	8,396	12,656	12,898	19,764
Adjusted funds flow from operations ⁽¹⁾	7,328	4,571	4,101	9,558	9,628	12,512	14,421	17,005
Net income (loss)	3,493	(2,005)	169	2,465	(54,612)	2,373	(13,442)	3,706
Per share - basic	\$ 0.03	\$ (0.04)	\$ -	\$ 0.05	\$ (1.03)	\$ 0.04	\$ (0.25)	\$ 0.07
Per share - diluted	\$ 0.03	\$ (0.04)	\$ -	\$ 0.05	\$ (1.03)	\$ 0.04	\$ (0.25)	\$ 0.07
Adjusted working capital (net debt) ⁽¹⁾	8,391	13,863	9	(11,664)	(19,277)	(25,285)	(17,661)	(31,503)
Capital expenditures ⁽¹⁾	13,924	2,041	1,986	1,413	5,351	22,922	9,824	17,281
Acquisitions (Dispositions)		-	(58,049)	-	(5,066)	-	(11,059)	-
Weighted average shares outstanding (thousands)								
Basic	108,861	53,846	53,238	53,238	53,238	53,238	53,238	53,215
Diluted	110,553	53,846	53,238	53,238	53,238	53,532	53,238	54,818
Shares outstanding, end of period (thousands)								
Basic	109,155	108,019	53,238	53,238	53,238	53,238	53,238	53,238
Diluted	110,847	108,019	53,238	53,238	53,238	53,532	53,238	54,841
Operational								
Average daily production								
Crude oil (bbls/d)	1,821	1,567	1,663	2,915	3,795	3,940	4,421	4,728
Natural gas (mcf/d)	399	517	394	260	869	793	893	651
Total (boe/d)	1,887	1,653	1,729	2,958	3,940	4,072	4,570	4,836

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

Lycos was positioned for steady growth in 2024 given the strategic acquisitions completed in 2023. In 2024 Lycos incurred \$67.8 million of exploration and development expenditures (\$56.7 net of dispositions), which included drilling and completing 25.6 net producing wells and 1.0 net disposal well. Lycos exited 2024 with average production of 4,570 boe/d in Q4 2024.

In Q1 2025, the Company executed an exploration and development program focused on advancing its land base, incurring \$22.9 million of capital expenditures to drill 7.9 net producing wells and spud 1.0 net well, which was rig released and brought on stream in Q2 2025. In Q2 2025, the Company completed drilling and brought on stream 1.0 net Moose Lake well. On May 29, 2025, the Company announced the termination of its previously announced strategic review process and the temporary suspension of its capital expenditures program in response to low and volatile commodity prices and global economic uncertainty. During Q2 2025, the Company completed the Lloydminster Disposition and Frog Lake disposition. In Q4 2025, the Company closed the Elnora Disposition and North Disposition, generating significant cash proceeds that were applied to reduce Net Debt and fund the previously announced Return of Capital.

In Q1 2026 Lycos completed the Mahikan Business Combination, acquiring 44.5 contiguous parcels of land in the Moonshine area of East Central, Alberta and concurrently raising \$30.0 million of proceeds through the Offering. The business combination and financing positioned the Company for significant growth in 2026. In Q2 2026, the Company executed an exploration and development program focused on advancing its acquired land base, incurring \$13.9 million of capital expenditures to drill 7.0 net producing wells, which were all rig released and brought on stream in the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent to June 30th 2026, the Company closed the Provost Acquisition and Bought-Deal Offering. Concurrently, Lycos announced increasing its previously announced 2026 capital expenditure budget from \$35 – 40 million to \$50 – 55 million. The \$15 million increase will fund an expanded drilling program across Lycos' existing assets, as well as optimization and development activity on the assets acquired in the Provost Acquisition.

Off-Balance Sheet Arrangements

All off-balance sheet arrangements are in the normal course of business. Refer to the commitments in the section titled "Contractual Obligations and Commitments".

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

This document contains the terms "net operating expenses", "operating netback", "total crude oil, petroleum and natural gas revenue, and total petroleum and natural gas sales, net of blending" and "royalty rate" which are non-IFRS financial measures, or ratios if calculated on a per boe or percentage basis. The Company uses these measures to help evaluate Lycos' performance. These non-IFRS financial measures and ratios do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This document also contains the capital management measures, or ratios, of "adjusted funds flow from operations", "adjusted working capital" and "total capital expenditures". Management believes that the presentation of these non-IFRS, capital management and other financial measures provides useful information to shareholders and investors in understanding and evaluating the Company's ongoing operating performance.

Adjusted Funds Flow from Operations

Funds flow is calculated by taking cash flow from operating activities and adding back changes in non-cash working capital. Adjusted funds flow from operations is further calculated by adding back decommissioning expenditures and transaction costs. Management considers adjusted funds flow from operations to be a key measure to assess the performance of the Company's oil and gas properties and the Company's ability to fund future capital investment. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of costs. Changes in non-cash working capital, decommissioning expenditures and transaction costs vary from period to period and Management believes that excluding the impact of these provides a useful measure of Lycos' ability to generate the funds necessary to manage the capital needs of the Company.

The Company reconciles adjusted funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS as follows:

(\$ in thousands)	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Cash flow from operating activities	16,691	8,396	23,485	21,052
Change in non-cash working capital	(9,607)	11	(13,759)	(328)
Funds flow from operations	7,084	8,407	9,726	20,724
Decommissioning expenditures	90	173	94	344
Transaction costs	154	1,048	2,079	1,072
Adjusted funds flow from operations	7,328	9,628	11,899	22,140
Per boe (\$)	42.67	26.86	36.74	30.54

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.

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(\$ in thousands)	June 30, 2026	December 31, 2025
Working capital	6,936	(1,216)
Current portion of lease obligations	546	325
Current portion of decommissioning liabilities	1,000	900
Financial derivative asset	(91)	-
Adjusted working capital	8,391	9

Royalty Rate

The Company's royalty rate is calculated as total royalties as a percentage of total petroleum and natural gas revenues, net of blending.

Net Operating Expenses

Management uses net operating expenses to analyse operating performance. Net operating expenses are determined by deducting processing income (see the section titled "Net Operating Expenses" above) primarily generated by third party volumes at processing facilities where the Company has an ownership interest. However, the Company's principal business is not that of a midstream entity whose activities are dedicated to earning processing and other infrastructure payments. Where the Company has excess capacity at its facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs in the MD&A.

Operating netback

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

Capital Expenditures

Management uses the term "capital expenditures" as a measure of capital investment in exploration and development activity as compared to the Company's annual budgeted capital expenditures. The most directly comparable IFRS measure for total capital expenditures is cash flow used in investing activities. Capital expenditures represents capital expenditures – exploration and evaluation and capital expenditures – property, plant and equipment and expenditures on acquisitions and proceeds on dispositions.

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

(\$ in thousands)	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Net cash used in investing activities	17,796	17,576	21,320	29,523
Change in non-cash working capital	(3,872)	(17,291)	(5,355)	(6,316)
Capital expenditures	13,924	285	15,965	23,207

MANAGEMENT'S DISCUSSION AND ANALYSIS

Advisories

Unless otherwise indicated, all production information presented herein is presented on a gross basis, which is the Company's working interest prior to deduction of royalties and without including any royalty interests. Readers are cautioned that the MD&A should be read in conjunction with disclosures in the sections titled "Non-IFRS Measures, Non-IFRS Financial Ratios and Capital Management Measures".

Certain figures included in this MD&A have been rounded for ease of presentation. Percentage figures included in this MD&A have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this MD&A may vary slightly from those obtained by performing the same calculations using the figures in Lycos' Interim Financial Statements or in the associated text. Certain other amounts that appear in this MD&A may similarly not sum due to rounding.

BOE Presentation

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

Product Type Information

The Company has disclosed natural gas liquids ("NGLs") product type with crude oil due to the insignificant magnitude of NGLs. Throughout this MD&A, "crude oil" therefore refers to heavy crude oil and NGLs combined, as such terms are defined by National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. Natural gas refers to conventional natural gas.

Supplementary Financial Measures

Per boe disclosures for petroleum and natural gas revenues, royalties, net operating expenses, transportation expenses, G&A expenses, financing expenses, and depletion, depreciation and amortization, impairment (reversal) are supplementary financial measures that are calculated by dividing each of these respective IFRS measures by the Company's total production volumes for the period.

Average realized prices for crude oil and natural gas are supplementary financial measures calculated by dividing each of these components of petroleum and natural gas revenues by their respective production volumes for the period.

Royalties as a percentage of petroleum and natural gas revenues is a supplementary financial measure calculated by dividing royalties by petroleum and natural gas revenues.

Critical Accounting Estimates

The Interim Financial Statements and this MD&A have been prepared using the same critical accounting estimates as the Annual Financial Statements, which are available on the Company's website at www.lycosenergy.com and under the Company's profile on SEDAR+ at www.sedarplus.ca.

Forward Looking Information and Statements

This MD&A may include forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are included for the purpose of providing information about Management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "can", "continue", "develop", "evaluate", "expect", "plan", "intend", "estimate", "maintains", "manage", "potential", "propose", "project", "target", "use", "budget", "forecast", "should", "will", "may" and similar expressions (or grammatical variations or negatives thereof) suggesting future outcomes or statements regarding an outlook. Forward-looking statements or forward-looking information in this MD&A include, but are not limited to, statements or

MANAGEMENT'S DISCUSSION AND ANALYSIS

information with respect to: (i) Lycos' business strategy and objectives, including renewed focus on optimizing and advancing development plans across its retained core properties; (ii) performance characteristics of Lycos' oil and natural gas properties, including anticipated production, capital expenditures, drilling plans, adjusted funds flow from operations and adjusted working capital; (iii) Lycos' expectation and plans regarding drilling and the completions of wells (including certain drilling commitments and the timing thereof); (iv) Lycos' expectations of royalty expenses as a percentage of revenue; (v) Lycos' crude oil pricing assumptions and Canadian to US dollar exchange rates; (vi) capital resources and liquidity, including the Company's expectations regarding sources of funding for future development capital expenditures (including the availability of the Company's credit facility); (vii) the Company's expectations in respect of G&A expenses; (viii) the Company's expectations in respect of commodity prices and WCS differentials; (ix) the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and the effects thereof; (x) ability of the Company to achieve drilling success consistent with Management's expectations; and (xi) the timing and expected production of recently spud / drilled wells. In addition, the statements contained herein relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves or resources described can be profitably produced in the future. The recovery and reserves estimates provided herein are internal estimates only and there is no guarantee that the estimated reserves will be recovered. Therefore, actual results may differ materially from those anticipated in the forward-looking statements. Lycos disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Assumptions

Forward-looking statements or information are based on a number of factors and assumptions which have been used in developing such statements and information, but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding, among other things: expectations and assumptions concerning the business plan of the Company; the accuracy of geological and geophysical data and interpretation of that data; estimated decline rates; the ability of the Company to continue to meet its obligations under its credit facility; the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the Company to operate in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the successful integration of the recently acquired assets into Lycos' operations; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing of and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate transportation for products; future oil and natural gas prices; foreign currency exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; the impact of inflation on costs and interest rates; the ability of the Company to successfully market its oil and natural gas products; the availability of capital (including that Lycos is well capitalized to execute on its capital expenditure program and strategy) and skilled personnel; drilling results; and prevailing commodity prices, price volatility, price differentials and the actual prices received for the Company's products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

Risks and uncertainties

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. These risks and uncertainties which may cause actual results to differ materially from the forward-looking statements or information include, among other things: the ability of Management to execute its business plan; general economic and business conditions; the risk of instability affecting the jurisdictions in which the Company operates; risks associated with the oil and natural gas industry in general (e.g. operational risks in exploring for, developing and producing crude oil and natural gas; market demand and volatility; changes to market valuations; changes to supply and demand for oil and natural gas; uncertainty of reserves estimates; uncertainty of estimates and projections relating to production, costs and expenses, including increased operating and capital costs due to inflationary pressures); changes in industry regulations and legislation

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(including, but not limited to, tax laws, royalties, and environmental regulations); the imposition or expansion of tariffs imposed by domestic and foreign governments or the imposition of other restrictive trade measures, retaliatory or countermeasures implemented by such governments, including the introduction of regulatory barriers to trade and the potential material adverse effect on the Canadian, U.S. and global economies, and by extension the Canadian oil and natural gas industry and the demand and/or market price for the Company's products and/or otherwise adversely affects the Company; the possibility that government policies or laws may change; the possibility that governmental approvals may be delayed or withheld; changes in the political landscape both domestically and abroad; wars (including ongoing military actions in the Middle East and Russia's invasion of Ukraine); competition; the lack of availability of qualified personnel or management; the lack of availability of or access to services; the results of exploration and development drilling related activities; risks and uncertainties involving geology of oil and natural gas deposits; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew leases; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the ability to access sufficient capital from internal and external sources; fluctuations and uncertainty with respect to foreign currency exchange rates, interest rates and commodity prices (including pursuant to determinations by the Organization of Petroleum Exporting Countries and other countries (collectively referred to as OPEC+) regarding production levels) and the risk of an extended period of low oil and natural gas prices; stock market and financial system volatility; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of royalty payments; health, safety and environmental risks; risks with respect to unplanned third-party pipeline outages; adverse weather or break-up conditions, including severe weather events and natural disasters such as fires, droughts, flooding and extreme hot or cold temperatures; the Company's ability to secure sufficient amounts of water; risks associated with existing and potential future law suits and regulatory actions against the Company; uncertainties as to the availability and cost of financing; financial risks affecting the value of the Company's investments; actions of OPEC and OPEC+ members; and the impact of oil differentials on the Company's financial position. Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties.

These known and unknown risks and uncertainties may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements. Accordingly, there is no assurance that the expectations conveyed by the forward-looking statements will prove to be correct. All subsequent forward-looking statements, whether written by or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

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

To date in 2026, geopolitical tensions in the Middle East escalated following military conflict involving Iran and regional allies. The situation has raised concerns regarding potential disruptions to global crude oil supply and shipping routes through the Strait of Hormuz, which handles a significant portion of global oil trade. In response, oil markets have experienced increased volatility and recently pushed the prompt WTI crude oil price over US\$80 per barrel. The duration of the war and its impacts on commodity prices, markets and other factors is uncertain. Lycos is closely monitoring this developing situation.

Additional risks and information on risk factors are included in the Company's Annual Information Form for the year ended December 31, 2025, which is available on the Company's website at www.lycosenergy.com and under the Company's profile on SEDAR+ at www.sedarplus.ca.

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Corporate Information

Board of Directors

TOM COOLEN
Chair of the Board of Directors
Calgary, Alberta

BRUCE BEYNON
Director
Calgary, Alberta

CRAIG BRYKSA
Director
Calgary, Alberta

STEVE BUYTELS
Director
Calgary, Alberta

BRUCE HALL
Director
Calgary, Alberta

BRENDAN PATON
Director
Calgary, Alberta

DAVE BURTON
Director
Calgary, Alberta

Officers

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

LINDSAY GOOS, CPA-CA
Vice President Finance & CFO

KYLE BOON, P.Tech (Eng.)
Vice President, Production & Corporate
Development

MIKE BUCHOLTZ, P. Eng.
Vice President, Engineering & Business
Development

TAYLOR LAW, P.Geo.
Vice President, Exploration

SONY GILL
Corporate Secretary
Stikeman Elliott LLP

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Suite 1010, 520 – 3 Ave SW
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Tel: (403) 453-1950
Email: info@lycosenergy.com

Auditors

KPMG LLP
Chartered Professional Accountants
Calgary, Alberta

Independent Reservoir Consultants

McDaniel & Associates Consultants Ltd
Calgary, Alberta

Stock Exchange

TSX Venture Exchange – Symbol: **LCX.V**