

Condensed Interim Consolidated Financial Statements

For the three and nine months ended
September 30, 2026
(unaudited)

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(in thousands)

	Notes	September 30, 2026	December 31, 2025
Assets			
Current assets			
Accounts receivable	14	**$ 16,266**	$ 6,473
Prepaid expenses and deposits		**2,070**	1,346
Total current assets		**18,336**	7,819
Exploration and evaluation assets	5	**43,003**	-
Property, plant and equipment	6	**234,496**	105,837
Total assets		**$ 295,835**	$ 113,656
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	14	**$ 35,674**	$ 5,444
Current portion of lease obligations	8	**524**	325
Current portion of decommissioning liabilities	7	**1,000**	900
Bank debt	15	**20,593**	2,366
Financial derivatives	14	**2,554**	-
Total current liabilities		**60,345**	9,035
Lease obligations	8	**656**	934
Decommissioning liabilities	7	**16,094**	12,490
Deferred income tax		**9,587**	-
Total liabilities		**86,682**	22,459
Shareholders' equity			
Share capital	9	**289,420**	176,728
Contributed surplus		**17,811**	15,845
Deficit		**(98,078)**	(101,376)
Total shareholders' equity		**209,153**	91,197
Total liabilities and shareholders' equity		**$ 295,835**	$ 113,656

Commitments (note 16)

Subsequent events (notes 14 & 17)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Lycos Energy Inc.

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

	Notes	Three months ended September 30, 2026	Three months ended September 30, 2025	Nine months ended September 30, 2026	Nine months ended September 30, 2025
Revenue					
Petroleum and natural gas sales	11	**$ 30,711**	$ 19,379	**$ 58,330**	$ 72,651
Royalties		**(5,833)**	(3,170)	**(10,083)**	(10,782)
Petroleum and natural gas sales, net of royalties		**24,878**	16,209	**48,247**	61,869
Other income		**45**	-	**148**	10
Realized loss on financial derivatives	14	**(824)**	(40)	**(1,512)**	(436)
Unrealized loss on financial derivatives	14	**(2,645)**	(20)	**(2,554)**	(67)
Total revenue and other income		**21,454**	16,149	**44,329**	61,376
Expenses					
Operating		**6,329**	4,213	**13,550**	19,445
Blending		**-**	-	**-**	3,285
Transportation		**2,389**	888	**4,080**	2,370
General and administrative		**1,066**	1,133	**2,866**	3,687
Stock-based compensation	10	**663**	153	**1,179**	675
Transaction		**-**	16	**2,079**	1,088
Finance	12	**460**	526	**954**	1,582
Depletion and depreciation	6	**8,045**	6,755	**15,602**	23,066
Loss on dispositions		**-**	-	**-**	41,196
Impairment		**-**	-	**-**	23,200
Total expenses		**18,952**	13,684	**40,310**	119,594
Net income (loss) before income taxes		**$ 2,502**	$ 2,465	**$ 4,019**	$ (58,218)
Deferred income tax expense (recovery)		**692**	-	**721**	(8,444)
Net income (loss) and comprehensive income (loss)		**$ 1,810**	$ 2,465	**$ 3,298**	$ (49,774)
Net income (loss) per share					
Basic and diluted	9	**$ 0.01**	$ 0.05	**$ 0.03**	$ (0.93)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands, except share amounts)

	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Non-controlling interest	Total Equity
Balance, January 1, 2025		53,237,528	$ 224,642	$ 14,512	$ (51,771)	$ -	$ 187,383
Stock-based compensation		-	-	1,091	-	-	1,091
Net loss		-	-	-	(49,774)	-	(49,774)
Balance, September 30, 2025		**53,237,528**	**$ 224,642**	**$ 15,603**	**$ (101,545)**	**$ -**	**$ 138,700**
Balance, January 1, 2026		53,237,528	$ 176,728	$ 15,845	$ (101,376)	$ -	$ 91,197
Issued pursuant to acquisition	4	29,781,301	49,732	-	-	667	50,399
Issued pursuant to equity financings	9	47,697,550	64,500	-	-	-	64,500
Share issue costs	9	-	(3,730)	-	-	-	(3,730)
Repurchase of NCI	4		667	-	-	(667)	-
Exercise of warrants	9	1,136,383	1,523	-	-	-	1,523
Stock-based compensation	10	-	-	1,966	-	-	1,966
Net income		-	-	-	3,298	-	3,298
Balance, September 30, 2026		**131,852,762**	**$ 289,420**	**$ 17,811**	**$ (98,078)**	**$ -**	**$ 209,153**

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Lycos Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Notes	Three months ended September 30, **2026**	2025	Nine months ended September 30, **2026**	2025
Operating Activities					
Net income (loss)		**$ 1,810**	$ 2,465	**$ 3,298**	$ (49,774)
Adjustments for:					
Unrealized loss on financial derivatives	14	**2,645**	20	**2,554**	67
Finance expense	12	**460**	526	**954**	1,582
Interest expense	12	**(289)**	(377)	**(462)**	(958)
Depletion and depreciation	6	**8,045**	6,755	**15,602**	23,066
Stock-based compensation	10	**663**	153	**1,179**	675
Deferred income tax expense (recovery)		**692**	-	**721**	(8,444)
Loss on dispositions		**-**	-	**-**	41,196
Impairment expense		**-**	-	**-**	23,200
Decommissioning expenditures	7	**(329)**	(452)	**(423)**	(796)
Change in non-cash operating working capital	13	**(7,128)**	1,280	**6,631**	1,608
Cash flow from operating activities		**6,569**	10,370	**30,054**	31,422
Financing Activities					
Payments on lease obligations	8	**(155)**	(64)	**(343)**	(197)
Change in bank debt	15	**20,593**	(7,264)	**18,227**	1,340
Issue of common shares, net of costs	9	**32,235**	-	**60,770**	-
Proceeds from exercise of warrants	9	**-**	-	**1,523**	-
Repayment of acquired debt	4	**-**	-	**(12,888)**	-
Cash flow from (used in) financing activities		**52,673**	(7,328)	**67,289**	1,143
Investing Activities					
Capital expenditures - exploration and evaluation	5	**-**	-	**(674)**	(18,580)
Capital expenditures - property, plant and equipment	6	**(23,523)**	(1,413)	**(38,814)**	(11,106)
Expenditures on property acquisition	4	**(68,576)**	-	**(68,576)**	-
Proceeds from dispositions		**-**	-	**-**	5,066
Change in non-cash investing working capital	13	**16,076**	(1,629)	**10,721**	(7,945)
Cash flow used in investing activities		**(76,023)**	(3,042)	**(97,343)**	(32,565)
Change in cash		**(16,781)**	-	**-**	-
Cash, beginning of period		**16,781**	-	**-**	-
Cash, end of period		**$ -**	$ -	**$ -**	$ -

See accompanying notes to the unaudited condensed interim consolidated 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. On March 30, 2026, the Company closed the Mahikan business combination (note 4). These consolidated financial statements comprise the accounts of Lycos and its subsidiaries, all of which are incorporated in Canada.

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

These financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2025.

These financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2025.

These financial statements were authorized for issue by the Board of Directors on November 10, 2026.

Use of estimates and judgments

The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2025, except as described in note 3.

Business combination

The assumptions and estimates with respect to determining the fair value of property, plant and equipment and exploration and evaluation assets acquired generally require the most judgment and include estimate of proved and probable petroleum and natural gas reserves acquired, forecast benchmark commodity prices, discount rates, future costs and the assessment of recent comparable market transactions. Management's judgment is also required in determining the fair value of decommissioning liabilities assumed associated with the properties acquired.

Management issued common shares subject to trading restrictions as consideration for the combination. Due to the trade restrictions, at the settlement date, the fair value of shares issued was determined using the Black-Scholes option pricing model with key assumptions of an annualized historical volatility and the Bank of Canada benchmark treasury rates at the acquisition date.

Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill or bargain purchase gain. Future net income (loss) could also be affected as the fair value on initial recognition impacts carrying amounts for assets and liabilities.

Basis of consolidation

The consolidated financial statements have been prepared under the historical cost basis, unless otherwise required. The consolidated financial statements include the accounts of the Company and all of its subsidiary companies which are presented in Canadian dollars. Subsidiaries include all entities over which the Company has control. Subsidiaries are consolidated from the date on which the Company obtains control. They are deconsolidated from the date that control ceases. Balances and transactions, including any revenue and expenses, with or between subsidiaries have been eliminated in preparing the financial statements.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented as a separate component of equity in the consolidated statements of financial position. Subsequent to acquisition, the carrying amount of non-controlling interests is adjusted for the non-controlling interest's share of changes in the subsidiary's equity.

New and amended accounting standards

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

In May 2024, the IASB issued amendments to IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments clarifying the date of recognition and derecognition of financial assets and liabilities. The Company adopted this amendment on its effective date of January 1, 2026, with no impact on the Company's financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaces IAS 1 *Presentation of Financial Statements* to achieve comparability of the financial performance of similar entities. The standard introduces a new defined structure to the Statement of Comprehensive Income with related disclosure requirements. The standard is effective for financial statements beginning on January 1, 2027, including interim financial statements and requires retrospective application. The Company is currently assessing the impact of this standard.

3. Material accounting policies

Except as noted below, these financial statements have been prepared following the same accounting policies as the most recent audited annual financial statements. The unaudited condensed interim financial statement note disclosures do not include all of those required by IFRS Accounting Standards applicable for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2025.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. Goodwill is measured as the excess of the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Transaction costs and other acquisition costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred. The Company elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Share incentive awards

The Company's Share Award Incentive Plan allows for the granting of equity-settled restricted share awards ("RSA") and performance share awards ("PSA") to directors, officers, employees and consultants of the Company as detailed in note 10. Each award allows the holder to receive one Common Share or a cash payment upon vesting, at the Company's discretion, equal to the fair market value of the Company's common shares calculated at the date of such payment. Lycos does not intend to make cash payments under the plan and, as such, the RSAs and PSAs are accounted for within shareholders' equity as equity-settled awards.

RSAs are measured at the fair value of the equity instruments at the grant date and are adjusted for estimated forfeiture rates. The fair value determined at the grant date is expensed over the vesting period with a corresponding increase in contributed surplus.

4. Acquisitions

Mahikan Oil Corporation ("Mahikan")

On March 30, 2026, Lycos completed the business combination with Mahikan, a privately held, heavy oil producer. 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. 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.

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

The common shares issued to directors, officers, and 10% shareholders of Mahikan, representing 21,150,001 common shares, are subject to staged hold periods and are being released in three tranches on the dates that are four, eight and twelve months following the closing date of March 30, 2026. The first tranche of 7,050,000 common shares was released on July 30, 2026, and the remaining tranches of 7,050,000 and 7,050,001 common shares will be released on November 30, 2026 and March 30, 2027, respectively. The remaining 8,631,300 common shares, issued to all other shareholders of Mahikan, were subject to a hold period of four months from the date of issuance, which expired on July 31, 2026.

All 29,781,301 common shares issued as consideration are subject to trading restrictions at the date of issuance and were valued at a discount to the closing market price of $1.99 per share. Fair value was determined using the Black-Scholes model, with key assumptions of an annualized historical volatility of 61.13%, 53.05% and 58.73% derived from daily closing prices over the four, eight and twelve month periods ended March 30, 2026, and a risk-free rate based on the Bank of Canada benchmark treasury rates at the acquisition date.

Tranche	Shares	Hold Period	Discount	Fair value per share	Total Fair Value
4 months	15,681,300	4 months	14%	$ 1.72	$ 26,968,985
8 months	7,050,001	8 months	16%	$ 1.67	11,752,144
12 months	7,050,000	12 months	22%	$ 1.56	11,010,905
Total	**29,781,301**				**$ 49,732,034**

The calculated fair value of consideration transferred was $49.7 million (undiscounted: $59.3 million), representing a blended discount of 16% and an implied discounted share price of $1.67 relative to the $1.99 per share closing market price, and has been used as consideration for the purchase price allocation under IFRS 3, with fair value determined in accordance with IFRS 13.

Lycos incurred transaction costs of $1.9 million on the business combination, which were expensed through the Statement of Income (Loss). The Company repaid $12.9 million of acquired debt upon close of the business combination.

The estimated acquisition date fair value attributed to property, plant and equipment was derived from the estimate of proved and probable petroleum and natural gas reserves prepared by the Company's internal qualified reserves evaluator at the acquisition date. The proved and probable oil and gas reserves and related cash flows were discounted using an 18% before-tax discount rate. The fair value of decommissioning obligations was initially estimated using a credit adjusted risk-free rate of 10%.

The table below summarizes the preliminary allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on their estimated fair values:

Fair value of net assets acquired[(1)]	Notes	**March 30, 2026**
Property, plant and equipment	6	$ 33,239
Exploration and evaluation assets	5	42,329
Right of use asset	6	114
Decommissioning liabilities	7	(1,054)
Right of use liability	8	(114)
Deferred income tax liability		(8,866)
Working capital[(2)]	13	(2,361)
Debt		(12,888)
Fair value of net assets acquired before non-controlling interest		$ 50,399
Less: non-controlling interest		(667)
Fair value of net assets acquired		$ 49,732

Consideration	Note	
Common shares	9	$ 49,732
Total consideration paid		$ 49,732

(1) The fair values of identifiable assets and liabilities acquired are based on management's best estimates based on information available at the time of preparing these condensed interim consolidated 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.

(2) The Company acquired $0.8 million of receivables in the transaction which have been subsequently collected.

If the Mahikan business combination had occurred on January 1, 2026, the Company's pro forma results of petroleum and natural gas revenue and net income (loss) and comprehensive income (loss) for the period ended September 30, 2026, are estimated to have been as follows:

For the period ended September 30, 2026	**As stated**	**Mahikan prior to March 30, 2026**	**Pro forma**
Petroleum and natural gas revenue	$ 58,330	$ 498	$ 58,828
Net income (loss) and comprehensive income (loss)	$ 3,298	$ (2,905)	$ 393

Greater Provost Area ("Provost Acquisition")

On August 6, 2026, the Company closed a property acquisition of certain assets in the Greater Provost area of Alberta for cash consideration of $70.0 million, before closing adjustments of $2.1 million. The Provost Acquisition had an effective date of June 1, 2026.

The Company applied the optional concentration test under IFRS 3 whereby the acquisition was accounted for as an asset acquisition due to substantially all of the fair value of the gross assets acquired being concentrated in a group of identifiable assets.

The following table summarizes the allocation of the purchase price to the identifiable assets and liabilities acquired:

Net assets acquired	Notes	**August 6, 2026**
Property, plant and equipment	6	$ 69,790
Decommissioning liabilities	7	(1,214)
Net assets acquired		$ 68,576

Consideration	
Cash	$ 67,850
Capitalized transaction costs	726
Total consideration, after closing adjustments	$ 68,576

5. Exploration and evaluation assets

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

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

	Notes	**September 30, 2026**	December 31, 2025
Balance, beginning of period		**$ -**	$ 14,231
Additions		**674**	18,580
Acquisition	4	**42,329**	-
Dispositions		**-**	(8,566)
Transfers to PP&E		**-**	(24,245)
Balance, end of period		**$ 43,003**	$ -

As at September 30, 2026, the Company identified no indicators of impairment.

6. Property, plant and equipment

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

Cost	Notes	**D&P Assets**	**ROU Assets**	**Total PP&E**
Balance, December 31, 2024		$ 282,371	$ 661	**$ 283,032**
Additions[(1)]		13,092	1,261	**14,353**
Transfer from E&E assets		24,245	-	**24,245**
Dispositions		(150,613)	(224)	**(150,837)**
Changes in decommissioning liabilities		519	-	**519**
Capitalized stock-based compensation		(321)		**(321)**
Balance, December 31, 2025		$ 169,293	$ 1,698	**$ 170,991**
Additions[(1)]		38,814	91	**38,905**
Acquisition	4	103,029	114	**103,143**
Changes in decommissioning liabilities	7	1,426	-	**1,426**
Capitalized stock-based compensation	10	787	-	**787**
Balance, September 30, 2026		**$ 313,349**	**$ 1,903**	**$ 315,252**

Accumulated depletion, depreciation and impairment						
Balance, December 31, 2024	$	56,335	$	378	**$**	**56,713**
Depletion and depreciation		26,662		233		**26,895**
Impairment		23,200		-		**23,200**
Dispositions		(41,491)		(163)		**(41,654)**
Balance, December 31, 2025	$	64,706	$	448	**$**	**65,154**
Depletion and depreciation		15,227		375		**15,602**
Balance, September 30, 2026	**$**	**79,933**	**$**	**823**	**$**	**80,756**
Net carrying value:						
December 31, 2025	$	104,587	$	1,250	$	105,837
September 30, 2026	**$**	**233,416**	**$**	**1,080**	**$**	**234,496**

(1) Includes capitalized general and administrative expenses of $1.3 million (December 31, 2025 - $2.0 million).

As at September 30, 2026, estimated future development costs of $121.7 million (December 31, 2025 - $76.3 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.

As at September 30, 2026, the Company identified no indicators of impairment or impairment reversals.

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 September 30, 2026, is approximately $30.0 million (December 31, 2025 - $24.2 million). These payments are expected to be made over the next 40 years. A risk-free rate of 4.3% (December 31, 2025 – 3.9%) and an inflation rate of 2.3% (December 31, 2025 – 2.0%) was used to calculate the decommissioning liabilities.

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

	Notes		**September 30, 2026**		December 31, 2025
Balance, beginning of period		**$**	**13,390**	$	27,831
Change in estimates[(1)]			**(347)**		(803)
Additions			**739**		482
Acquisitions	4		**2,268**		-
Revaluation of liabilities acquired[(2)]			**1,034**		-
Dispositions			**-**		(13,736)
Decommissioning expenditures			**(423)**		(1,109)
Accretion	12		**433**		725
Balance, end of period		**$**	**17,094**	$	13,390
Expected to be incurred within one year		**$**	**1,000**	$	900
Expected to be incurred beyond one year		**$**	**16,094**	$	12,490

(1) The change in estimates in 2026 is primarily due to changes in timing, discount rates and inflation rates.
(2) The decommissioning liabilities acquired in the Mahikan business combination (note 4) were initially recognized using a credit adjusted risk-free discount rate in calculating fair value. Upon subsequent revaluation using the risk-free rate, the resulting change in estimate was recorded with the corresponding adjustment to property, plant and equipment.

8. Lease obligations

	Notes	September 30, 2026	December 31, 2025
Balance, beginning of period		**$ 1,259**	$ 320
Additions		**91**	1,231
Acquisition	4	**114**	-
Dispositions		**-**	(36)
Lease payments		**(343)**	(290)
Interest on lease obligations	12	**59**	34
Balance, end of period[(1)]		**$ 1,180**	$ 1,259
Expected to be incurred within one year		**$ 524**	$ 325
Expected to be incurred beyond one year		**$ 656**	$ 934

(1) A contractual maturity of the discounted payments due under the Company's lease agreements is provided in note 14.

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 periods:

		September 30, 2026		December 31, 2025	
	Note	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	4	**29,781,301**	**49,732**	-	-
Issued on private placement		**25,000,000**	**30,000**	-	-
Issued on equity offering		**22,697,550**	**34,500**	-	-
Share issue costs		**-**	**(3,730)**	-	-
Repurchase of NCI	4	**-**	**667**	-	-
Exercise of warrants		**1,136,383**	**1,523**	-	-
Reduction of stated capital		**-**	**-**	-	(47,914)
Balance, end of period		**131,852,762**	**$ 289,420**	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 (note 4). 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. All securities issued under the offering were subject to a statutory hold period of four months and one day from the date of issuance in accordance with applicable securities laws, which expired on July 31, 2026. Certain directors, officers and employees of the combined entity subscribed for approximately $5.0 million of the offering. The Company incurred gross share issue costs of $1.5 million.

On August 6, 2026, the Company completed a bought-deal equity offering of 22,697,550 common shares at a price of $1.52 per share for gross proceeds of $34.5 million, including the exercise of the overallotment option in full. Net proceeds from the offering were used to fund the Provost Acquisition (note 4). The Company incurred gross share issue costs of $2.2 million.

(c) Per share amounts

The Company uses the treasury stock method to determine the impact of dilutive securities. The following table summarizes the shares used in calculating net income (loss) per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	**2026**	2025
WA shares outstanding - basic	**122,724,400**	53,237,528	**95,396,093**	53,237,528
Effect of dilutive warrants[1]	**1,006,272**	-	**850,151**	-
Effect of dilutive stock options[2]	**-**	-	**-**	-
Effect of dilutive share incentive awards[3]	**273,007**	-	**187,987**	-
WA shares outstanding - diluted	**124,003,679**	53,237,528	**96,434,231**	53,237,528

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

Normal course issuer bid ("NCIB")

On October 27, 2026, the Company announced that the TSX Venture Exchange has accepted the renewal of its NCIB permitting Lycos to repurchase up to 10,661,989 common shares within a twelve-month period commencing on November 2, 2026. During the period ended September 30, 2026, the Company did not purchase any shares for cancellation.

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:

	September 30, 2026		December 31, 2025	
Outstanding and Exercisable	**Number of Warrants**	**Weighted average exercise price[1]**	Number of Warrants	Weighted average exercise price[1]
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 ended September 30, 2026, 1,136,383 warrants were exercised for proceeds of $1.5 million.

10. 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.

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

	September 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 stock options were cancelled in the period ended March 31, 2026, 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).

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 stock options granted have a remaining term of 4.6 years.

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 as follows:

	September 30, 2026	December 31, 2025
Weighted average fair value of options granted	**$ 0.94**	-
Average risk-free interest rate	**3.1%**	-
Average expected life years	**5.0**	-
Average expected volatility[(1)]	**44.1%**	-

(1) The expected volatility was estimated based on a peer group historical volatility.

Share incentive awards

The Company has a share award incentive plan, pursuant to which, 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 share award incentive plan, together with the Company's current stock option plan, constitutes a "rolling up to 10%" plan for purposes of TSX Venture Exchange policies.

As at September 30, 2026, no PSA's have been issued.

Restricted Share Awards

On May 26, 2026, the Company's Board of Directors approved the grant of an aggregate 2,145,000 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. The Company estimates the fair value of RSAs based on the market price of the underlying stock on the date of grant.

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

	Number of RSAs
Balance, December 31, 2024	-
Balance, December 31, 2025	**-**
Granted	2,145,000
Forfeited	(16,500)
Balance, September 30, 2026	**2,128,500**

Stock-based compensation expense

The following table summarizes the components of the Company's stock-based compensation expense as presented in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	**2026**	2025
Stock options	**476**	252	**1,100**	1,091
Share incentive awards	**623**	-	**866**	-
Gross stock-based compensation expense	**1,099**	252	**1,966**	1,091
Capitalized stock-based compensation	**(436)**	(99)	**(787)**	(416)
Stock-based compensation expense	**663**	153	**1,179**	675

11. 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 from contracts with customers:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	**2026**	2025
Crude oil	**$ 30,657**	$ 19,374	**$ 58,227**	$ 72,449
Natural gas	**54**	5	**103**	202
Petroleum and natural gas sales	**$ 30,711**	$ 19,379	**$ 58,330**	$ 72,651

Included in accounts receivable as at September 30, 2026, is $14.2 million (December 31, 2025 - $3.1 million) of accrued petroleum and natural gas sales related to September 2026 production.

12. Finance

The following table details the finance expense incurred:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	**2026**	2025
Accretion on decommissioning liabilities	**$ 153**	$ 142	**$ 433**	$ 599
Interest expense	**289**	377	**462**	958
Interest on lease obligations	**18**	7	**59**	25
Finance expense	**$ 460**	$ 526	**$ 954**	$ 1,582

13. Supplementary cash flow information

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

	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2026	2025	**2026**	2025
Accounts receivable		**$ (9,284)**	$ 3,298	**$ (9,793)**	$ 769
Prepaid expenses and deposits		**(296)**	(45)	**(724)**	1,163
Accounts payable and accrued liabilities		**18,528**	(3,602)	**30,230**	(9,269)
Working capital on acquisition[(1)]	4	**-**	-	**(2,361)**	-
Other long-term asset		**-**	-	**-**	1,000
		$ 8,948	$ (349)	**$ 17,352**	$ (6,337)
Relating to:					
Operating activities		**$ (7,128)**	$ 1,280	**$ 6,631**	$ 1,608
Investing activities		**16,076**	(1,629)	**10,721**	(7,945)
		$ 8,948	$ (349)	**$ 17,352**	$ (6,337)

(1) Working capital added through the Mahikan business combination on March 30, 2026 (note 4).

14. Financial instruments and risk management

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

Further quantitative disclosures are included throughout these financial statements.

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

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

Fair value of financial instruments

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The carrying value of cash, accounts receivable, deposits, 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 September 30, 2026, the Company had the following financial derivative commodity contracts:

Type	Type	Remaining Term	Volume	Put Price	Call Price	Swap Price
WTI	Swap	Oct - Dec 2026	500 bbl/d	-	-	CAD $107.05
WTI	Collar	Oct - Dec 2026	250 bbl/d	CAD $80.00	CAD $175.50	-
WTI	Swap	Oct - Dec 2026	250 bbl/d	-	-	CAD $108.75
WCS	Swap	Oct - Dec 2026	500 bbl/d	-	-	CAD $91.40
WCS	Swap	Oct - Dec 2026	250 bbl/d	-	-	CAD $85.40
WTI	Swap	Jan - Mar 2027	250 bbl/d	-	-	CAD $102.55
WTI	Collar	Jan - Mar 2027	250 bbl/d	CAD $105.00	CAD $130.00	-
WCS	Swap	Jan - Jun 2027	250 bbl/d	-	-	CAD $80.05
WTI	Collar	Jan - Jun 2027	250 bbl/d	CAD $100.00	CAD $124.00	-

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

Type	Type	Term	Volume	Put Price	Call Price	Swap Price
WTI	Collar	Jan - Mar 2027	250 bbl/d	CAD $115.00	CAD $141.65	-
WCS	Swap	Jan - Jun 2027	250 bbl/d	-	-	CAD $93.50
WTI	Collar	Apr - Jun 2027	250 bbl/d	CAD $105.00	CAD $120.00	-
WTI	Collar	Apr - Jun 2027	250 bbl/d	CAD $110.00	CAD $131.90	-

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	**2026**	2025
Realized loss	**$ (824)**	$ (40)	**$ (1,512)**	$ (436)
Unrealized loss	**(2,645)**	(20)	**(2,554)**	(67)
Loss on financial derivatives	**$ (3,469)**	$ (60)	**$ (4,066)**	$ (503)

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

	September 30, 2026	December 31, 2025
Net financial derivative asset, beginning of period	**$ -**	$ 89
Unrealized change in fair value	**(2,554)**	(89)
Net financial derivative liability, end of period	**$ (2,554)**	$ -

Market risk

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

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

Interest rate risk

The Company is exposed to interest rate risk on cash balances and bank debt to the extent of changes in market interest rates. As at September 30, 2026, 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 September 30, 2026, the Company had no foreign exchange swap or derivative contracts in place.

Credit risk

As at September 30, 2026, the Company's receivables consisted of $14.2 million due from petroleum and natural gas purchasers (December 31, 2025 - $3.1 million), $1.2 million due from dispositions (December 31, 2025 - $2.7 million), and $0.9 million due from joint venture partners and other receivables (December 31, 2025 - $0.7 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. Receivables from dispositions are expected to be collected through monthly offsets against amounts owing under future processing fees and take-or-pay provisions.

The carrying amount of accounts receivable and financial derivatives represents the maximum credit exposure. The Company has calculated the expected credit losses using the simplified approach and no loss provision was recorded for the periods ended September 30, 2026 or December 31, 2025.

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.

In 2026, the Company has completed two equity offerings: a $30.0 million private placement on March 30, 2026,and a $34.5 million bought-deal financing on August 6, 2026 in connection with the closing of the Provost Acquisition (notes 4 and 9). The Company's liquidity is further supported by its credit facility, which was expanded to $55.0 million, with an uncommitted accordion feature to increase total capacity up to $75.0 million (note 15).

The following are the contractual maturities of financial obligations as at September 30, 2026:

	Less than 1 year	1 to 3 years	Total
Accounts payable and accrued liabilities	$ 35,674	$ -	$ 35,674
Lease obligations	$ 524	$ 656	$ 1,180

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, 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, and total capital expenditures are not standardized measures and therefore may not be comparable with the calculation of similar measures of other entities.

i) Adjusted funds flow from operations

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	**2026**	2025
Cash flow from operating activities	**$ 6,569**	$ 10,370	**$ 30,054**	$ 31,422
Change in non-cash working capital	**7,128**	(1,280)	**(6,631)**	(1,608)
Funds flow from operations	**13,697**	9,090	**23,423**	29,814
Decommissioning expenditures	**329**	452	**423**	796
Transaction costs	**-**	16	**2,079**	1,088
Adjusted funds flow from operations	**$ 14,026**	$ 9,558	**$ 25,925**	$ 31,698

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 revolving credit facility (note 15). 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.

		September 30, 2026		December 31, 2025
Working capital	**$**	**(42,009)**		(1,216)
Current portion of lease obligations		**524**		325
Current portion of decommissioning liabilities		**1,000**		900
Financial derivative liability		**2,554**		-
Adjusted working capital (net debt)	**$**	**(37,931)**	$	9

iii) Capital expenditures

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2026	2025	**2026**	2025
Exploration and evaluation	**-**	-	**674**	18,580
Property plant and equipment	**23,523**	1,413	**38,814**	11,106
Exploration & development expenditures	**23,523**	1,413	**39,488**	29,686
Property acquisitions (dispositions)	**68,576**	-	**68,576**	(5,066)
Capital expenditures	**92,099**	1,413	**108,064**	24,620
Change in non-cash working capital	**(16,076)**	1,629	**(10,721)**	7,945
Cash used in investing activities	**76,023**	3,042	**97,343**	32,565

15. Bank debt

As at September 30, 2026, the Company had an uncommitted demand revolving credit facility with the National Bank of Canada ("the Lender") for 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. A semi-annual borrowing base review is scheduled to occur on or before May 31 and November 30 of each year.

As at September 30, 2026, the Company had $20.6 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 September 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 September 30, 2026, the Company was compliant with all covenants.

16. Commitments

The Company has the following drilling commitments: drill one (1) well by March 1, 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.

17. Subsequent Event

Subsequent to September 30, 2026, the Company entered into and closed an agreement to dispose of certain assets in the Chigwell area of Alberta, subject to customary closing adjustments, for total cash consideration of $0.5 million. Lycos retains a 3.5% gross overriding royalty on all production from any wells drilled on the disposed lands.