

FINANCIAL AND OPERATIONAL HIGHLIGHTS



	Three months ended	
(Cdn\$ thousands, except per share, share and per boe amounts)	Mar 31, 2025 ⁽²⁾	Dec 31, 2024 ⁽³⁾
FINANCIAL		
Adjusted funds from operations ⁽¹⁾	1,619	(13)
Per boe	18.04	-
Per weighted average basic share	0.07	-
Cash flows used in operating activities	(443)	-
Per boe	(4.94)	-
Per weighted average basic share	(0.02)	-
Net loss	(489)	(13)
Per weighted average basic share	(0.02)	-
Exploration and evaluation expenditures	9,292	746
Property, plant and equipment expenditures	294	-
Acquisitions	80,147	-
Net surplus (debt) ⁽¹⁾	12,192	(759)
Weighted average shares, basic (thousands)	24,444	-
Shares outstanding, end of period (thousands)	40,000	-
OPERATING		
Production		
Light oil (bbl/d)	945	-
Natural gas liquids (bbl/d)	252	-
Natural gas (mcf/d)	2,609	-
Total (boe/d)	1,632	-
Average realized prices		
Light oil (\$/bbl)	89.82	-
Natural gas liquids (\$/bbl)	43.21	-
Natural gas (\$/mcf)	2.23	-
Netback (\$/boe)		
Petroleum and natural gas sales	62.27	-
Royalties	(9.07)	-
Operating expenses	(23.92)	-
Transportation expenses	(1.87)	-
Operating netback ⁽¹⁾	27.41	-
General and administrative	(9.24)	-
Interest income	0.78	-
Interest and financing charges	(0.91)	-

(1) Adjusted funds from operations, net surplus (debt) and operating netback do not have any standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other entities. For additional information related to these measures, including a reconciliation to the nearest GAAP measures, where applicable, see "Non-GAAP and Other Financial Measures" in Lotus Creek's management's discussion and analysis.

(2) The commercial operations of Lotus Creek for the first quarter of 2025 are between February 5, 2025 and March 31, 2025.

(3) As Lotus Creek was incorporated on August 21, 2024, there is no comparative for the three months ended March 31, 2024. As such, the only comparative period is the three months ended December 31, 2024; however, no material commercial operations were conducted by Lotus Creek in the three months ended December 31, 2024.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is management's analysis of the financial performance of Lotus Creek Exploration Inc. ("Lotus Creek" or the "Company"). It is dated May 14, 2025 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the three months ended March 31, 2025. The statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies aligned with International Financial Reporting Standards ("IFRS").

The MD&A contains non-GAAP measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Lotus Creek's disclosure under "Non-GAAP Measures" and "Forward-Looking Information and Statements" included at the end of this MD&A. All figures are in Canadian dollar thousands unless otherwise noted.

ABOUT LOTUS CREEK EXPLORATION INC.

Lotus Creek was incorporated under the laws of the Province of Alberta on August 21, 2024 as 2640847 Alberta Ltd. On December 18, 2024, Articles of Amendment were filed to change the name of the Company to "Lotus Creek Exploration Inc.". Upon incorporation, the Company was a wholly-owned subsidiary of Gear Energy Ltd. ("Gear") and had limited operations. On February 5, 2025, the Company, Gear and an unrelated third-party (the "Third-Party") completed a plan of arrangement under the provisions of the *Business Corporations Act* (Alberta) (the "Arrangement"). Under the Arrangement, the Third-Party acquired Gear including all of its heavy oil assets (other than its Tucker Lake property). Gear's producing oil and gas properties in Central Alberta and Southeast Saskatchewan and its evaluation and exploration properties in Tucker Lake, Alberta (the "Lotus Creek Assets") were acquired by Lotus Creek. Lotus Creek also received a portion of the purchase price paid by the Third-Party to fund its exploration and development activities. Lotus Creek issued 40.0 million common shares (the "Common Shares") of the Company as consideration for the Lotus Creek Assets with such Common Shares distributed to the former holders of common shares of Gear pursuant to the Arrangement. On February 5, 2025, Lotus Creek commenced commercial operations on closing of the Arrangement. On February 11, 2025, the Common Shares began trading on the TSX Venture Exchange ("TSXV") under the symbol "LTC".

Lotus Creek is a Canadian exploration and production company with oil production in Central Alberta and Southeast Saskatchewan and exploration assets in Tucker Lake and Central Alberta. Presently, Lotus Creek has 17 employees with 14 staff in the Calgary office and 3 employees located in Lotus Creek's operating areas in Alberta and Saskatchewan. Lotus Creek also has a number of contractors in the Calgary office, and contract operators in the field.

Lotus Creek is a high torque, organic growth, Canadian junior oil and gas exploration company that aims to:

- Maximize full cycle profits and deliver superior total shareholder returns through share price appreciation;
- Deliver best-in-class organic growth in cashflow, production and producing reserves per debt adjusted share;
- Invest in only the highest quality, internally generated growth opportunities; and
- Continue to simplify and high grade the business, build and leverage technical expertise, increase operational focus, and create lasting strategic advantages.

2025 GUIDANCE

Table 1

	Fiscal 2025 Guidance	Q1 2025 YTD Actuals
Annual production (boe/d)	2,000 – 2,400	NA
Q1 average production (boe/d)	1,600 – 1,700	1,632
Q4 average production (boe/d)	3,000 – 3,400	NA
Light oil and NGLs weighting (%)	77	73
Heavy oil weighting (%)	10	-
Natural gas weighting (%)	13	27
Royalty rate (%)	12 – 13	15
Operating and transportation costs (\$/boe)	19.50 – 20.50	25.79
General and administrative expense (\$/boe)	5.00 – 5.50	9.24
Interest and financing charges (\$/boe)	0.50 – 1.00	0.91
Capital and abandonment expenditures (\$ millions) ⁽¹⁾	43.0	10.0

(1) Capital and abandonment expenditures includes decommissioning liability expenditures made by Lotus Creek.

Any future increase in commodity prices will provide incremental adjusted funds from operations after capital and abandonment expenditures and may be dedicated to potential future capital expansions or cash funded acquisitions. Conversely, any future decrease in commodity prices may result in incremental debt and potential capital adjustments.

At the present time, the Company has not made any changes to its 2025 capital expenditure guidance and budget; however, in light of recent volatility in commodity prices, the Company intends to continue to monitor commodity prices and overall market conditions to determine whether any adjustments should be made with respect to its 2025 capital expenditure budget and guidance.

METRICS

Lotus Creek measures its performance on its ability to grow value on a debt adjusted per share basis. Table 2 details funds from operations, cash flows used in operating activities and production per debt adjusted share:

Table 2

	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Adjusted funds from operations per debt adjusted share ⁽¹⁾	0.079	-
Cash flows used in operating activities per debt adjusted share ⁽¹⁾	(0.022)	-
Production, boepd per debt adjusted thousand shares ⁽¹⁾	0.080	-

(1) Adjusted funds from operations per debt adjusted share, cash flows used in operating activities per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP and other financial measures and are reconciled to the nearest GAAP measure, where applicable, under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

2025 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

On February 5, 2024, Lotus Creek commenced commercial operations following closing of the Arrangement. The commercial operations of Lotus Creek occurred between February 5, 2025 and March 31, 2025 for the purposes of this MD&A (the "Operating Period").

Adjusted Funds from Operations and Cash Flows used in Operating Activities

Adjusted funds from operations was \$1.6 million or \$18.04 per boe in the first quarter of 2025. Fluctuations in funds from operations are the result of revenues due to realized commodity prices and sales volumes, royalties, operating and transportation costs, general and administrative ("G&A") costs, interest income and interest and financing charges.

Cash flows used in operating activities was \$0.4 million or \$4.94 per boe in the first quarter of 2025. Fluctuations in cash flows used in operating activities are the result of revenues due to realized commodity prices and sales volumes, royalties, operating and transportation costs, G&A costs, transaction costs, interest income and interest and financing charges. During the first quarter of 2025, there were no decommissioning liabilities settled.

Net loss

Lotus Creek generated a net loss of \$0.5 million for the first quarter of 2025, compared to a net loss of \$13 thousand for the prior quarter. The change in net loss is due to several factors discussed below.

Production

Sales production volumes averaged 1,632 boe per day for the first quarter of 2025 and relate to the Operating Period. Production can fluctuate due to natural well declines, weather and new wells drilled. During the first quarter of 2025, Lotus Creek acquired two gross (two net) heavy oil exploration and evaluation ("E&E") wells in Tucker Lake as per the Arrangement and drilled one gross (one net) heavy oil Tucker Lake E&E well. These wells were operated temporarily to recover load fluid and were shut in after. Lotus is awaiting the facility license and anticipates approval during the second quarter of 2025. Once the facility license is approved, operations will commence in Tucker Lake. During the first quarter of 2025, Lotus Creek partially restarted a natural gas field around Medicine Hat. The field is currently producing 966 mcf per day.

Table 3

Production	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Liquids (bbl/d)		
Light oil (bbl/d)	945	-
Natural gas liquids (bbl/d)	252	-
Total liquids (bbl/d)	1,197	-
Natural gas (mcf/d)	2,609	-
Total production (boe/d)	1,632	-
% Liquids production	73	-
% Natural gas production	27	-

Petroleum and natural gas sales

Sales of crude oil, natural gas and natural gas liquids ("NGLs") for the first quarter of 2025 totaled \$5.6 million and relate to the Operating Period. Sales fluctuate with commodity prices and volumes. There were no sales prior to the Arrangement.

A breakdown of sales by product is outlined in Table 4:

Table 4

Sales by product (\$ thousands)	Three months ended	
	Mar 31, 2024	Dec 31, 2024
Light oil	4,670	-
Natural gas liquids	598	-
Natural gas	321	-
Total petroleum and natural gas sales	5,589	-

Commodity Prices

Lotus Creek's realized pricing for the first quarter of 2025 was \$62.27 per boe and relates to the Operating Period. Realized pricing can fluctuate due to changes in WTI pricing and MSW and LSB differentials.

Table 5

Average benchmark prices	Three months ended	
	Mar 31, 2025	Dec 31, 2024
WTI oil (US\$/bbl) ⁽¹⁾	69.37	70.27
MSW (Cdn\$/bbl) ⁽²⁾	92.07	94.92
LSB (Cdn\$/bbl) ⁽³⁾	89.75	92.54
AECO natural gas (\$/mcf) ⁽⁴⁾	2.32	1.47
US\$ / Cdn\$ exchange rate	0.70	0.71

Lotus Creek realized prices

Light oil (\$/bbl)	89.82	-
Natural gas liquids (\$/bbl)	43.21	-
Natural gas (\$/mcf)	2.23	-
Realized price (\$/boe)	62.27	-

(1) WTI represents the posting price of West Texas Intermediate oil.

(2) MSW represents the Mixed Sweet Blend oil index for Lotus Creek's Alberta light oil.

(3) LSB represents the Light Sour Blend oil index for Lotus Creek's Southeast Saskatchewan light oil.

(4) Represents the AECO 5a monthly index.

Royalties

For the first quarter of 2025, royalties as a percentage of commodity sales was 14.6 per cent. Royalties relate to the Operating Period. Royalties can fluctuate with changes in commodity prices as crown royalty rates change depending on price levels. Royalty rates also fluctuate as wells reach higher royalty tiers and when the mix of royalty encumbrances change with new wells added. There were no royalties incurred prior to the Arrangement.

Table 6

Royalty expense (\$ thousands except % and per boe)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Royalty expense	814	-
Royalty expense as a % of sales	14.6	-
Royalty expense per boe	9.07	-

Operating and Transportation Expenses

Operating expenses for the first quarter of 2025 were \$23.92 per boe and relate to the Operating Period. Operating expenses consist of production costs, energy costs, maintenance and well servicing costs and various field operating expenses. There were no operating expenses incurred prior to the Arrangement.

Transportation expenses for the first quarter of 2025 were \$1.87 per boe and relate to the Operating Period. Transportation expenses consist of the cost to transport clean oil. Transportation expenses may fluctuate depending on proximity to sales points. Currently, most of Lotus Creek's volumes are delivered to nearby sales points. There were no transportation expenses incurred prior to the Arrangement.

Table 7 below summarizes the operating and transportation expenses:

Table 7

Operating and Transportation expenses (\$ thousands except per boe)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Operating expenses	2,147	-
Transportation expenses	168	-
Operating and transportation expenses	2,315	-
Operating expenses per boe	23.92	-
Transportation expenses per boe	1.87	-
Operating and transportation expenses per boe	25.79	-

Operating Netbacks

Lotus Creek's operating netback was \$27.41 per boe for the first quarter of 2025 and relates to the Operating Period.

The components of operating netbacks are summarized in Table 8:

Table 8

Operating netback (\$ per boe)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Sales	62.27	-
Royalties	(9.07)	-
Operating expenses	(23.92)	-
Transportation expenses	(1.87)	-
Operating netback ⁽¹⁾	27.41	-

(1) Operating netback is a non-GAAP ratio and is described under the heading "Non-GAAP and Other Financial Measures" below. Operating netback does not have a standardized meaning under GAAP and therefore may not be comparable to similar measures presented by other entities.

G&A Expenses, Transaction Costs, and Share-Based Compensation ("SBC")

G&A expenses for the first quarter of 2025 totaled \$0.8 million. The majority of these costs relate to personnel costs, consulting and professional fees. Lotus Creek capitalized \$0.2 million of G&A during the first quarter of 2025. G&A on a per boe basis was \$9.24 per boe.

In conjunction with the Arrangement, Lotus Creek incurred \$0.6 million of transaction costs during the first quarter of 2025 including amounts relating to legal fees and other related acquisition costs. Transaction costs on a per boe basis was \$7.21 per boe.

SBC is related to the granting of stock options ("Options"). There were 2.44 million Options granted during the first quarter of 2025 at an average exercise price of \$1.34. As at March 31, 2025 a total of 2.44 million Options with a weighted average exercise price of \$1.34 per share were outstanding, representing approximately 6.1 per cent of the 40.0 million total Common Shares outstanding. Each Option entitles the holder to acquire one Lotus Creek Common Share. There were no Options outstanding as at December 31, 2024. For further information on Lotus Creek's Options, see the notes to the unaudited Interim Condensed Consolidated Financial Statements. Subsequent to March 31, 2025, 28 thousand Options were forfeited and as a result, as at the date of this MD&A, Lotus Creek had a total of 2.42 million Options outstanding at a weighted average exercise price of \$1.34 per share.

Table 9 is a breakdown of G&A, transaction costs and SBC expense:

Table 9

G&A and SBC expense (\$ thousands except per boe)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
G&A, before recoveries and capitalized G&A	1,022	13
Overhead recoveries	(13)	-
Capitalized G&A	(180)	-
G&A	829	13
Transaction costs	647	-
SBC expense	10	-
G&A per boe	9.24	-
Transaction costs per boe	7.21	-
SBC expense per boe	0.11	-

Interest and Financing Charges and Interest Income

In the first quarter of 2025, on close of the Arrangement Lotus Creek established the Credit Facilities (as defined herein) and incurred financing charges and standby fees totaling \$0.1 million. Lotus Creek's interest rate on its Credit Facilities (as defined herein) is dependent on its facilities borrowings, inclusive of working capital, in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion ("Senior Debt to EBITDA Ratio") on a rolling six-month period. During the first quarter of 2025, Lotus Creek did not draw down on its Credit Facilities.

Table 10 is a breakdown of interest and financing charges and interest income:

Table 10

Interest and financing charges and interest income (\$ thousands except per boe)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Interest expense	-	-
Financing charges	34	-
Standby fees	48	-
Interest and financing charges	82	-
Interest and financing charges per boe	0.91	-
Interest income	70	-
Interest income per boe	0.78	-

Risk Management Contracts

Lotus Creek has a mandate to protect its balance sheet and capital program for the current and upcoming year by reducing fluctuations in both its funds from operations and assigned borrowing base on its Credit Facilities. To do this, Lotus Creek may plan to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Lotus Creek has not entered into any risk management contracts and as such has not designated any risk management contracts as effective hedges and thus has not applied hedge accounting. Management continues to evaluate its risk and the management thereof and will continue to monitor the commodities market for future risk management contracts.

Depletion, Depreciation and Amortization Expense ("DD&A")

DD&A during the first quarter of 2025 was \$14.82 per boe and relates to the Operating Period. The DD&A rate can fluctuate due to inflationary pressures resulting in both higher capital expenditures and future development cost estimates over Lotus Creek's reserves base. There was no DD&A prior to completion of the Arrangement

As at March 31, 2025 and December 31, 2024, no indicators of impairment were identified related to Lotus Creek's Cash-Generating Units ("CGUs"). Management has determined that Lotus Creek's asset base represents two CGUs. The first CGU is comprised predominantly of Lotus Creek's light oil properties located in Western Alberta and the second is comprised of light oil properties located in Southeast Saskatchewan. The properties contained within each CGU are in close proximity to each other, with similar cost structures and marketing arrangements. As a result of this assessment, impairment tests were not performed.

Table 11 is a breakdown of DD&A expenses and impairment:

Table 11

DD&A rate (\$ thousands except per boe)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
DD&A	1,330	-
Total DD&A rate per boe	14.82	-

Taxes

Deferred income tax assets on the balance sheet are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable based on current tax pools and estimated future taxable income. As at March 31, 2025 no deferred income tax asset was recognized and \$0.5 million remains unrecognized, as Management did not find it probable that the benefit will be realized. As at December 31, 2024, Management did not recognize a deferred income tax asset. Included in this tax basis are estimated non-capital loss carry forwards that expire in the year 2045. No cash income taxes were paid from inception on August 21, 2024 to December 31, 2024 and in the first quarter of 2025. At March 31, 2025, Lotus Creek's estimated tax pools were \$69.4 million.

Capital Expenditures and Acquisitions

Capital expenditures for the first quarter of 2025 were \$9.6 million which consisted of \$9.3 million in E&E expenditures, and \$0.3 million in PP&E expenditures. During the first quarter of 2025, Lotus Creek acquired two gross (two net) heavy oil E&E wells in Tucker Lake as per the Arrangement and drilled one gross (one net) heavy oil Tucker Lake E&E well. The wells were completed by Lotus Creek following completion of the Arrangement. Lotus Creek is awaiting the facility license and anticipates approval during the second quarter of 2025. Once the facility license is approved, operations will commence in Tucker Lake. During the first quarter of 2025, Lotus Creek also invested \$6.6 million in seismic in Central Alberta and \$0.2 million in undeveloped lands. During the prior quarter, \$0.7 million was spent by the Company on seismic in Central Alberta.

On February 5, 2025, the Lotus Creek Assets were acquired pursuant to the Arrangement, with \$6.2 million in E&E and \$56.5 million in PP&E.

A breakdown of capital expenditures is shown in Table 12:

Table 12

Capital expenditures (\$ thousands)	Three months ended					
	Mar 31, 2025			Dec 31, 2024		
	E&E	PP&E	Total	E&E	PP&E	Total
Drilling and completions	1,954	256	2,210	-	-	-
Production equipment and facilities	527	38	565	-	-	-
Seismic and geological and geophysical studies	6,569	-	6,569	746	-	746
Undeveloped land	242	-	242	-	-	-
Total capital expenditures	9,292	294	9,586	746	-	746
Total acquisitions	6,228	56,507	62,735	-	-	-
Total capital expenditures and acquisitions	15,520	56,801	72,321	746	-	746

The following summarizes the purchase price allocation for the Arrangement:

Net Assets Acquired	
(\$ thousands)	Amount
Working capital	21,565
Exploration and evaluation	6,228
Property, plant and equipment	63,950
Decommissioning liability	(11,743)
Total net assets acquired	80,000
Consideration	
(\$ thousands)	Amount
Common Shares (40.0 million Common Shares ⁽¹⁾ at \$2.00 per share)	80,000
Total purchase price	80,000

(1) 39,999,999 Common Shares were issued pursuant to the Arrangement.

Decommissioning Liability

At March 31, 2025, Lotus Creek recorded a decommissioning liability of \$22.2 million. Prior to the acquisition of the Lotus Creek Assets pursuant to the Arrangement, Lotus Creek did not have any decommissioning liability. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The liability has been inflated at 2.00 per cent and discounted using a risk free rate of 3.23 per cent. Abandonment cost estimates are derived from management assumptions and published Alberta Energy Regulator ("AER") estimates. There were no decommissioning liabilities settled by Lotus Creek in the first quarter of 2025. As a result of the Arrangement, Lotus Creek is currently awaiting the transfer of title by the AER as well as confirmation of Lotus Creek's annual decommissioning expenditure requirement. Lotus Creek does not anticipate any issues on the transfer of title.

Capitalization, Financial Resources and Liquidity

Lotus Creek has a net surplus of \$12.2 million as at March 31, 2025 as a result of \$17.7 million in cash and \$0.5 million in restricted cash received on the Arrangement, partially offset by capital investment made during the first quarter. During the first quarter of 2025, Lotus Creek did not draw on its Credit Facilities (as defined herein).

After examining the economic factors that could cause liquidity risk, the Company believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months. There can be no assurance that future borrowing base reviews will not result in a material reduction in the borrowing base, and that the necessary funds will be available to meet its obligations as they become due.

Net debt to quarterly annualized funds from operations at December 31, 2024 is not applicable as actual operations of Lotus Creek did not commence commercial operations until February 5, 2025.

A breakdown of Lotus Creek's capital structure is outlined in Table 13:

Table 13

Debt (\$ thousands except ratio amounts)	Mar 31, 2025	Dec 31, 2024
Net surplus (debt) ⁽¹⁾	12,192	(759)
Net debt to quarterly annualized funds from operations ⁽¹⁾	NA	NA
Common Shares outstanding	40,000	-

(1) Net surplus (debt) and net debt to quarterly annualized funds from operations are non-GAAP and other financial measures and are reconciled to the nearest GAAP measure, where applicable, under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

Credit Facilities

On close of the Arrangement on February 5, 2025, Lotus Creek established credit facilities consisting of a \$30.0 million revolving credit facility and a \$5.0 million operating facility (the "Credit Facilities") with ATB Financial.

Table 14 shows a breakdown of Lotus Creek's Credit Facilities:

Table 14

Facility (\$ millions)	Borrowing base		Maturity Date
	Mar 31, 2025	Dec 31, 2024	
Revolving term facility	30.0	-	May 31, 2026
Operating facility	5.0	-	May 31, 2026
Total	35.0	-	

The Credit Facility provides Lotus Creek with access to additional liquidity and is currently undrawn at March 31, 2025. As at March 31, 2025 Lotus Creek had outstanding letters of credit of \$1.3 million (December 31, 2024 - \$nil). The Credit Facilities do not carry any financial covenants.

The total stamping fees on the operating facility and revolving facility depend on Lotus Creek's Senior Debt to EBITDA Ratio, and range between 250 bps to 400 bps on Canadian bank prime borrowings and between 350 bps and 500 bps on US dollar denominated SOFR loans and Canadian dollar CORRA. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 87.5 bps to 125 bps.

Lotus Creek's Credit Facilities are periodically reviewed by its lenders through scheduled borrowing base reviews at which time the borrowing base of such facilities can be adjusted. Subsequent to period end, the borrowing base review was completed with no changes to the borrowing base. The maturity date for the Credit Facilities was extended to May 31, 2027. The next borrowing base review is expected to be completed on or about November 30, 2025.

Shareholders' Equity

As at March 31, 2025 and the date of this MD&A, Lotus Creek had 40.0 million Common Shares outstanding which were issued on February 5, 2025 as part of the Arrangement at \$2.00 per share. At December 31, 2024, one (1) Common Share was outstanding.

The Common Shares are listed on the TSXV and commenced trading on February 11, 2025, under the symbol "LTC".

Table 15 shows Lotus Creek's trading statistics:

Table 15

Trading statistics	For the period from Feb 11, 2025 to Mar 31, 2025
(\$ based on intra-day trading)	
High	1.70
Low	1.08
Close	1.12
Average daily volume (thousands)	164

As at March 31, 2025, a total of 2.44 million Options were outstanding with a weighted average exercise price of \$1.34 per share. Each option entitles the holder to acquire one Common Share. Subsequent to March 31, 2025, 28 thousand Options were forfeited and as a result, as at the date of this MD&A, Lotus Creek had 2.42 million Options outstanding at a weighted average exercise price of \$1.34 per share.

Contractual Obligations and Commitments

Lotus Creek has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Lotus Creek's funds from operations in an ongoing manner. Lotus Creek also has contractual obligations and commitments that are of a less routine nature as disclosed in its unaudited Interim Condensed Consolidated Financial Statements.

In addition to the Credit Facilities, as at March 31, 2025, Lotus Creek had the following contractual commitments:

- Lease agreements for its head office and field office; and
- One service commitment.

Lease agreements for Lotus Creek's head and field offices are effective until March 31, 2027. The remaining commitment for these lease agreements is \$0.8 million. The service commitment relates to a software agreement that expires in 2026 with a remaining commitment of \$0.2 million. For further information see Note 16 "Commitments and Contingencies" in the notes to the unaudited Interim Condensed Consolidated Financial Statements.

Lotus Creek is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on Lotus Creek's financial position or results of operations.

Related Party Transactions

During the period from date of incorporation to February 5, 2025, Lotus Creek's former parent company incurred costs on behalf of Lotus Creek. The following is a summary of these costs:

- Incurred G&A expenses of \$13 thousand; and
- Incurred capital expenditures of \$1.5 million

Of the total amounts at March 31, 2025, \$0.2 million remains as net accounts receivable and \$0.3 million remains as net accounts payable to this related party. These amounts are anticipated to be settled as per the final statement of adjustments with the counterparty of the Arrangement. As at December 31, 2024, there was \$0.8 million net accounts payable to this related party.

Upon closing of the Arrangement on February 5, 2025, Lotus Creek is a standalone legal entity and Gear is no longer a related party of Lotus Creek. As at March 31, 2025, other than payments to key management personnel, the Company has not entered into any related party transactions. For further information see Note 17 "Related Party Transactions" in the notes to the unaudited Interim Condensed Consolidated Financial Statements.

Non-GAAP and Other Financial Measures

Lotus Creek uses certain non-GAAP and other financial measures to analyze financial and operating performance. These specified financial measures include non-GAAP financial measures, non-GAAP ratios, total of segments measures, capital management measures and supplementary financial measures, and are not defined by IFRS Accounting Standards and are therefore referred to as non-GAAP and other financial measures. Management believes that the non-GAAP and other financial measures used by the Company are key performance measures for Lotus Creek and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by IFRS Accounting Standards and therefore may not be comparable with the calculation of similar measures for other entities. These non-GAAP and other financial measures should not be considered an alternative to or more meaningful than their most directly comparable financial measure presented in the financial statements, as an indication of the Company's performance. Descriptions of the non-GAAP and other financial measures used by the Company as well as reconciliations to the most directly comparable GAAP measure for the quarter ended March 31, 2025 and the period from incorporation on August 21, 2024 to December 31, 2024, where applicable, are provided below.

Adjusted funds from operations

Adjusted funds from operations is a non-GAAP financial measure defined as cash flows (used in) from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled and adding back transaction costs, if any. Transaction costs, which primarily include legal fees and other related acquisition costs, are excluded to provide a measure representing cash flows generated by the Company's routine business operations. Lotus Creek evaluates its financial performance primarily on adjusted funds from operations and considers it a key measure for management and investors as it demonstrates the Company's ability to generate the adjusted funds from operations necessary to fund its capital program, settle decommissioning liabilities and repay debt.

Table 16 below reconciles cash flows used in operating activities to adjusted funds from operations:

Table 16

(\$ thousands)	Three months ended	
	Mar 31, 2025	Dec 31, 2024
Cash flows used in operating activities	(443)	-
Change in non-cash operating working capital	1,415	(13)
Add back: transaction costs	647	-
Adjusted funds from operations	1,619	(13)

Adjusted funds from operations per BOE

Adjusted funds from operations per boe is a non-GAAP ratio calculated as adjusted funds from operations, as defined and reconciled to cash flows (used in) from operating activities above, divided by sales production for the period. Lotus Creek considers this a useful non-GAAP ratio for management and investors as it evaluates financial performance on a per boe level, which enables better comparison to other oil and gas companies in demonstrating its ability to generate the adjusted funds from operations necessary to fund its capital program, settle decommissioning liabilities and repay debt.

Adjusted funds from operations per weighted average basic share

Adjusted funds from operations per weighted average basic share is a non-GAAP ratio calculated as adjusted funds from operations, as defined and reconciled to cash flows (used in) from operating activities above, divided by the weighted average basic share amount. Lotus Creek considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the adjusted funds from operations, on a per weighted average basic share basis, necessary to fund its capital program, settle decommissioning liabilities and repay debt.

Adjusted funds from operations per weighted average diluted share

Adjusted funds from operations per weighted average diluted share is a non-GAAP ratio calculated as adjusted funds from operations, as defined and reconciled to cash flows (used in) from operating activities above, divided by the weighted average diluted share amount. Lotus Creek considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the adjusted funds from operations, on a per weighted average diluted share basis, necessary to fund its capital program, settle decommissioning liabilities and repay debt.

Net surplus (debt)

Net surplus (debt) is a capital management measure defined as debt less current working capital items (excluding debt, risk management contracts, if any, and decommissioning liabilities). Lotus Creek believes net surplus (debt) provides management and investors with a measure that is a key indicator of its leverage and strength of its balance sheet. Changes in net surplus (debt) are primarily a result of adjusted funds from operations, capital and abandonment expenditures and equity issuances.

Table 17 below reconciles debt to net surplus (debt):

Table 17

Capital structure and liquidity		
(\$ thousands)	Mar 31, 2025	Dec 31, 2024
Debt	-	-
Working capital surplus ⁽¹⁾	12,192	(759)
Net surplus (debt)	12,192	(759)

(1) Current assets less current liabilities, excluding decommissioning liabilities.

At March 31, 2025, Lotus Creek had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Lotus Creek actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows (used in) from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity.

Net debt to quarterly annualized adjusted funds from operations

Net debt to quarterly annualized adjusted funds from operations is a non-GAAP ratio and is defined as net debt, as defined and reconciled to debt above, divided by the annualized adjusted funds from operations, as defined and reconciled to cash flows (used in) from operating activities above, for the most recently completed quarter. Lotus Creek uses net debt to quarterly annualized adjusted funds from operations to analyze financial and operating performance. Lotus Creek considers this a key measure for management and investors as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent quarter's results. When the Company is in a net surplus position, the Company's net debt to annualized adjusted funds from operations is not applicable.

Debt adjusted shares

Debt adjusted shares is a non-GAAP financial measure calculated as the weighted average shares minus the share equivalent when Lotus Creek has an average net surplus position, or plus the share equivalent when Lotus Creek has an average net debt position, as defined and reconciled to debt above, over the period. This assumes that net surplus is

used to repurchase shares or net debt is extinguished with an issuance based on a certain share price; however, it should be noted that Lotus Creek's bank debt is not convertible into shares. The calculation of debt adjusted shares assumes that Lotus Creek issues Common Shares for cash proceeds and such proceeds are used to repay the amounts outstanding under the Company's bank debt, or Lotus Creek has the ability to repurchase Common Shares when in a net surplus position. Lotus Creek has used the ten-day volume weighted average share price ending at the end of the period as this share price better captures the actual price that could be theoretically used in the event that Common Shares are hypothetically issued to extinguish outstanding debt or the price that the Company repurchases Common Shares at. Lotus Creek considers debt adjusted shares a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers.

Table 18 below reconciles weighted average basic shares to debt adjusted shares. For the three months ended December 31, 2024, debt adjusted shares is not applicable as the Common Shares were not listed on the TSXV as at December 31, 2024 and only commenced trading on the TSXV on February 11, 2025.

Table 18

	Three months ended Mar 31, 2025
(thousands, except per share amounts)	
Weighted average basic shares	24,444
Average share price ⁽¹⁾	1.41
Average net surplus (debt) ⁽²⁾	5,717
Share equivalent on average net surplus (debt) ⁽³⁾	(4,055)
Debt adjusted shares	20,389

(1) Average share price obtained by a ten-day volume weighted average price on the TSXV ending at the end of the period.

(2) Average net surplus (debt) obtained by a simple average between opening and ending net surplus (debt) for the quarters ended.

(3) Share equivalent on average net surplus (debt) obtained by average net surplus (debt) divided by average share price.

Adjusted funds from operations per debt adjusted share

Adjusted funds from operations per debt adjusted share is a non-GAAP ratio calculated as adjusted funds from operations, as defined and reconciled to cash flows (used in) from operating activities above, divided by debt adjusted shares, as defined and reconciled to weighted average basic shares above. Lotus Creek considers the non-GAAP ratio adjusted funds from operations per debt adjusted share a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the adjusted funds from operations necessary to fund its capital program, settle decommissioning liabilities and repay debt.

Cash flows (used in) from operating activities per debt adjusted share

Cash flows (used in) from operating activities per debt adjusted share is a non-GAAP ratio calculated as cash flows (used in) from operating activities, as determined in accordance with IFRS, divided by debt adjusted shares, as defined and reconciled to weighted average basic shares above. Lotus Creek considers the non-GAAP ratio cash flows (used in) from operating activities per debt adjusted share a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the cash flows (used in) from operating activities necessary to fund its capital program and repay debt.

Production, boepd per debt adjusted thousand shares

Production, boepd per debt adjusted thousand shares is a non-GAAP ratio calculated as production, boepd, divided by debt adjusted thousand shares, as defined and reconciled to weighted average basic shares above. Lotus Creek considers production, boepd per debt adjusted thousand shares a useful non-GAAP ratio for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate the Company's ability to produce oil and gas.

Operating netback

Operating netbacks are non-GAAP ratios calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Management considers operating netback to be a key measure of operating performance and profitability on a per unit basis of production. Management believes that netback provides investors with information that is commonly used by other oil and gas companies. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis.

Critical Accounting Estimates

Lotus Creek's financial and operating results incorporate certain estimates including:

- Estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been determined;
- Estimated capital expenditures on projects that are in progress;
- Estimated DD&A charges that are based on estimates of oil and gas reserves that Lotus Creek expects to recover in the future;

- Estimated future recoverable value of E&E and PP&E and any associated impairment charges or recoveries including those associated with the highly uncertain timing and impact of global energy markets transition from carbon-based sources to alternative energy;
- Estimated decommissioning liabilities that are dependent upon estimates of future costs and timing of expenditures;
- Estimated future utilization of tax pools; and
- Estimated employee share-based compensation costs.

Lotus Creek has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation Uncertainty" in the unaudited Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2025.

Forward-looking Information and Statements

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Lotus Creek's business plans and strategies, that future increases in commodity prices will provide incremental adjusted funds from operations after capital and abandonment expenditures; that increased adjusted funds from operations may be dedicated to potential expansions or acquisitions; that future decreases in commodity prices may result in incremental debt and potential capital adjustments; Lotus Creek's 2025 guidance, including with respect to annual 2025 average production, Q4 2025 average production, commodity weighting of forecast production, royalty rates, operating and transportation costs, G&A expenses, interest and financing charges and capital and abandonment expenditures; the Company's belief that it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months; the anticipated timing of Lotus Creek's next borrowing base review; and expectations that pending litigation will not have a material impact on Lotus Creek or its operations; .

The forward-looking information and statements contained in this report reflect several material factors and expectations and assumptions of Lotus Creek including, without limitation: that Lotus Creek will continue to conduct its operations in a manner consistent with past operations; the duration and impact of tariffs that are currently in effect on goods exported from or imported into Canada, and that other than the tariffs that are currently in effect, neither the U.S. nor Canada (i) increases the rate or scope of such tariffs, reenacts tariffs that are currently suspended, or imposes new tariffs, on the import of goods from one country to the other, including on oil and natural gas, and/or (ii) imposes any other form of tax, restriction or prohibition on the import or export of products from one country to the other, including on oil and natural gas; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Lotus Creek's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. Lotus Creek believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: the risk that (i) the tariffs that are currently in effect on goods exported from or imported into Canada continue in effect for an extended period of time, the tariffs that have been threatened are implemented, that tariffs that are currently suspended are reactivated, the rate or scope of tariffs are increased, or new tariffs are imposed, including on oil and natural gas, (ii) the U.S. and/or Canada imposes any other form of tax, restriction or prohibition on the import or export of products from one country to the other, including on oil and natural gas, and (iii) the tariffs imposed or threatened to be imposed by the U.S. on other countries and retaliatory tariffs imposed or threatened to be imposed by other countries on the U.S., will trigger a broader global trade war which could have a material adverse effect on the Canadian, U.S. and global economies, and by extension the Canadian oil and natural gas industry and the Company, including by decreasing demand for oil and natural gas, disrupting supply chains, increasing costs, causing volatility in global financial markets, and limiting access to financing; the impact of the Russian-Ukraine war and the Israel-Palestine war on the global economy and commodity prices; the impacts of inflation and supply chain issues; pandemics, political events, natural disasters and terrorism; changes in commodity prices; changes in the demand for or supply of Lotus Creek's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Lotus Creek or by third party operators of Lotus Creek's properties, increased debt levels or debt service requirements; inability to obtain debt or equity financing as necessary to fund operations, capital expenditures and any potential acquisitions; any ability for Lotus Creek to repay any of its indebtedness when due; inaccurate estimation of Lotus Creek's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased

costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Lotus Creek's public documents including risk factors set out in Lotus Creek's Listing Application dated February 5, 2025 on TSXV Form 2B, which is available on SEDAR+ at www.sedarplus.ca.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Lotus Creek's prospective results of operations including, without limitation, production, operating and transportation costs, G&A expenses, interest and financing charges, and capital and abandonment expenditures, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. Lotus Creek's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Lotus Creek will derive therefrom. Lotus Creek has included the FOFI in order to provide readers with a more complete perspective on Lotus Creek's future operations and such information may not be appropriate for other purposes.

The forward-looking information and FOFI contained in this report are made as of the date of this report, and Lotus Creek does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Production and Product Type Information

References to crude oil (or oil), NGLs, natural gas and average daily production in this document refer to the light crude oil, conventional natural gas, and NGLs product types, as applicable, as defined in National Instrument 51-101 ("NI 51-101").

Barrels of Oil Equivalent

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

QUARTERLY HISTORICAL REVIEW

	2025	2024
(Cdn\$ thousands, except per share, share, and per boe amounts)	Q1 ⁽²⁾	Q4
FINANCIAL		
Petroleum and natural gas sales	5,589	-
Adjusted funds from operations ⁽¹⁾	1,619	(13)
Per weighted average basic share	0.07	-
Per weighted average diluted share	0.07	-
Cash flows used in operating activities	(443)	-
Per weighted average basic share	(0.02)	-
Per weighted average diluted share	(0.02)	-
Net loss	(489)	(13)
Per weighted average basic share	(0.02)	-
Per weighted average diluted share	(0.02)	-
Exploration and evaluation expenditures	9,292	746
Property, plant and equipment expenditures	294	-
Acquisitions	80,147	-
Net surplus (debt) ⁽¹⁾	12,192	(759)
Weighted average shares outstanding, basic (thousands)	24,444	-
Weighted average shares outstanding, diluted (thousands)	24,444	-
Shares outstanding, end of period (thousands)	40,000	-
OPERATING		
Production		
Light oil (bbl/d)	945	-
Natural gas liquids (bbl/d)	252	-
Natural gas (mcf/d)	2,609	-
Total (boe/d)	1,632	-
Average prices		
Light oil (\$/bbl)	89.82	-
Natural gas liquids (\$/bbl)	43.21	-
Natural gas (\$/mcf)	2.23	-
Selected financial results (\$/boe)		
Petroleum and natural gas sales	62.27	-
Royalties	(9.07)	-
Operating costs	(23.92)	-
Transportation costs	(1.87)	-
Operating netback ⁽¹⁾	27.41	-
General and administrative	(9.24)	-
Interest income	0.78	-
Interest and financing charges	(0.91)	-

(1) Adjusted funds from operations, net surplus (debt) and operating netback are non-GAAP and other financial measures and additional information with respect to these measures can be found under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

(2) The commercial operations of Lotus Creek for the first quarter of 2025 are between February 5, 2025 and March 31, 2025.

Lotus Creek had no material operations prior to the completion of the Arrangement on February 5, 2025 and as a result the quarter to quarter comparisons as presented herein are not reflective of the Company's anticipated future operations and results.

CORPORATE INFORMATION

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