LOTUS CREEK EXPLORATION INC.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
As at

(Cdn$ thousands)		**March 31, 2025**		December 31, 2024
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**13,179**	$	-
Restricted cash (Note 5)		**500**		-
Accounts receivable		**4,261**		-
Prepaid expenses		**1,585**		10
		19,525		10
Exploration and evaluation (Note 6)		**16,266**		746
Property, plant and equipment (Note 7)		**73,277**		-
Total assets	**$**	**109,068**	$	756
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**7,333**	$	769
Decommissioning liability (Note 9)		**3,010**		-
		10,343		769
Decommissioning liability (Note 9)		**19,217**		-
Total liabilities		**29,560**		769
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		**80,000**		-
Contributed surplus		**10**		-
Deficit		**(502)**		(13)
Total shareholders' equity		**79,508**		(13)
Total liabilities and shareholders' equity	**$**	**109,068**	$	756

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Approved by the Board of Directors

(signed)
Scott Robinson
Chairman of the Board of Directors and Director

(signed)
Kathy Turgeon
Chair of the Audit Committee and Director

LOTUS CREEK EXPLORATION INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
(Cdn$ thousands)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2024	$ -	$ -	$ (13)	$ (13)
Shares issued pursuant to the Arrangement (Note 10)	80,000	-	-	80,000
Share-based compensation (Note 10)	-	10	-	10
Net loss for the period	-	-	(489)	(489)
Balance at March 31, 2025	**$ 80,000**	**$ 10**	**$ (502)**	**$ 79,508**

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

LOTUS CREEK EXPLORATION INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS (unaudited)

(Cdn$ thousands, except per share amounts)		Three months ended March 31, 2025
REVENUE		
Petroleum and natural gas sales (Note 14)	$	**5,589**
Royalties		**(814)**
		4,775
Interest income		**70**
		4,845
EXPENSES		
Operating		**2,147**
Transportation		**168**
General and administrative		**829**
Interest and financing charges		**82**
Transaction costs (Note 5)		**647**
Depletion, depreciation and amortization (Note 7)		**1,330**
Accretion (Note 9)		**121**
Share-based compensation (Note 10)		**10**
		5,334
Loss before income taxes		**(489)**
Deferred income tax expense		**-**
Net loss and comprehensive loss	$	**(489)**
Net loss per share, basic and diluted (Note 10)	$	**(0.02)**

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

LOTUS CREEK EXPLORATION INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

(Cdn$ thousands)		**Three months ended March 31, 2025**
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss	$	(489)
Add items not involving cash:		
Depletion, depreciation and amortization		1,330
Accretion		121
Share-based compensation		10
Change in non-cash working capital (Note 15)		(1,415)
		(443)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures (Note 6)		(9,292)
Property, plant and equipment expenditures (Note 7)		(294)
Cash and restricted cash received on the Arrangement (Note 5)		18,225
Change in non-cash working capital (Note 15)		5,483
		14,122
INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH		13,679
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD		-
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$	13,679
The following are included in cash flows from operating activities:		
Interest paid in cash	$	184
Interest earned on cash	$	70

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

1. STRUCTURE OF THE BUSINESS

Lotus Creek Exploration Inc. (the "Company" or "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.". The principal undertakings of Lotus Creek are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets.

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 under the symbol "LTC".

The Company's principal place of business is located at 800, 205 – 5th Avenue SW, Calgary, Alberta T2P 2V7.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements (the "financial 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").

A summary of Lotus Creek's material accounting policies under IFRS is presented in Note 3. The financial statements have been prepared on the historical cost basis, except as otherwise allowed for in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on May 14, 2025.

3. MATERIAL ACCOUNTING POLICIES

(a) Revenue recognition
Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") owned by Lotus Creek is recognized when title is transferred from Lotus Creek to its customers. Lotus Creek's commodity sales contracts represent a series of distinct transactions. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business. Substantially all revenue is based on floating prices. Lotus Creek considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- Lotus Creek has transferred title and physical possession of the goods to the buyer;
- Lotus Creek has transferred the significant risks and rewards of ownership of the goods to the buyer; and
- Lotus Creek has the present right to payment.

Revenue is collected from Lotus Creek's customers on the 25th day of the month following delivery. Lotus Creek does not have any contracts where the period between the transfer of the contracted goods and payment by the customer exceeds one year. As such, Lotus Creek does not adjust its revenue transactions for the time value of money. The contracts to sell the Company's crude oil, natural gas and NGLs have varying terms not longer than one year.

(b) Joint arrangements
Lotus Creek does not have any joint venture arrangements. However, Lotus Creek conducts a portion of its activities through jointly controlled operations. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing Lotus Creek's assets whereby Lotus Creek has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks.

(c) Share-based compensation
The Company accounts for its share-based compensation plan using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration received, together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Forfeitures of stock options are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(d) Exploration and evaluation (“E&E”) assets
E&E costs are capitalized until the technical feasibility and commercial viability of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable crude oil, condensate, natural gas, and natural gas liquids reserves ("reserves") relative to the estimated potential resources available and available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any related asset retirement costs. Costs incurred prior to obtaining the legal right to explore are expensed as incurred. Assets classified as E&E may have sales of crude oil and natural gas associated with production from test wells. These operating results are recognized in the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Nonproducing assets classified as E&E are not depleted.

When a project classified as E&E is determined to be technically feasible and commercially viable, the cost is transferred from E&E to property, plant and equipment ("PP&E") on the Consolidated Balance Sheets. The assets are assessed for impairment prior to any such transfer, by comparing the carrying amount to the greater of the assets' fair value less costs of disposal or value in use. If a decision is made by Management not to continue an E&E project, the E&E is derecognized and all associated costs are charged to the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in E&E expense at that time.

(e) Property, plant and equipment (“PP&E”)
Items of PP&E, which include oil and gas development and production (“D&P”) assets and administrative assets, are measured at cost less accumulated depletion, depreciation, amortization, and accumulated impairment losses.

Gains and losses on disposals of properties are determined by comparing the proceeds to the carrying value of the property net of associated decommissioning liabilities and are recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(f) Leases
Leases are capitalized as right of use assets with a corresponding lease liability. Lease liabilities are initially measured at the present value of future lease payments in the Consolidated Balance Sheets. The discount rate used to measure the lease liability is the rate implicit in the lease or the company’s incremental borrowing rate, if the rate implicit in the lease cannot be readily determined. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Certain lease payments will continue to be expensed in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). These leases are contractual obligations that contain any of the following: are to explore for or use oil and gas; are variable payments; the Company does not control the asset; or no asset is identified in the lease.

(g) Depletion, depreciation and amortization
D&P assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

(i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
(ii) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated decommissioning costs; and
(iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

(h) Impairment
E&E assets are assessed for impairment at the cash-generating unit level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired E&E assets, reversal of impairment. An impairment charge on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable

amount. Impairment of E&E assets is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as E&E expense.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant E&E asset is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated depletion, depreciation and amortization if applicable, if no impairment charge had been recognized. A reversal of impairment of E&E assets is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as a recovery of E&E expense.

D&P assets are aggregated into cash-generating units ("CGUs") for the purposes of impairment testing and depletion calculations. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level quarterly or when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal ("FVLCD") or its value in use ("VIU"). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCD is the amount that would be realized from the disposition of an asset or CGU in an arm's length transaction between knowledgeable and willing parties. FVLCD is based on the discounted after-tax cash flows of reserves using forward prices and costs, consistent with the Company's independent qualified reserves evaluators and may consider an evaluation of comparable asset transactions.

When the carrying value exceeds the recoverable amount an impairment loss exists and is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Impairment losses recognized in prior periods are assessed at each reporting date for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

(i) Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3 *Business Combinations*. Management's determination of whether a transaction constitutes a business combination or an asset acquisition is based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. Subsequent to the business combination and in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the decommissioning liability associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in decommissioning liability and PP&E on the Consolidated Balance Sheet. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, a gain on business combination is recognized immediately in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). A deferred income tax asset or liability arising from the acquired net assets is also recognized in a business combination. Any resulting goodwill or a gain resulting from a bargain purchase is not considered to be taxable. Transaction costs associated with a business combination are expensed as incurred.

(j) Financial instruments

(i) Amortized cost

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and debt are measured at amortized cost. These classifications are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method.

(ii) Fair value through profit or loss ("FVTPL")

Lotus Creek may enter into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. 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. All risk management contracts are initially measured at fair value through profit or loss and are subsequently measured at fair value with changes in fair value recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The fair values of these derivative instruments are based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

(k) Decommissioning liabilities
Lotus Creek's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Lotus Creek recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(l) Income taxes
Income taxes are comprised of current and deferred income taxes.

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

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred income tax is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred income tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

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

(m) Per share amounts
Basic per share amounts are computed by dividing net income or loss by the weighted average number of Common Shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised, and Common Shares issued.

(n) Share capital
Costs directly attributable to the issue of Common Shares are recognized as a deduction from equity, net of deferred income taxes.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Global markets have continued to be impacted by inflationary pressures. Future financial performance may be impacted by fluctuations in the global market, commodity prices, interest rates and the imposition of tariffs.

In addition, climate change and the evolving worldwide demand for alternative sources of energy that are not sourced from fossil fuels could result in a change in assumptions used in determining the recoverable amount and could affect the carrying value of the related assets. As these issues become more of a regulatory focus by governments, future financial performance may be impacted. This also presents uncertainty and risk with respect to the Company, its performance and estimates and assumptions. The timing in which global energy markets transition from carbon-based sources to alternative energy or when new regulatory practices may be implemented is highly uncertain.

Changes to assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Recoverability of asset carrying values
The recoverability of D&P asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost of disposal and value in use. 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 in each CGU are in close proximity to each other, with similar cost structures and marketing arrangements. Lotus Creek applies information on estimates of future commodity prices, expected production volumes, quantity of reserves and resources, future development costs, future operating costs, discount rates and income taxes when determining an acceptable range of recoverable amounts.

Key estimates used in determining cash flows from the Company's reserves include:

- Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Crude oil and natural gas prices - Forward price estimates are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors and the imposition of tariffs.
- Discount rate - The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

E&E assets
The accounting for E&E assets requires Management to make judgments as to whether E&E investments have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such reserves to be estimated and could be impacted by a shift in demand as global energy markets transition to a lower carbon-based economy. Previous estimates can be revised as new information becomes available.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the reserves is technically feasible and commercially viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have E&E assets remain classified as such for several years while additional E&E activities are carried out or the Company seeks government, regulatory, or internal approval for development plans. E&E assets are subject to ongoing Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected capital investments and production costs, results of other operators in the region, and access to infrastructure and potential infrastructure expansions are important factors considered.

Accrual estimates
Revenue, royalty, operating expense and capital amounts are estimated at each reporting date, before actual results are known. These estimates rely on management judgment and could vary from actual results.

Depletion of oil and gas assets
Depletion of oil and gas assets is determined based on estimated total proved and probable reserves as well as estimated future development costs. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

Business combinations
Determination of the fair value of acquired assets and liabilities in a business combination requires management to make assumptions and estimates about future events. The fair value of crude oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production. These assumptions and estimates generally require judgment and include estimates of reserves acquired, liabilities assumed, forecast commodity prices, expected production volumes, future development and operating costs, income taxes, and discount rates. 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 the net assets acquired, goodwill or gain on business combination.

Decommissioning liability
The provision for abandonment and reclamation is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and timing of cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative instruments
The estimated fair value of derivative instruments resulting in financial assets and liabilities is reliant upon forward prices. Any change in the forward price curves could result in a change to the estimated valuation of the instruments.

Employee compensation costs
Compensation expense recorded for Lotus Creek's stock option plan is based on a Black-Scholes pricing model. The inputs to this model such as average expected volatility and estimated forfeiture rates rely on management judgment.

Income taxes
Tax regulations and legislation are subject to change and differing interpretations requiring management judgement. Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences, tax losses and tax loss carry-forwards can be utilized. Such assessment requires management judgement. Deferred income tax liabilities are recognized when it is considered probable that the tax on temporary differences will be payable to tax authorities in future periods, which requires management judgement. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the regulations and legislation may result in a material increase or decrease in Lotus Creek's income tax assets and liabilities.

5. ACQUISITION OF PETROLEUM AND NATURAL GAS PROPERTIES

On February 5, 2025, pursuant to the Arrangement, the Lotus Creek Assets and some cash were transferred to Lotus Creek in exchange for 40.0 million Lotus Creek Common Shares, with such Common Shares distributed to the former holders of common shares of Gear. Immediately prior to the effective time of the Arrangement, Lotus Creek was a wholly-owned subsidiary of Gear. Since the shareholders of Lotus Creek and Gear were the same both before and after the Arrangement, this transaction was accounted for as a business combination under common control. These Lotus Creek Assets created the initial business of the Company.

IFRS 3 scopes out business combinations under common control and is not prescriptive otherwise as to the method of accounting for such transactions. In the absence of specific guidance in IFRS, the Corporation has the option to account for the transaction at cost or using the acquisition method under IFRS 3. The Corporation determined that the acquisition method is an acceptable accounting policy choice since the transaction has commercial substance and fair value accounting provides the most relevant and reliable information for the users of the financial statements. The Arrangement has been accounted for as a business combination and the transfer of the Lotus Creek Assets is accounted for using the acquisition method where the transferred assets and liabilities are recorded at their estimated fair values at the time of transfer, with the exception of deferred income tax asset, which is measured in accordance with the Company's accounting policies.

The following summarizes the preliminary purchase price allocation:

Net Assets Acquired ($ thousands)	**Amount**
Cash	17,725
Restricted cash	500
Accounts receivable	2,093
Prepaid expenses	1,247
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.

These financial statements incorporate the results from commencement of commercial operations of the Lotus Creek Assets from February 5, 2025 onward. The Lotus Creek Assets generated sales of crude oil, natural gas and natural gas liquids of $5.7 million and net income of $2.6 million from February 5, 2025 to March 31, 2025. If the transaction had taken place on January 1, 2025, it is estimated that the Lotus Creek Assets would have generated additional sales of crude oil, natural gas and natural gas liquids of $3.6 million and net income of $1.6 million.

Pursuant to the Arrangement, Lotus Creek has $0.5 million in restricted cash that will be released upon completion of the final statement of adjustments.

In conjunction with the acquisition, Lotus Creek incurred $0.6 million of transaction costs including amounts relating to legal fees and other related acquisition costs. These amounts are included in the Consolidated Statement of Income (Loss) and Comprehensive Income (Loss).

6. EXPLORATION AND EVALUATION ASSETS

The following table reconciles Lotus Creek's E&E assets:

Cost ($ thousands)	**E&E Assets**
Balance at date of incorporation on August 21, 2024	-
Additions	746
Balance, December 31, 2024	746
Additions	9,292
Acquisitions (Note 5)	6,228
Balance, March 31, 2025	16,266

As at March 31, 2025, no indicators of impairment were identified related to Lotus Creek's E&E assets. As a result of this assessment, impairment tests were not performed.

7. PROPERTY, PLANT AND EQUIPMENT AND IMPAIRMENT

The following table reconciles Lotus Creek's property, plant and equipment:

Cost ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2024	-	-	-
Additions	294	-	294
Acquisition (Note 5)	63,874	76	63,950
Change in decommissioning costs	10,363	-	10,363
Balance, March 31, 2025	74,531	76	74,607
Depletion, depreciation and amortization			
Balance, December 31, 2024	-	-	-
Depletion, depreciation and amortization	1,324	6	1,330
Balance, March 31, 2025	1,324	6	1,330

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2024	-	-	-
As at March 31, 2025	73,207	70	73,277

As at March 31, 2025, no indicators of impairment were identified related to Lotus Creek's CGUs. As a result of this assessment, impairment tests were not performed.

8. DEBT

On close of the Arrangement on February 5, 2025, Lotus Creek established the following credit facilities (collectively, the "Credit Facilities"):

Facility ($ thousands)	**Classification**	**Borrowing base** **March 31, 2025**	**December 31, 2024**	**Maturity date**
Revolving term facility	Long term	30,000	-	May 31, 2026
Operating facility	Long term	5,000	-	May 31, 2026
Total		35,000	-	

At March 31, 2025 Lotus Creek had $nil drawn on the Credit Facilities and 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 Credit Facilities, depending on Lotus Creek's Debt to EBITDA ratio, 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.

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.

9. DECOMMISSIONING LIABILITY

($ thousands)	**Three months ended March 31, 2025**
Balance, beginning of period	**-**
Change in estimated future costs	**(48)**
Additions	**66**
Acquisition (Note 5)	**11,743**
Revaluation of acquired decommissioning liabilities (1)	**10,345**
Accretion	**121**
Balance, end of period	**22,227**
Expected to be incurred within one year	**2,650**
Expected to be incurred beyond one year	**19,577**

(1) These amounts relate to the revaluation of acquired decommissioning liabilities using the risk-free discount rate. At the date of acquisition decommissioning liabilities are recorded at fair value.

The undiscounted and unescalated amount of the expected cash flows required to settle the net decommissioning liability is estimated to be $27.5 million as at March 31, 2025. The liability for the expected cash flows, as reflected in the financial statements, has been inflated at 2.00 per cent and discounted using a risk-free rate of 3.23 per cent. At the acquisition, the decommissioning liability was inflated at 2.00 per cent and discounted using a risk-free rate of 3.33 per cent. Abandonments are expected to occur between 2025 and 2052 and related costs will be funded mainly from cash provided by Lotus Creek's operating activities. As at December 31, 2024, the decommissioning liability was $nil.

10. SHAREHOLDERS' EQUITY

Lotus Creek is authorized to issue an unlimited number of Common Shares.

a) Share Capital

	Three months ended March 31, 2025			For the period from date of incorporation, August 21, 2024 to December 31, 2024		
(thousands of shares and $ thousands)	**Shares**		**Amount**	Shares (1)		Amount
Balance, beginning of period	**-**	**$**	**-**	-	$	-
Shares issued pursuant to the Arrangement (2)	**40,000**		**80,000**	-		-
Balance, end of period	**40,000**	**$**	**80,000**	-	$	-

(2) As at December 31, 2024, one Common Share was outstanding.
(3) 39,999,999 Common Shares were issued pursuant to the Arrangement.

On February 5, 2025, as part of the Arrangement, 40.0 million Common Shares of Lotus Creek were issued at a price of $2.00 per Common Share.

For the three months period ended March 31, 2025, nil stock options (December 31, 2024 – nil) were exercised.

b) Stock Options

Lotus Creek's stock option plan provides for the grant of options to purchase Common Shares of Lotus Creek to directors, officers, employees and consultants of Lotus Creek. Options under the option plan expire 30 business days following the date of vesting of the grant and vest in twelve equal one-twelfth quarterly tranches starting on the first anniversary date of the grant date.

The following table summarizes Lotus Creek's stock option plan activity during the quarter ended March 31, 2025. There was no option plan activity for the period from the date of incorporation, August 21, 2024 to December 31, 2024.

	Three months ended March 31, 2025		
(thousands)	**Number of stock options**		**Weighted average exercise price**
Outstanding, beginning of period	**-**	**$**	**-**
Granted	**2,444**		**1.34**
Outstanding, end of period	**2,444**		**1.34**
Exercisable, end of period	**-**	**$**	**-**

During the three months period ended March 31, 2025, Lotus Creek has recorded an expense of $10 thousand (2024 – $nil) to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued, amortized using a graded vesting calculation.

As at March 31, 2025, the 2.4 million options had an exercise price of $1.34 and a weighted average remaining contractual life of 2.4 years.

The Black-Scholes option-pricing model was used to determine the fair value of stock options granted using the following assumptions:

	Three months ended March 31, 2025
Risk free interest rate (%)	**2.55**
Average expected life (years)	**2.1**
Average expected volatility (%) (1)	**14.6**
Forfeiture rate (%)	**10.0**

(1) Lotus Creek estimated the expected volatility over the life of the options based on peer group average for junior oil and gas companies.

There were no options granted for the period from date of incorporation, August 21, 2024 to December 31, 2024.

c) Per Share Amounts

(thousands, except per $ share amounts)	**Three months ended March 31, 2025**
Basic and diluted	**24,444**
Net loss per share – basic and diluted	**(0.02)**

When the impact is anti-dilutive, stock options are excluded from the calculation of diluted weighted average Common Shares.

11. INCOME TAXES

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before deferred income tax expense as follows:

($ thousands)	**Three months ended March 31, 2025**	Year ended December 31, 2024
Income before income taxes	**(489)**	(13)
Canadian statutory rate (1)	**24.0%**	23.0%
Computed income tax expense at statutory rates	**(117)**	(3)
Effect on income tax of:		
Non-deductible items	**2**	-
Change in tax assets recognized	**115**	3
Deferred income tax (expense) recovery	**-**	-

(2) The statutory rate consists of the combined statutory tax rate for Lotus Creek.

($ thousands)	December 31, 2024	Recognized change through profit and loss	Recognized change through acquisitions	**March 31, 2025**
Deferred income tax assets (liabilities):				
Property, plant and equipment				
Non-capital losses carry forward	-	586	-	**586**
Intangible and tangible pools	-	(709)	(5,211)	**(5,920)**
Decommissioning liability	-	(123)	5,211	**5,334**
Net deferred income tax asset	-	-	-	**-**

Deferred income tax assets are recognized for tax loss and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. 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.

12. FINANCIAL INSTRUMENTS

Classification and Measurement
As at March 31, 2025 and December 31, 2024, Lotus Creek has not entered into any risk management contracts. Financial instruments on the Consolidated Balance Sheets are carried at amortized cost.

Risk management contracts are transacted in active markets. Lotus Creek 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 in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, forward exchange rates, 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.

Lotus Creek’s cash and cash equivalents is classified as Level 1. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management
Lotus Creek is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company’s use of financial instruments. These risk factors include market risks relating to commodity prices, foreign currency risk and interest rate risk, as well as liquidity risk and credit risk. There have been no changes in the Company’s objectives, policies or risks surrounding financial instruments.

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company’s financial assets, liabilities and expected future cash flows include commodity price risk (crude oil, natural gas and NGLs), and foreign currency exchange risk.

(a) *Commodity price and foreign currency exchange risk*
Lotus Creek is subject to commodity price risk on the delivery of crude oil, and to a lesser extent, natural gas and NGLs. These prices have a significant impact on its financial condition and can be subject to volatility as a result of a number of different external factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors and the imposition of tariffs. North American crude oil, natural gas and NGL prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Canadian/US dollar exchange rate. Lotus Creek can manage the risks associated with changes in commodity prices and foreign currency exchange by entering into a variety of risk management contracts. There were no risk management contracts in place at March 31, 2025 and December 31, 2024.

(b) *Interest rate risk*
Lotus Creek has variable interest rates on its Credit Facilities, therefore, changes in interest rates could result in an increase or decrease in the amount Lotus Creek pays to service its debt. As at March 31, 2025, Lotus Creek did not draw down on its Credit Facilities and no risk management contracts that would be affected by interest rates in place at March 31, 2025 and December 31, 2024.

(c) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts.

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. In the event that the borrowing base is reduced below the amount drawn, Lotus Creek would have 30 days to eliminate the borrowing base shortfall by repaying the amount drawn in excess of the adjusted borrowing base. If this occurs, alternative external sources of funding will be necessary. 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 Lotus Creek's obligations as they become due. In addition, there can be no assurances that Lotus Creek's Credit Facilities will be extended beyond the May 31, 2026 maturity date. As at March 31, 2025, Lotus Creek did not draw down on its Credit Facilities. The next borrowing base review is expected to be completed on or about May 31, 2025.

All the accounts payable and accrued liabilities are due in less than one year.

(d) *Credit risk*

Lotus Creek is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Lotus Creek, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering agreements only with parties that meet certain credit tests. The maximum credit risk that the Company is exposed to is the carrying value of accounts receivable and risk management contracts, if applicable.

The majority of the credit exposure on accounts receivable at March 31, 2025 pertains to accrued revenue for March 2025 production volumes. Lotus Creek transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Lotus Creek by the 25th day of the month following production. A significant portion of Lotus Creek's accounts receivable is carried by two marketing companies. At March 31, 2025, 60 per cent of the total outstanding accounts receivable pertains to these companies. Lotus Creek did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at March 31, 2025.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Lotus Creek considers all amounts greater than 90 days to be past due. At March 31, 2025, $nil accounts receivable are past due.

13. CAPITAL MANAGEMENT

Lotus Creek's capital management objective is to maintain a structure that will allow it to:

- Fund its development and exploration program;
- Weather periods of low commodity prices in light of changes in economic conditions;
- Provide financial flexibility to execute on strategic opportunities; and
- Return funds where possible to shareholders.

Lotus Creek considers its capital structure to include shareholders' equity and net debt, which includes debt and working capital. As at March 31, 2025 and December 31, 2024, these amounts are as follows:

($ thousands)	**March 31, 2025**	December 31, 2024
Debt	**-**	-
Working capital surplus (1)	**12,192**	(759)
Net surplus (debt)	**12,192**	(759)
Shareholders' equity	**79,508**	(13)
Total capital	**91,700**	(772)

(1) Excludes decommissioning liabilities.

At certain times, Lotus Creek may incur debt as a result of a strategic acquisition or low commodity prices. Lotus Creek manages its capital structure and adjusts it in response to changes in economic conditions, the risk characteristics of its underlying assets, and the appetite for risk associated with access to capital. This is achieved by issuing new shares or adjusting its net surplus (debt) position through the management of capital expenditures.

14. PETROLEUM AND NATURAL GAS SALES

Lotus Creek sells its production pursuant to variable-price contracts. The transaction price for these contracts is based on commodity prices adjusted for quality and other factors. The contracts to sell the Company's crude oil, natural gas and NGLs have varying terms not longer than one year. The following table provides a summary of Lotus Creek's revenue streams since commencement of commercial operations on February 5, 2025:

($ thousands)	**Three months ended March 31, 2025**
Light oil	**4,670**
Natural gas liquids	**598**
Natural gas	**321**
Total petroleum and natural gas sales	**5,589**

15. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation

The following table provides a detailed breakdown of the changes in non-cash working capital:

($ thousands)	**Three months ended March 31, 2025**
Accounts receivable	**(2,168)**
Prepaid expenses	**(328)**
Accounts payable and accrued liabilities	**6,564**
Total	**4,068**
Operating Activities	**(1,415)**
Investing Activities	**5,483**
Total	**4,068**

16. COMMITMENTS AND CONTINGENCIES

The following is a summary of Lotus Creek's contractual obligations and commitments as at March 31, 2025:

	Payments due by period			
($ thousands)	**2025**	**2026**	**2027**	**Total**
Office leases [(1)]	413	303	43	759
Service agreement	224	-	-	224
Total contractual obligations	**637**	**303**	**43**	**983**

(1) Includes base rent and estimated operating costs.

Lotus Creek enters into commitments for capital and decommissioning expenditures in advance of the expenditures being made.

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.

17. 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 general and administrative expenses of $13 thousand
- 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 of $0.2 million, there are no other related parties.