CHRONOS RESOURCES LTD.

Consolidated Financial Statements

For the years ended
December 31, 2021, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Chronos Resources Ltd.

Opinion

We have audited the consolidated financial statements of Chronos Resources Ltd. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021, December 31, 2020 and December 31, 2019
- the consolidated statements income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditor's report is Grace Whouy-Chung Fung as it appears on CPA license.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
December 23, 2022

Chronos Resources Ltd.

Consolidated Statements of Financial Position

(in thousands)

(Expressed in CDN dollars)	Notes	**December 31, 2021**	December 31, 2020	December 31, 2020
Assets				
Current assets				
Cash		**$ 243**	$ -	$ 59
Accounts receivable	19	**3,019**	1,122	1,962
Due from related party	18	**807**	1,002	-
Prepaid expenses		**586**	335	374
		4,655	2,459	2,395
Exploration and evaluation assets	4	**755**	1,594	17,422
Property, plant and equipment	5 & 6	**55,318**	29,731	51,566
Investment in associate	7	**6,931**	5,785	5,740
		$ 67,659	$ 39,569	$ 77,123
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		**$ 5,731**	$ 2,462	$ 1,209
Bank loan	8	**-**	2,273	2,238
Lease obligations	9	**146**	116	150
		5,877	4,851	3,597
Lease obligations	9	**36**	101	202
Decommissioning liabilities	10	**20,716**	6,599	9,185
		26,629	11,551	12,984
Shareholders' equity				
Share capital	11	**113,332**	113,332	113,332
Contributed surplus		**6,954**	6,954	6,954
Deficit		**(79,256)**	(92,268)	(56,147)
		41,030	28,018	64,139
		$ 67,659	$ 39,569	$ 77,123

Commitments (note 21)

Subsequent event (note 22)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board,

(signed) "Dave Burton"
Dave Burton, Director

(signed) "Ali Horvath"
Ali Horvath, CPA, CA, Director

Chronos Resources Ltd.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(in thousands)

(Expressed in CDN dollars)	Notes		For the year ended December 31, **2021**		2020		2019
Revenue							
Petroleum and natural gas	14	**$**	**13,934**	$	5,593	$	12,386
Royalties			**(2,656)**		(1,110)		(2,785)
			11,278		4,483		9,601
Other income	20		**217**		-		-
			11,495		4,483		9,601
Expenses							
Operating			**6,428**		3,492		4,612
Transportation			**258**		211		180
General and administrative			**1,443**		509		1,089
Transaction related expenses			**63**		-		-
Exploration expense	4		**-**		13,299		157
Depletion and depreciation	6		**2,875**		2,866		3,755
Impairment (impairment reversal)	4 & 6		**(11,509)**		19,983		10,000
Share-based compensation	12		**-**		-		9
Gain on disposition			**(78)**		(5)		-
			(520)		40,355		19,802
Net income (loss) from operating activities		**$**	**12,015**	$	(35,872)	$	(10,201)
Dilution gain (loss) on additional partner contribution	7		**841**		300		(3,265)
Share of profit (loss) of investment in associate	7		**304**		(255)		(13,795)
Net income (loss) before finance expense		**$**	**13,160**	$	(35,827)	$	(27,261)
Finance expense	15		**148**		294		426
Net income (loss) and comprehensive income (loss)		**$**	**13,012**	$	(36,121)	$	(27,687)
Net income (loss) per share, basic & diluted	11	**$**	**0.41**	$	(1.15)	$	(0.88)

See accompanying notes to the consolidated financial statements.

Chronos Resources Ltd.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands)

(Expressed in CDN dollars)	Notes	Number of Common Shares	Number of Warrants	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2018	11	31,399	3,765	$ 113,332	$ 4,332	$ 2,613	$ (28,460)	$ 91,817
Warrants expired		-	(3,765)	-	(4,332)	4,332	-	-
Share-based compensation		-	-	-		9	-	9
Net loss for the year		-	-	-	-	-	(27,687)	(27,687)
Balance, December 31, 2019	11	31,399	-	$ 113,332	-	$ 6,954	$ (56,147)	$ 64,139
Balance, December 31, 2019	11	31,399	-	$ 113,332	-	$ 6,954	$ (56,147)	$ 64,139
Net loss for the year		-	-	-	-	-	(36,121)	$ (36,121)
Balance, December 31, 2020	11	31,399		$ 113,332		$ 6,954	$ (92,268)	$ 28,018
Balance, December 31, 2020	11	31,399	-	$ 113,332	-	$ 6,954	$ (92,268)	$ 28,018
Net income for the year		-	-	-	-	-	13,012	13,012
Balance, December 31, 2021	**11**	**31,399**		**$ 113,332**		**$ 6,954**	**$ (79,256)**	**$ 41,030**

See accompanying notes to the consolidated financial statements.

Chronos Resources Ltd.

Consolidated Statements of Cash Flows

(in thousands)

(Expressed in CDN dollars)	Notes		For the year ended December 31, **2021**		2020		2019
Cash provided by (used in):							
Operating activities							
Net income (loss) for the year		**$**	**13,012**	$	(36,121)	$	(27,687)
Non-cash items:							
Accretion and finance expense	15		**81**		173		234
Depletion and depreciation	4 & 6		**2,875**		2,866		3,755
Impairment (impairment reversal)	6		**(11,509)**		19,983		10,000
Share-based compensation	12		**-**		-		9
Gain on disposition			**(78)**		(5)		-
Other income	20		**(190)**		-		-
Share of (profit) loss of investment in associate	7		**(1,145)**		(45)		17,060
Exploration and evaluation expense	4		**-**		13,299		157
Decommissioning expenditures	10		**-**		(11)		(37)
			3,046		139		3,491
Change in non-cash working capital	17		**1,348**		1,017		(442)
Net cash from operating activities			**4,394**		1,156		3,049
Financing activities							
Change in bank loan	8		**(2,273)**		35		(1,767)
Payments on lease obligations	9		**(158)**		(148)		(134)
Net cash used in financing activities			**(2,431)**		(113)		(1,901)
Investing activities							
Additions to exploration and evaluation assets	4		**(31)**		(1,054)		(3,774)
Additions to property, plant and equipment	6		**(637)**		(772)		(181)
Acquisition through business combination	5		**(1,144)**		-		-
Proceeds on disposition	4 & 6		**125**		611		3,550
Investment in joint venture			**-**		-		(73)
Change in non-cash working capital	17		**(32)**		113		(1,927)
Net cash used in investing activities			**(1,719)**		(1,102)		(2,405)
Increase in cash			**243**		(59)		(1,257)
Cash - beginning of year			**-**		59		1,316
Cash - end of year		**$**	**243**	$	-	$	59

See accompanying notes to the consolidated financial statements.

1. Corporate information

Chronos Resources Ltd. ("Chronos" or the "Company") was incorporated under the Business Corporations Act (Alberta) on May 16, 2012. Chronos is a private exploration and development company pursuing petroleum and natural gas production and reserves in western Canada. The consolidated financial statements (the "Financial Statements") of the Company are comprised of Chronos and its wholly owned subsidiary, Chronos Duvernay Ltd., Chronos Duvernay MIS Ltd. and Chronos Duvernay Sub Co. Ltd., which is incorporated in Canada. The Company's head office is located at 2600, 333 – 7th Avenue S.W., Calgary, Alberta.

2. Basis of preparation

Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on December 23, 2022.

Basis of measurement

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

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's Joint Venture (note 7) is Canadian dollars.

Use of significant accounting estimates and judgements

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

COVID-19 and future operations

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. The pandemic and measures taken to limit its spread have contributed to significant volatility in global markets. The pandemic has adversely impacted global commercial activity creating economic uncertainty and volatility in commodity markets.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and the continued spread of COVID-19, its continued impact on financial markets on a macro-scale and any new information that may emerge concerning the effectiveness of available vaccines and the severity and spread of the virus. The pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

The Company's financial performance, operations and business are particularly sensitive to a reduction in the demand for and prices of crude oil and natural gas. The potential direct and indirect economic impact of COVID-19 have been considered in management's estimates and assumptions at year-end and have been reflected in the Company's results with any significant changes described in the relevant financial statements note.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for the Company's business environment, operations, and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or to the extent to which the disruption may materially impact the Company's financial statements in fiscal 2022 and beyond. In addition, after year end, energy prices strengthened to multi-year highs due to elevated uncertainly of global oil and natural gas supply after Russia's invasion of

Ukraine. While Chronos' benefits from these improvements in commodity prices, there is a degree of uncertainty related to COVID-19 and geopolitical events that have been considered in our estimates at year-end.

Alternative Sources of Energy
The Company has considered the impacts of climate change and the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of impairment of its oil and gas properties. The measurement of impairment for the Company's oil and gas properties was based on proved plus probable reserves where the majority of the cash flows incorporated into the estimate of the recoverable amount are estimated to be realized in the next ten years. At December 31, 2021, 2020 and 2019, a specific adjustment to the recoverable amount to account for the risk of climate change was not considered necessary, however, the recoverable amount is based on an estimated period of cash flows that indirectly reflects changing energy demands and the discount rate applied in the impairment test incorporates the current cost of capital in the energy industry which indirectly reflects current market trends around climate change. The ultimate period in which global energy markets can transition from carbon-based sources to alternative energy is highly uncertain.

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

(i) Identification of cash generating units ("CGU")
The Company's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to judgement and may impact the carrying value of the Company's assets in future periods.

(ii) Impairment and impairment reversals of petroleum and natural gas assets
Judgments are required to assess when impairment indicators or indicators of reversal exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

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

(iv) Contractual arrangement
Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate.

(v) Deferred income taxes
Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

(vi) Classification of a joint arrangement
Classification of a joint arrangement as either joint operation or joint venture requires judgment. Management's considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Other facts and circumstances are also assessed by management, including the entity's rights to the economic benefits of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

b) Key sources of estimation uncertainty

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

(i) Depletion, depreciation and amortization

Amounts recorded for depletion, depreciation and amortization and amounts used for impairment calculations are based on estimates of proved and probable oil and gas reserves and related cash flows. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and related future cash flows, are subject to measurement uncertainty. Accordingly, the impact on the financial statements of future periods could be material.

(ii) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, royalty rates, timing and amount of future development costs, remediation costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Company's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

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

(iii) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(iv) Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

(v) Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets, if any, are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

3. Significant accounting policies

The accounting policies have been applied consistently by the Company in all periods presented in these Financial Statements.

a) Jointly owned assets

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

b) Equity-accounted investees

(i) Joint arrangements:

Joint arrangements represent arrangements in which two or more parties have joint control established by a contractual agreement. Joint control only exists when decisions about the activities that most significantly affect the returns of the investee are unanimous. Joint arrangements can be classified as either a joint operation or a joint venture. In determining the classification of its joint arrangements, the company considers the contractual rights and obligations of each investor and whether the legal structure of the joint arrangement gives the entity direct rights to the assets and obligations for the liabilities. Where the company has rights to the assets and obligations for the liabilities of a joint arrangement, such arrangement is classified as a joint operation and the company's proportionate share of the joint operation's assets, liabilities, revenues and expenses are included in the consolidated financial statements, on a line-by-line basis. Where the company has rights to the net assets of an arrangement, the arrangement is classified as a joint venture and accounted for using the equity method of accounting. Under the equity method, the company's initial investment is recognized at cost and subsequently adjusted for the company's share of the joint venture's income or loss, less distributions received.

(ii) Investments in Associates

Associates are entities for which the company has significant influence, but not control or joint control over the financial and operational decisions. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost and adjusted thereafter for the change in the company's share of the investee's profit or loss less distributions received until the date that significant influence ceases.

c) Financial Instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments are comprised of cash, accounts receivable, due from related party, accounts payable and accrued liabilities, and the bank loan. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash is comprised of cash on hand. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash for the purpose of the statement of cash flows.

Other non-derivative financial instruments, such as accounts receivable, due from related party, the bank loan, and accounts payable and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and the exchange rate between Canadian and United States dollars. These instruments will not be used for trading or speculative purposes. When the Company enters into these contracts, it will not designate its financial derivative contracts as effective accounting hedges, and as a result, will not apply hedge accounting, even though the Company will consider all financial derivative contracts to be economic hedges. Consequently, all financial derivative contracts will be classified at fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

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

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and restricted and performance awards are recognized as a deduction from equity, net of any tax effects.

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

(i) Recognition and measurement:

Exploration and evaluation ("E&E") expenditures:

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

The Company assesses the recoverability of exploration and evaluation assets before and at the moment of reclassification to property, plant and equipment. E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to the related CGU.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment. The cost of undeveloped land that expires is recognized in profit or loss.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives they are accounted for as separate items (major components). If there is an indication that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant CGU 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 depletion, depreciation and amortization, if no impairment charge had been recognized. A reversal of an impairment charge is recognized in profit or loss in depletion, depreciation, amortization and impairment.

Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as operating costs when incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserves engineer reports and represent the estimated quantities of crude oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and that are considered commercially producible.

For other assets, depreciation is recognized in profit or loss on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment and leased assets are depreciated over the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

- Office, computer and other equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e) Impairment:

(i) Non-derivative financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets:

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

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

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

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

f) Share based payments:

The grant date fair value of options granted to employees and consultants are recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of restricted and performance awards that are expected to vest.

g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

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

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

h) Revenue:

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

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

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

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

i) Finance income and expenses:

Finance expense comprises interest expense on borrowings and accretion of the discount on decommissioning liabilities. Interest income is recognized as it accrues, using the effective interest method.

j) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(Tabular amounts in thousands)

k) Lease arrangements

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

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option with a corresponding adjustment to the carrying amount of the right-of-use asset.

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

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

l) Business combinations:

The acquisition method of accounting is used to account for acquisitions of entities or assets that meet the definition of a business under IFRS. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Acquisition-related costs are recognized in earnings as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess cost of acquisition over the fair value of the identifiable assets and liabilities acquired and contingent liabilities for which a provision is provided is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the entities acquired, the difference is recognized as a bargain purchase gain in earnings. Operational results of the business acquired are included in earnings from the closing date of acquisition.

m) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all conditions associated with the grant are met. Claims under government grant programs related to income or expense item, it is recognized as income or a reduction of the related expense item in the period in which the income is earned or costs are incurred.

4. Exploration and evaluation assets

A reconciliation of the carrying value of exploration and evaluation assets as at December 31, 2021, 2020 and 2019 is set out below:

	December, 2021	December 31, 2020	December 31, 2019
Balance, beginning of year	**$ 1,594**	$ 17,422	$ 17,355
Additions	**31**	1,054	3,774
Disposition to investment in associate	**-**	(600)	(3,550)
Exploration expense	**-**	(13,299)	(157)
Impairment	**-**	(2,983)	-
Transfers to property, plant and equipment	**(870)**	-	-
Balance, end of year	**$ 755**	$ 1,594	$ 17,422

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

At December 31, 2021, $755 thousand (December 31, 2020 - $1.6 million and December 31, 2019 - $17.4 million) remained in E&E assets after $0.9 million (December 31, 2020 - $nil and December 31, 2019 - $nil) was transferred to property, plant and equipment upon determination of technical and commercial feasibility. The Company does not amortize its exploration and evaluation assets. During the year ended December 31, 2021, the Company capitalized $nil (December 31, 2020 - $0.2 million and December 31, 2019 - $0.6 million) of general and administrative costs directly attributable to the exploration and evaluation of oil and gas properties.

In 2020, in response to the COVID-19 restrictions on operations, the Company deferred drilling and exploration operations and reduced the capital program. As a result, the Company surrendered certain mineral leases to minimize lease rental expenditures and recorded an exploration expense of $8.2 million, and deferred plans for drilling and completion operations and recorded an exploration expense of $5.1 million for a well pending determination of reserves.

Impairment

At December 31, 2021, there were no indicators of impairment or impairment reversal for E&E assets.

For the year ended December 31, 2020, the Company determined that low prices at Crown land sales during the year was an indicator of impairment with respect to its E&E assets which are all in southwest Saskatchewan.

For impairment testing, the estimated recoverable amount of E&E assets is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount was determined to be fair value less cost to sell and was estimated with reference to arm's length transactions at relevant land sales in comparable locations. The impairment test determined that the carrying amount of the southwest Saskatchewan E&E assets of $4.6 million exceeded the recoverable amount of $1.6 million. As a result, a $3.0 million impairment is included in impairment expense for the year.

The Crown land sale inputs used in the impairment test are considered level 2 in the fair value hierarchy.

There were no indicators of impairment as at December 31, 2019 for E&E assets.

Disposition to investment in associate

On June 14, 2018, the Company entered into a partnership and financing arrangement with a private equity firm for the development of the Company's land base in the East Duvernay Shale Basin in Alberta. At closing, Chronos contributed undeveloped Duvernay properties into Chronos Duvernay LP ("CDLP") and the private equity firm contributed cash, each in return for equity of CDLP. At closing, the Company shared joint control with the private equity firm and the resulting joint arrangement was classified as a Joint Venture under IFRS 11 and accounted for using the equity method of accounting. The assets are held by CDLP of which at December 31, 2021, Chronos owns 21.85% (29.59% at December 31, 2020 and 32.59% at December 31, 2019) and the private equity firm owns 78.15% (70.41% at December 31, 2020 and 67.41% at December 31, 2019) (see note 7).

At formation of the partnership on June 14, 2018, the undeveloped Duvernay properties were disposed of and an initial gain of $1.8 million was recognized in the second quarter of 2018. The gain was determined as the difference between the fair value of the undeveloped Duvernay properties disposed and the carrying amount, after eliminating Chronos' share of gain.

5. Business Combination

On September 24, 2021, the Company closed an acquisition of certain heavy oil properties in the Lloydminster area of Saskatchewan for an estimated total consideration of $1.1 million in cash (inclusive of interim adjustments) and assumption of $9.2 million of decommissioning liabilities. The effective date of the acquisition was August 1, 2021. These assets have been included in its own CGU.

The Company assessed the acquisition and determined it constitutes a business combination in accordance with IFRS 3. The Table below summarizes the identifiable assets acquired and liabilities assumed.

(Tabular amounts in thousands)

		Lloydminster Acquisition
Cash	$	1,144
Consideration paid	$	1,144
Property, plant and equipment	$	10,356
Decommissioning liability		(9,212)
Fair value of net assets acquired	$	1,144

Estimates for the fair value of identifiable assets and liabilities acquired are management's best estimates based on information available at the time of preparing these financial statements.

The fair value of PP&E acquired was estimated on the closing date using the present value of the estimated cash flows associated with proved developed oil and gas reserves and discounted at ten percent (Level 3 fair value inputs). The discount rate used was determined based on a peer group weighted average cost of capital factoring in risks specific to the types of reserves. The projected cash flows were derived from an externally prepared reserve report at December 31, 2021 which was rolled back to the closing date prepared internally. The decommissioning liability was estimated using a discount rate of ten percent and an inflation rate of two percent.

The Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following the close of the acquisition on September 24, 2021. Petroleum and natural gas sales includes $3.2 million of crude oil sales and $1.3 million of net income attributable to the Lloydminster acquisition. Had the asset acquisition occurred on January 1, 2021, an additional $7.0 million of petroleum and natural gas sales and $2.1 million of income from operating activities would have been recognized for the year ended December 31, 2021. The additional petroleum and natural gas sales and net income from operating activities are estimates and may not necessarily be indicative of the results should the acquisition have occurred on January 1, 2021.

6. Property, plant and equipment

A reconciliation of the carrying value of property, plant and equipment as at December 31, 2021, 2020 and 2019 is set out below:

Cost	Notes		Development and production assets		Other Assets		Total Property, plant and equipment
Balance, December 31, 2018		$	98,746	$	250	$	98,996
Additions			174		7		181
Changes in decommissioning liabilities	10		(629)		-		(629)
Increase in right of use asset	9		57		409		466
Balance, December 31, 2019		$	98,348	$	666	$	99,014
Additions			766		6		772
Dispositions			-		(11)		(11)
Changes in decommissioning liabilities	10		(2,735)		-		(2,735)
Balance, December 31, 2020		$	96,379	$	661	$	97,040
Additions			637		-		637
Acquisition through business combination	5		10,356		-		10,356
Transfers from exploration and evaluation assets	4		870				870
Increase in right of use asset	9		112		-		112
Disposition			(47)		-		(47)
Changes in decommissioning liabilities	10		5,025		-		5,025
Balance, December 31, 2021		**$**	**113,332**	**$**	**661**	**$**	**113,993**

(Tabular amounts in thousands)

Accumulated depletion, depreciation and impairment						
Balance, December 31, 2018	$	33,553	$	140	$	33,693
Depletion and depreciation		3,638		117		3,755
Impairment		10,000		-		10,000
Balance, December 31, 2019	$	47,191	$	257	$	47,448
Depletion and depreciation		2,740		126		2,866
Impairment		17,000		-		17,000
Disposition		-		(5)		(5)
Balance, December 31, 2020	$	66,931	$	378	$	67,309
Depletion and depreciation		2,722		153	$	2,875
Impairment (reversal)		(11,509)		-		(11,509)
Balance, December 31, 2021	**$**	**58,144**	**$**	**531**	**$**	**58,675**
Net carrying value:						
December 31, 2019	$	51,157	$	409	$	51,566
December 31, 2020	$	29,448	$	283	$	29,731
December 31, 2021	**$**	**55,188**	**$**	**130**	**$**	**55,318**

At December 31, 2021, estimated future development costs of $29.0 million (December 31, 2020 - $27.1 million and December 31, 2019 - $28.7 million) associated with the development of the Company's proved and probable reserves were added to the Company's carrying value in the depletion and depreciation calculation. The depletion and depreciation calculation as at December 31, 2021 excluded $10.6 million of estimated net salvage value (December 31, 2020 - $3.0 million and December 31, 2019 - $3.0 million).

Included in net carrying value of other assets as at December 31, 2021 is $0.3 million related to the right-of-use for the Company's head office (2020 - $0.2 million and 2019 - $0.1 million). In addition, $0.1 million related to the right-of-use for field trucks has been included in the net carrying value of development and production assets as at December 31, 2021 (2020 - $nil and 2019 - $nil). For the year ended December 31, 2021, the depreciation of these right-of-use assets is $0.1 million (2020 - $0.1 million and 2019 - $0.1 million).

During the 2021 year, the Company disposed four field trucks for net proceeds of $125 thousand with net carrying value of $47 thousand, resulting in a gain on disposition of $78 thousand.

Impairment

December 31, 2021

At December 31, 2021, the Company conducted an assessment of indicators of impairment or impairment reversal for the Company's CGUs. In performing the review, management determined that the increase in forward benchmark commodity prices compared to December 31, 2020 and the increase in reserve value for the southwest Saskatchewan CGU justified a review for impairment reversal. At December 31, 2021, there were no indicators of impairment for the Lloyd Saskatchewan CGU acquired on September 24, 2021 (see note 5). The Recoverable amounts of the southwest Saskatchewan CGU were estimated using value-in-use based on the net present value of before tax cash flows from oil and proved plus probable reserves estimated by the Company's third-party reserve evaluators at rates ranging from 12 to 25 percent. In determining the appropriate discount rates, the Company referenced recent market transactions completed on assets similar to those in the CGU.

At December 31, 2021, the Company determined that the recoverable amount of the southwest Saskatchewan CGUs exceeded the carrying value, net of depletion, by $11.5 million. Accordingly, an impairment reversal of $11.5 million was recorded in profit and loss.

The following table outlines forecasted commodity prices and exchange rates used in the Company's impairment reversal test as at December 31, 2021. The forecasted commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which is assigned based on historical rates and future anticipated activities by management.

(Tabular amounts in thousands)

	WTI Price - Oil (US$/bbl) [1]	WCS Price - Oil ($/bbl)	AECO Price - Gas ($/MMBtu) [1]	Exchange Rate ($Cdn/$US)
2022	73.00	75.63	3.88	0.80
2023	70.00	71.56	3.36	0.80
2024	68.00	68.74	3.02	0.80
2025	69.36	70.12	3.08	0.80
2026	70.75	71.52	3.14	0.80
2027	72.16	72.95	3.21	0.80
2028	73.61	74.41	3.27	0.80
2029	75.08	75.90	3.34	0.80
2030	76.58	77.42	3.40	0.80
2031	78.11	78.96	3.47	0.80
2032	79.67	80.54	3.54	0.80
Escalation rate of 2% per year thereafter				

[1] The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment test.

As at December 31, 2021, a one percent increase in the assumed discount rate and/or a five percent decrease in the forecast operating cash flows would result in the following total pre-tax impairment expense (reversal) being recognized.

	1% increase in discount rate	5% decrease in cash flows	1% increase in discount rate and 5% decrease in cash flows
Southwest Saskatchewan	(1,446)	(1,883)	(3,256)

March 31, 2020

At March 31, 2020, management identified indicators of impairment for the southwest Saskatchewan CGU as a result of the decrease in forecasted commodity prices for heavy crude oi since December 31, 2019. The Company used value in use, discounted at pre-tax rates between 8% and 25% dependent on the risk profile for the reserve category for the CGU.

The following table outlines the forecast benchmark commodity prices and exchange rate used in the impairment calculation of property, plant and equipment at March 31, 2020. Forecast benchmark commodity price assumptions tend to be stable because short-term fluctuations in prices are not considered indicative of long-term price levels but are nonetheless subject to change.

	WTI Price - Oil (US$/bbl) [1]	WCS Price - Oil ($/bbl)	AECO Price - Gas ($/MMBtu) [1]	Exchange Rate ($Cdn/$US)
2020	25.00	12.86	1.43	0.70
2021	37.00	30.14	2.05	0.73
2022	48.00	45.33	2.33	0.75
2023	48.96	46.24	2.41	0.75
2024	49.94	47.16	2.48	0.75
2025	50.94	48.11	2.56	0.75
2026	51.96	49.07	2.64	0.75
2027	53.00	50.05	2.71	0.75
2028	54.06	51.05	2.8	0.75
2029	55.14	52.07	2.88	0.75
Escalation rate of 2% per year thereafter				

[1] The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment test.

The impairment test of PP&E at March 31, 2020 determined that the carrying amount of the southwest Saskatchewan CGU of $50.3 million exceeded the recoverable amount of future cash flows of $33.3 million. As a result, a $17.0 million impairment was recorded as impairment expense.

(Tabular amounts in thousands)

December 31, 2020

At December 31, 2020, indicators for potential reversal of historical impairment were identified in the Company's only CGU in southwest Saskatchewan. Factors considered by management included an increase in proved plus probable reserves and improved forecasted commodity prices for heavy crude oil since the last impairment test performed on March 31, 2020. The Company used value in use, discounted at pre-tax rates between 10% and 25% dependent on the risk profile of the reserve category for the CGU for the December 31, 2020 impairment reversal test.

The following table outlines the forecast benchmark commodity prices and exchange rate used in the impairment calculation of property, plant and equipment at December 31, 2020. Forecast benchmark commodity price assumptions tend to be stable because short-term fluctuations in prices are not considered indicative of long-term price levels but are nonetheless subject to change.

	WTI Price - Oil (US$/bbl) [1]	WCS Price - Oil ($/bbl)	AECO Price - Gas ($/MMBtu) [1]	Exchange Rate ($Cdn/$US)
2021	46.00	43.51	2.86	0.77
2022	48.00	46.10	2.78	0.77
2023	53.00	52.60	2.69	0.77
2024	54.06	53.65	2.75	0.77
2025	55.14	54.72	2.80	0.77
2026	56.24	55.82	2.86	0.77
2027	57.37	56.93	2.91	0.77
2028	58.52	58.07	2.97	0.77
2029	59.69	59.23	3.03	0.77
2030	60.88	60.42	3.09	0.77
Escalation rate of 2% per year thereafter				

[1] The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment test.

The impairment reversal test of PP&E at December 31, 2020 determined that that the recoverable amount approximated the carrying amount and no reversal of historical impairment was recorded.

	1% increase in discount rate	5% decrease in cash flows	1% increase in discount rate and 5% decrease in cash flows
Southwest Saskatchewan	(1,681)	(1,664)	(3,262)

December 31, 2019

At December 31, 2019, the Company completed an assessment of the indicators of impairment. A technical revision reducing proved plus probable recoverable reserves and a decline in forecasted commodity prices utilized in the 2019 reserve report compared to the prior year were identified as an indicator of impairment. As a result, the Company completed an impairment test on the Company's PP&E assets in the southwest Saskatchewan CGU.

At December 31, 2019, the Company used value in use, discounted at pre-tax rates between 8% and 25% dependent on the risk profile of the reserve category for the CGU.

The following table outlines the forecast benchmark commodity prices and exchange rate used in the impairment calculation of property, plant and equipment at December 31, 2019. Forecast benchmark commodity price assumptions tend to be stable because short-term fluctuations in prices are not considered indicative of long-term price levels but are nonetheless subject to change.

(Tabular amounts in thousands)

	WTI Price - Oil (US$/bbl) [1]	WCS Price - Oil ($/bbl)	AECO Price - Gas ($/MMBtu) [1]	Exchange Rate ($Cdn/$US)
2020	61.00	59.81	2.04	0.76
2021	65.00	63.98	2.27	0.77
2022	67.00	63.77	2.81	0.80
2023	68.34	65.04	2.89	0.80
2024	69.71	66.34	2.98	0.80
2025	71.10	67.67	3.06	0.80
2026	72.52	69.02	3.15	0.80
2027	73.97	70.40	3.24	0.80
2028	75.45	71.81	3.33	0.80
2029	76.96	73.25	3.42	0.80
Escalation rate of 2% per year thereafter				

[1] The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment test.

The impairment test of PP&E at December 31, 2019 determined that the carrying amount of the southwest Saskatchewan CGU of $61.6 million exceeded the recoverable amount of $51.6 million. As a result, a $10.0 million impairment is included in impairment expense.

7. Investment in associate

On June 14, 2018, the Company entered into a partnership and financing arrangement with a private equity firm for the development of the Company's land base in the East Duvernay Shale Basin in Alberta. At closing, Chronos contributed undeveloped Duvernay properties into Chronos Duvernay LP ("the Partnership") and the private equity firm contributed cash, each in return for an equity investment in the Partnership. The financing arrangement is comprised of an equity line of credit pursuant to which the private equity firm may invest, on a capital call basis, from time to time, up to $100 million in consideration of additional equity of the Partnership. The cash contributed by the private equity firm on closing represented the first capital contribution under the initial tranche of capital to be invested under the equity line of credit. Exploration and development activities on the East Duvernay Shale Basin assets are to be funded with the cash contributed by the private equity firm under the equity line of credit.

In 2018, the Company shared joint control with the private equity firm and the resulting joint arrangement was classified as a Joint Venture under IFRS 11 and was required to be accounted for using the equity method of accounting. The investment was initially recorded at the cost of the undeveloped land disposed and related expenses and the subsequent carrying amount is increased or decreased by the Company's share of profit or loss. In 2019, the private equity partner contributed additional cash in exchange for additional equity, reducing Chronos working interest in the Partnership to lower than 50 percent. As such, the Company was reduced from joint control to significant influence over the investment and continued using the equity method of accounting.

Through 2021, 2020 and 2019, the private equity partner contributed additional cash in exchange for additional equity interest in the Partnership, resulting in a related dilution gain (loss) to the Company. Summarized below are the additional cash contributions made throughout the years and the associated dilution gain (loss) recorded as Chronos ownership percentage decreased.

(Tabular amounts in thousands)

	Partner Contribution ($)	Ownership %	Reduction in Onwership %	Dilution Gain/(Loss)
December 31, 2018 Ownership % in Joint Venture		**53.21%**	-	-
Cash contribution by private equity firm [(1)]	6,851	47.44%	5.77%	788
Cash contribution by private equity firm [(2)]	2,154	45.88%	1.56%	214
Cash contribution by private equity firm [(3)]	8,000	32.59%	13.29%	(4,267)
December 31, 2019 Ownership % in Associate	-	**32.59%**	-	-
Cash contribution by private equity firm [(4)]	1,400	31.02%	1.57%	157
Cash contribution by private equity firm [(5)]	1,400	29.59%	1.43%	143
December 31, 2020 Ownership % in Associate	-	**29.59%**	-	-
Cash contribution by private equity firm [(6)]	718	28.91%	0.68%	74
Cash contribution by private equity firm [(7)]	10,051	21.85%	7.06%	766
December 31, 2021 Ownership % in Associate	-	**21.85%**	-	-

[(1)] On April 5, 2019, the private equity firm contributed $6.9 million of additional capital into the Partnership in exchange for 6.9 million Class B Units in the Partnership at $1.00 per Unit reducing the Company's ownership, resulting in a dilution gain of $788 thousand.

[(2)] On May 31, 2019, the private equity firm contributed $2.2 million of additional capital into the Partnership in exchange for 2.2 million Class B Units in the Partnership at $1.00 per Unit reducing the Company's ownership, resulting in a dilution gain of $214 thousand.

[(3)] On August 19, 2019, the private equity firm contributed $8.0 million of additional capital into the Partnership in exchange for 26.7 million Class B Units in the Partnership at $0.30 per Unit reducing the Company's ownership, resulting in a dilution loss of $4.3 million.

[(4)] On May 27, 2020, the private equity firm contributed $1.4 million of additional capital into the Partnership in exchange for 4.7 million Class B Units in the Partnership at $0.30 per Unit reducing the Company's ownership, resulting in a dilution gain of $157 thousand.

[(5)] On July 24, 2020, the private equity firm contributed $1.4 million of additional capital into the Partnership in exchange for 4.7 million Class B Units in the Partnership at $0.30 per Unit reducing the Company's ownership, resulting in a dilution gain of $143 thousand.

[(6)] On June 3, 2021, the private equity firm contributed $0.7 million of additional capital into the Partnership in exchange for 2.4 million Class B Units in the Partnership at $0.30 per Unit reducing the Company's ownership, resulting in a dilution gain of $74 thousand.

[(7)] On September 2, 2021 and September 24, 2021, the private equity firm contributed total funds of $10.1 million of additional capital into the Partnership in exchange for 30.2 million Class D Units in the Partnership at $0.30 per Unit reducing the Company's ownership, resulting in a dilution gain of $766 thousand.

Summarized below is the financial information of Chronos Duvernay LP.

	December 31, 2021	December 31, 2020	December 31, 2019
Current assets	**$ 4,219**	$ 312	$ 99
Non-current assets	**43,904**	20,838	19,136
Current liabilities	**(4,519)**	(1,634)	(1,656)
Non-current liabilities	**(13,443)**	(1,117)	(1,013)
Net Assets	**$ 30,161**	$ 18,399	$ 16,566
Share of associate (percentage)	**21.85%**	29.59%	32.59%
Share of net assets	**$ 6,590**	$ 5,444	$ 5,399
Unrecognized portion of transaction costs [(1)]	**341**	341	341
Investment in associate	**$ 6,931**	$ 5,785	$ 5,740

[(1)] The amount represents transactions costs incurred in 2018 and 2019 on the financing of the Partnership that is not included in the net assets of the associate.

(Tabular amounts in thousands)

Results of Operations		December 31, 2021		December 31, 2020		December 31, 2019
Revenues	$	4,452	$	-	$	-
Expenses		(2,864)		(967)		(1,181)
Exploration expense		-		-		(38,058)
Depletion		(594)		-		(17,161)
Net income (loss)	$	994	$	(967)	$	(56,400)
Share of investment in associate (weighted average percentage)		18.1%		30.8%		43.2%
Share of net income (loss) from investment in associate		180		(298)		(24,383)
Dilution gain (loss) on private equity partner contribution [1]		841		300		(3,265)
Adjustment for equity-pickup for impairment		-		-		10,640
Impact of share of income based on weight average change in ownership %		124		43		(52)
Share of profit (loss) of investment in associate	$	1,145	$	45	$	(17,060)

[1] Dilution gain (loss) represents the gain or loss related to the decrease in ownership associated with additional capital contributions made by private equity partner. See dilution gain (loss) table above.

The Company's carrying amount of the investment in associate is as follows:

Investment in associate, December 31, 2018	$	22,727
Transaction costs related to investment in associate		73
Adjustment for equity-pickup for impairment		10,640
Dilution loss on additional equity partner contribution		(3,265)
Share of net loss from investment in associate		(24,435)
Investment in associate, December 31, 2019	$	5,740
Dilution gain on additional equity partner contribution		300
Share of net loss from investment in associate		(255)
Investment in associate, December 31, 2020		5,785
Dilution gain on additional equity partner contribution		841
Share of net income from investment in associate		304
Investment in associate, December 31, 2021	**$**	**6,931**

Subsequent to December 31, 2021, Chronos Duvernay LP paid a distribution of $4.25 million to the Class D Unitholders, resulting in an unrecognized loss of $929 thousand associated with the carrying value of the investment in associate.

8. Bank loan

At December 31, 2021, the Company had a demand credit facility with a Canadian chartered bank consisting of a demand revolving prime rate loan and a risk management credit support facility.

The credit facility provides for advances to be made by way of loan advances, letters of credit/guarantees, or entering into one or more financial instruments including swaps and forward commodity contracts. The credit facility bears interest at the bank's prime lending rate plus applicable margins. The applicable margins for the prime rate advances are 0.50% and letters of credit/guarantee 1.5%. Undrawn funds are subject to an availability fee of 0.25%.

The credit facility is secured by a fixed and floating charge demand debenture on the Company's producing petroleum and natural gas properties located in Saskatchewan and requires the Company to maintain a Liability Management Rating ("LMR") of greater than 1.0 in each jurisdiction the Company owns petroleum and natural gas properties.

The available borrowing limit of the credit facility is reviewed semi-annually and is based on the banks interpretation of the Company's reserves and future commodity prices. On September 24, 2021, the credit facility was amended to permit the acquisition of certain properties in the Lloydminster area of Saskatchewan, to amend the minimum LMR to greater than 1.0 in each jurisdiction the Company owns petroleum and natural gas properties and confirmed the borrowing limit at $2.0 million to be reduced by $250 thousand on October 1, 2021 and by $400 thousand on the first of each month thereafter until and including February 1, 2022.

At December 31, 2021, the borrowing limit was $950 thousand and the Company had drawn $nil on this facility (December 31, 2020 - $2.3 million and December 31, 2019 - $2.2 million). Subsequent to year-end, the Company terminated the credit facility and the Canadian chartered bank released the fixed and floating charge demand debenture on the Company's producing petroleum and natural gas properties.

(Tabular amounts in thousands)

9. Lease obligations

The Company has the following future commitments associated with its office space and field equipment lease obligations:

	December 31, 2021	December 31, 2020	December 31, 2019
Balance, beginning of year	**$ 217**	$ 352	$ -
Additions	**112**	-	466
Interest expense	**11**	13	21
Payments	**(158)**	(148)	(135)
Balance, end of year	**$ 182**	$ 217	$ 352
Current	**146**	116	150
Non-current	**36**	101	202
	$ 182	$ 217	$ 352

The Company's total undiscounted future lease payments as at December 31, 2021 are $0.2 million. The Company's total undiscounted future lease payments as at December 31, 2020 are $0.2 million. The Company's total undiscounted future lease payments of $0.4 million equate to future operating lease obligations.

10. Decommissioning liabilities

The Company's decommissioning liabilities result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total future undiscounted uninflated amount of cash flows required to settle its decommissioning liabilities for December 31, 2021, is approximately $20.4 million (December 31, 2020 - $8.5 million and December 31, 2019 - $13.0 million). These payments are expected to be made over the next 60 years. A risk-free rate of 1.68% (2020 – 1.2% and 2019 – 1.76%) and an inflation rate of 1.82% (2020 – 1.5% and 2019 – 1.35%) was used to calculate the fair value of the decommissioning liabilities.

	Note	**December, 2021**	December 31, 2020	December 31, 2019
Balance, beginning of year		**$ 6,599**	$ 9,185	$ 9,637
Additions		**-**	27	-
Liabilities acquired on acquisition	5	**9,212**	-	-
Change in estimates (1)		**(1,175)**	(2,762)	(629)
Revaluation of liabilities incurred (2)		**6,010**	-	-
Decommissioning expenditures		**-**	(11)	(37)
Accretion		**70**	160	214
Balance, end of year		**$ 20,716**	$ 6,599	$ 9,185

(1) The change in estimates in 2021 is due to a change in estimated abandonment and remediation costs of $(1.1) million (December 31, 2020 - $(4.0) million and December 31, 2019 - $nil) and change in discount and inflation rates totaling $(0.1) million (December 31, 2020 - 1.2 million and December 31, 2019 - ($629) thousand).

(2) These amounts relate to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisition, acquired decommissioning liabiities were fair valued using a discount rate of 10%.

11. Share capital

(a) Authorized

The Company's authorized share capital consists of an unlimited number of common voting shares and an unlimited number of preferred shares, issuable in series.

(b) Issued and outstanding common shares

The following table summarizes the Company's issued and outstanding common shares as at December 31, 2021 and 2020.

(Tabular amounts in thousands)

	December 31, 2021			December 31, 2020			December 31, 2019		
	Number of Shares		**Amount**	Number of Shares		Amount	Number of Shares		Amount
Balance, beginning of year	**31,399,439**	**$**	**113,332**	31,399,439	$	113,332	31,399,439	$	113,332
Balance, end of year	**31,399,439**	**$**	**113,332**	31,399,439	$	113,332	31,399,439	$	113,332

No shares were issued during the year ended December 31, 2021, 2020 and 2019.

The Company had 3,765,000 warrants outstanding at December 31, 2018 which expired unexercised on August 29, 2019.

(c) Per share amounts

The following table summarized the shares used in calculating net income per share:

		December 31, 2021		December 31, 2020		December 31, 2019
Net income (loss) for the period	**$**	**13,012**	$	(36,121)	$	(27,687)
Weighted average common shares outstanding, basic & diluted		**31,399**		31,399		31,399
Net income (loss) per share, basic & diluted	**$**	**0.41**	**$**	**(1.15)**	**$**	**(0.88)**

12. Share-based compensation

The Company established a share option plan for its directors, officers, employees and certain consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company. The options were exercisable at a price of $2.20 per share, had a term of five years and vested as to one-third on each of the first, second and third anniversaries from the date of grant. All the share options expired unexercised in 2020.

The following table sets forth a reconciliation of share option plan activity.

	December 31, 2021		December 31, 2020			December 31, 2019		
	Number of Options	**Exercise Price**	Number of Options		Exercise Price	Number of Options		Exercise Price
Outstanding, beginning of year	-	-	2,412,500	$	2.20	2,492,500	$	2.20
Forfeited	-	-	-		-	(80,000)		-
Expired unexercised	-	-	(2,412,500)	$	2.20	-	$	2.20
Outstanding, end of year	-	-	-		-	2,412,500	$	2.20

13. Key management personnel compensation

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

		December 31, 2021		December 31, 2020		December 31, 2019
Salaries and benefits	**$**	**917**	$	1,016	$	1,269
Share-based compensation		**-**		-		9
Total	**$**	**917**	$	1,016	$	1,278

Share-based compensation represents the non-cash share-based compensation expense estimated on grant date associated with options granted to executive officers and directors, as recorded in the financial statements. The share-based compensation expense is determined using a Black-Scholes pricing model (see note 12). This historical amount may not be equal to the fair value ultimately received upon exercise of the options.

14. Revenue

The Company sells its production pursuant to fixed or variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, condensate, natural gas or natural gas liquids to the customer. Revenue is recognized when a unit of production is delivered to the customer.

(Tabular amounts in thousands)

The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Crude oil, condensate and natural gas liquids are sold under contracts of varying terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's petroleum and natural gas sales all of which are from revenue with contracts with customers:

	December 31, 2021	December 31, 2020	December 31, 2019
Heavy crude oil and natural gas liquids	**$ 13,863**	$ 5,558	$ 12,298
Natural Gas	**71**	35	88
Petroleum and natural gas	**$ 13,934**	$ 5,593	$ 12,386

Included in accounts receivable as at December 31, 2021 is $2.4 million (December 31, 2020 - $0.6 million and December 31, 2019 - $1.5 million) of accrued oil and natural gas sales related to December production.

15. Finance expense

	December 31, 2021	December 31, 2020	December 31, 2019
Interest expense	**$ 67**	$ 121	$ 192
Interest on lease obligations	**11**	13	20
Accretion on decommissioning liabilities	**70**	160	214
	$ 148	$ 294	$ 426

16. Income tax

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

	December 31, 2021	December 31, 2020	December 31, 2019
Net income (loss)	**$ 13,012**	$ (36,121)	$ (27,687)
Combined federal and provincial rate	**25.37%**	25.70%	26.17%
Computed "expected" income tax expense (recovery)	**3,301**	(9,283)	(7,246)
Increase (decrease) in income tax resulting from:			
Non-deductible expenses	**-**	-	2
Rate change and other	**90**	865	-
Change in unrecognized deferred tax assets	**(3,391)**	8,418	7,244
Income tax expense (recovery)	**$ -**	$ -	$ -

The components of the Company's recognized deferred income tax assets and liabilities are as follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Deferred income tax liabilities:			
Property, plant and equipment	**$ (7,974)**	$ (1,390)	$ (8,058)
Future income tax assets:			
Investment in associate	**-**	-	7,687
Decommissioning liabilities	**-**	-	278
Non-capital losses	**7,974**	1,390	-
Lease obligation	**-**	-	92
Deferred income tax asset	**$ -**	$ -	$ -

(Tabular amounts in thousands)

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

	December 31, 2021	December 31, 2020	December 31, 2019
Investment in associate	**$ -**	$ 29,266	$ -
Property, plant and equipment	**-**	1,522	-
Decommissioning liability	**20,716**	6,599	8,151
Non capital losses	**22,528**	56,441	50,558
Lease obligation	**182**	217	-
Deferred income tax asset	**$ 43,426**	$ 94,045	$ 58,680

Deferred tax assets have not been recognized in respect of the above items due to the timing uncertainty of utilization of the losses against future taxable profits. In addition, the Company has generated non-capital losses of $57.6 million (December 31, 2020 - $56.4 million, December 31, 2019 - $90.3 million) which are available to shelter future taxable income and these non-capital losses will begin to expire in 2034.

17. Supplementary cash flow information

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

	December 31, 2021	December 31, 2020	December 31, 2019
Accounts receivable	**$ (1,897)**	$ 828	(440)
Due from related party	**195**	(990)	4,088
Prepaid expenses	**(251)**	39	37
Accounts payable and accrued liabilities	**3,269**	1,253	(6,054)
	$ 1,316	$ 1,130	$ (2,369)
Relating to:			
Operating activities	**$ 1,348**	1,017	$ (442)
Investing activities	**$ (32)**	113	$ (1,927)
	$ 1,316	$ 1,130	$ (2,369)

No cash tax was paid in the years ended December 31, 2021, 2020 or 2019. Interest of $51 thousand was paid in cash on the bank loan during year ended December 31, 2021 (December 31, 2020 - $97 thousand and December 31, 2019 - $192 thousand).

18. Related party transactions

The Company is related to a limited partnership, Chronos Duvernay LP (note 7) in that a wholly owned subsidiary has a partnership interest.

The Company performs management and advisory services for the partnership and is reimbursed for these services. During the year ended December 31, 2021, the Company charged Chronos Duvernay LP $1.0 million (2020 - $1.2 million and 2019 - $2.0 million) related to management and advisory services which was netted against G&A. As at December 31, 2021 the Company had a net receivable of $0.8 million due from Chronos Duvernay LP (December 31, 2020 - $1.0 million and December 31, 2019 - $12 thousand). Subsequent to year end, $0.6 million of the receivable has been collected. All transactions are recorded at the exchange amount which is the amount agreed upon between the parties.

19. Financial instruments

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

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

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

(Tabular amounts in thousands)

Market risk

Market risk is the risk that changes in market prices, such as commodity prices for crude oil and natural gas as well as costs of electricity consumption, foreign exchange rates and interest rates will affect the Company's valuation of financial instruments, the debt levels of the Company, as well as its income and cash flow from operations. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's returns. All such transactions are conducted in accordance with the Company's risk management policy that has been approved by the Board of Directors.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and United States dollar and also world economic events that dictate the levels of supply and demand. The Company may utilize both financial derivatives and physical delivery contracts to manage commodity price risks in accordance with the Company's expected sale requirements. Fixed price physical delivery contracts are not considered financial instruments; therefore, no asset or liability has been recognized in the financial statements. As at December 31, 2021, no financial derivative contracts have been entered into and the Company has the following physical sales contracts:

Benchmark	Period	Volume	Price/Unit
Fosterton	January 1, 2022 to March 31, 2022	100 bbl/d	CAD $69.60
Fosterton	February 1, 2022 to June 30, 2022	100 bbl/d	CAD $78.90
Lloydminster Kerrobert	February 1, 2022 to June 30, 2022	100 bbl/d	CAD $78.90
Fosterton	February 1, 2022 to February 28, 2022	100 bbl/d	CAD $83.00
Lloydminster Kerrobert	February 1, 2022 to February 28, 2022	100 bbl/d	CAD $83.00
Fosterton	April 1, 2022 to June 30, 2022	100 bbl/d	CAD $112.5

No financial derivative contracts were entered into for the years ended December 31, 2020 and 2019.

Interest rate risk

The Company is exposed to interest rate risk on the bank credit facility and cash balances to the extent of changes in market interest rates. As at December 31, 2021, 2020 and 2019, the Company had no interest rate swap or derivative contracts in place.

Foreign exchange risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. The Company is exposed to foreign exchange risk in relation to its crude oil sales. As at December 31, 2021, 2020 and 2019, the Company had no foreign exchange swap or derivative contracts in place.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from purchasers of the Company's petroleum and natural gas, joint venture partners and the counterparties to risk management contracts. As at December 31, 2021, the Company's receivables consisted of $2.4 million from petroleum and natural gas purchasers, $0.4 million due from joint venture partners and other receivables, $0.2 million due from government for goods and services tax receivable.

During the year ended December 31, 2021, the Company sold its crude oil and natural gas production to various counterparties with one counterparty accounting for 73% of sales (2020 and 2019 – two counterparties accounted for 99% of sales). Receivables from purchasers of the Company's petroleum and natural gas are normally collected on the 25th day of the month following shipment. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, credit worthy petroleum marketers. The Company intentionally uses several marketers in order to diversify this risk. Financial derivative contracts are only entered into with credit worthy institutions. Joint venture receivables are typically collected within one to four months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to commencement of the joint venture project and smaller partners are cash called to pay for their share of costs in advance of a project commencing. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. To offset this risk, the Company often has the ability to withhold production from joint venture partners in the event of non-payment.

(Tabular amounts in thousands)

The carrying amount of accounts receivable and due from related party represents the maximum credit exposure.

To assess the expected credit loss, the Company uses historical information and forward-looking information. No loss provision was recorded for the year ended December 31, 2021, 2020 and 2019. Historically, there was no indication that amounts were non-collectable thus, an allowance for doubtful accounts was not set up.

As at December 31, 2021, 2020 and 2019 the Company's accounts receivables are aged as follows:

Years ended	Total Receivables	< 90 Days	Past Due
December 31, 2021	$ 3,019	$ 2,906	$ 113
	100%	96%	4%
December 31, 2020	$ 1,122	$ 1,050	$ 72
	100%	94%	6%
December 31, 2019	$ 1,962	$ 1,962	$ -
	100%	100%	0%

Fair value of financial instruments:

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The carrying value of cash, accounts receivable, due from related party, accounts payable and accrued liabilities and bank loan included in the balance sheet approximate fair value due to the short-term nature of those instruments or the indexed rate of interest on the bank loan.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages cash and debt to mitigate the likelihood of encountering difficulties in meeting its financial obligations. The Company is not averse to maintaining a higher ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

(Tabular amounts in thousands)

The Company prepares annual capital and operating expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

The following are the contractual maturities of financial liabilities and associated interest payments as at December 31, 2021:

	Less than 1 year	1 to 2 years	Thereafter	Total
Accounts payable and accrued liabilities	$ 5,731	$ -	$ -	$ 5,731
Bank loan	$ -	$ -	$ -	$ -
Lease obligations	$ 146	$ 36	$ -	$ 182

Capital management

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions and resulting changes in capital markets, the current and forecasted net debt levels, the forecasted commodity prices and resulting cash flow. The Company prepares annual capital expenditure budgets and longer term plans, which are continually monitored and updated as necessary depending on varying factors including current and forecast commodity prices, earning and expiry commitments, weather and access restrictions, and project investment risk return profile. The annual and updated budgets are approved by the Board of Directors. The Company will adjust its capital structure through issuance of shares and make adjustments to capital spending to balance the capital structure. The Board of Directors does not establish quantitative return on capital targets for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's capital structure at December 31 is as follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Net debt (1)	**$ 1,222**	$ 2,392	$ 1,202
Shareholders' equity	**41,030**	28,018	64,139

(1) Net debt is current assets less current liabilities and calculated in the table below.

The following table outline the Company's calculation of net debt:

	December 31, 2021	December 31, 2020	December 31, 2019
Cash	**$ 243**	$ -	$ 59
Accounts receivable	**3,019**	1,122	1,962
Due from related party	**807**	1,002	-
Prepaid expenses	**586**	335	374
Accounts payable and accrued liabilities	**(5,731)**	(2,462)	(1,209)
Bank loan	**-**	(2,273)	(2,238)
Lease obligations	**(146)**	(116)	(150)
Net debt	**$ (1,222)**	$ (2,392)	$ (1,202)

The Company's share capital is not subject to external restrictions.

20. Government Grants

The Company recognized a total of $259 thousand in 2021 (2020 – $337 thousand and 2019 - $nil) under both the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy programs which was applied against general and administrative expenses. In addition, included in other income is $190 thousand (2020 and 2019 - $nil) related to government grants earned for wellsite rehabilitation.

21. Commitments

Commitments exist under various agreements and operations in the normal course of the Company's business, none of which are expected to have a significant impact on the Company's financial statements or operations. Commitments with a fixed term are as below. Office premise lease costs include an estimate of the Company's share of operating costs for its office premises for the duration of the lease term.

	2022	2023	2024
Office premise lease	$ 388	$ -	$ -
Vehicle leases	$ 48	$ 34	$ 6

22. Subsequent Events

1) On November 7, 2022, Chronos and Samoth Oilfield Inc. ("Samoth") announced that both parties entered into a definitive agreement dated November 7, 2022 providing for a transaction and $65.0 million of equity financing. Pursuant to the transaction:

   i. Chronos will complete an equity private placement for maximum aggregate gross proceeds of $65.0 million.

   ii. Chronos and Samoth will complete a transaction which will result in the reconstitution of the management team and board of directors.

   iii. the resulting issuer created from the combination of Samoth and Chronos will be renamed "Lycos Energy Inc." and is expected to trade on the TSX Venture Exchange ("TSXV") under the new stock symbol "LCX" as a Tier 1 oil and gas issuer.

   iv. each issued and outstanding common share in the capital of Chronos will be acquired by Samoth in exchange for twenty (20) common shares in the capital of Samoth at a deemed price of C$0.035 per Samoth Share with the final number of Samoth Shares to be issued being determined based on the size of the financing; and

   v. Samoth will complete a consolidation of the Samoth Shares on the basis of one (1) post-consolidation Samoth Share for every eight (8) pre-consolidation Samoth Shares, representing an exchange ratio, on a post-Consolidation basis, of two and a half (2.5) Resulting Issuer Shares at a deemed price of C$0.28 per Resulting Issuer Shares for every Chronos Share.

The transaction was completed on December 12, 2022.

The amalgamation will be treated as a reverse takeover transaction ("RTO") for accounting purposes based on the terms of the amalgamation. In accordance with IFRS, Samoth did not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination but a capital transaction of Samoth in substance with Chronos being the continuing entity from an accounting perspective.

Upon the close of the transaction, the following will be the issued and outstanding share capital of the combined entity:

	Total ('000s)
Common shares issued and outstanding of Chronos	31,399
Issued common shares of Chronos for $53.0 million proceeds at $0.70/share	75,714
Issued units of Chronos for $12.0 million proceeds at $0.70/unit [1]	17,143
Issued units of Chronos for $782 thousand of advisory fees at $0.70/unit [1]	1,117
Total common shares issued	125,374
20 to 1 exchange of Chronos to Samoth common shares	2,507,475
Samoth common shares issued and outstanding	37,707
Total common shares issued post transaction	2,545,182
Total common shares issued (post 8 to 1 consolidation)	318,148

[1] Units are comprised of one common share issued at $0.70/share and one warrant at $0.70/share.

2) On November 24, 2022, Chronos entered into a sublease agreement for a period of two years and eight months, commencing on May 1, 2023. The Company will be obligated to pay basic rent of approximately $0.1 million per year plus operating costs defined annually by the landlord.