



## Condensed Interim Consolidated Financial Statements

For the three and nine months ended  
September 30, 2022  
(unaudited)

# Chronos Resources Ltd.

## Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(in thousands)

(Expressed in CDN dollars)	Notes	September 30, 2022	December 31, 2021
<b>Assets</b>			
Current assets			
Cash		\$ 1,665	\$ 243
Accounts receivable	13	5,471	3,019
Due from related party	12	726	807
Prepaid expenses		1,133	586
		<b>8,995</b>	4,655
Exploration and evaluation assets	3	847	755
Property, plant and equipment	4 & 5	71,415	55,318
Investment in associate	6	4,342	6,931
		<b>\$ 85,599</b>	\$ 67,659
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 8,327	\$ 5,731
Bank loan		-	-
Lease obligations		32	146
		<b>8,359</b>	5,877
Lease obligations		12	36
Decommissioning liabilities	7	17,579	20,716
		<b>25,950</b>	26,629
Shareholders' equity			
Share capital	8	113,332	113,332
Contributed surplus		6,954	6,954
Deficit		(60,637)	(79,256)
		<b>59,649</b>	41,030
		<b>\$ 85,599</b>	\$ 67,659

Subsequent events (note 15)

See accompanying notes to the condensed interim consolidated financial statements.

# Chronos Resources Ltd.

## Condensed Interim Consolidated Statements of Income and Comprehensive Income

(unaudited)

(in thousands)

(Expressed in CDN dollars)	Notes	Three months ended		Nine months ended	
		September 30, 2022	2021	September 30, 2022	2021
<b>Revenue</b>					
Petroleum and natural gas	9	\$ 9,212	\$ 3,460	\$ 25,396	\$ 7,769
Royalties		(1,579)	(674)	(4,073)	(1,571)
Other income	14	160	-	421	-
		<b>7,793</b>	<b>2,786</b>	<b>21,744</b>	<b>6,198</b>
<b>Expenses</b>					
Operating		5,341	1,076	13,324	3,374
Transportation		63	62	191	177
General and administrative		844	152	1,671	428
Transaction related expenses		-	25	-	25
Depletion and depreciation	5	2,125	596	4,885	1,680
Impairment (reversal)	5	(19,589)	-	(19,589)	-
Gain on disposition	5	(99)	-	(296)	(36)
		<b>(11,315)</b>	<b>1,911</b>	<b>186</b>	<b>5,648</b>
Net income from operating activities		\$ 19,108	\$ 875	\$ 21,558	\$ 550
Dilution gain on additional partner contribution	6	-	841	-	841
Share of profit (loss) of investment in associate	6	(2,634)	157	(1,901)	12
Loss related to Class D distribution	6	(688)	-	(688)	-
Net income before finance expenses		\$ 15,786	\$ 1,873	\$ 18,969	\$ 1,403
Finance expense	10	140	46	350	128
Net income and comprehensive income		\$ 15,646	\$ 1,827	\$ 18,619	\$ 1,275
Net income per share, basic & diluted	8	\$ 0.50	\$ 0.06	\$ 0.59	\$ 0.04

See accompanying notes to the condensed interim consolidated financial statements.

# Chronos Resources Ltd.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

*(in thousands)*

(Expressed in CDN dollars)	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance December 30, 2020	8	31,399	\$ 113,332	\$ 6,954	\$ (92,268)	\$ 28,018
Net income for the period		-	-	-	1,275	\$ 1,275
Balance, September 30, 2021	8	31,399	\$ 113,332	\$ 6,954	\$ (90,993)	\$ 29,293
Balance, December 31, 2021	8	31,399	\$ 113,332	\$ 6,954	\$ (79,256)	\$ 41,030
Net income for the period		-	-	-	18,619	18,619
<b>Balance, September 30, 2022</b>	<b>8</b>	<b>31,399</b>	<b>\$ 113,332</b>	<b>\$ 6,954</b>	<b>\$ (60,637)</b>	<b>\$ 59,649</b>

See accompanying notes to the condensed interim consolidated financial statements.

# Chronos Resources Ltd.

## Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

(Expressed in CDN dollars)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Cash provided by (used in):					
Operating activities					
Net income for the period		\$ 15,646	\$ 1,827	\$ 18,619	\$ 1,275
Non-cash items:					
Accretion and finance expense	10	140	34	345	80
Depletion and depreciation	5	2,125	596	4,885	1,680
Impairment (impairment reversal)		(19,589)	-	(19,589)	-
Gain on disposition	5	(99)	-	(296)	(36)
Other income	7 & 14	(156)	-	(396)	-
Share of investment in associate activities	6	3,322	(998)	2,589	(853)
Decommissioning expenditures	7	(20)	-	(20)	-
		1,369	1,459	6,137	2,146
Change in non-cash working capital	11	1,795	-	(1,655)	34
Net cash from operating activities		3,164	1,459	4,482	2,180
Financing activities					
Change in bank loan		-	(400)	-	(910)
Payments on lease obligations		(8)	(39)	(107)	(112)
Net cash used in financing activities		(8)	(439)	(107)	(1,022)
Investing activities					
Additions to exploration and evaluation assets	3	(3)	(1)	(92)	(25)
Additions to property, plant and equipment	5	(3,019)	(145)	(4,510)	(406)
Acquisition through business combination		-	(1,144)	-	(1,144)
Proceeds on disposition	5	98	-	316	59
Change in non-cash working capital	11	939	270	1,333	358
Net cash used in investing activities		(1,985)	(1,020)	(2,953)	(1,158)
Increase in cash		1,171	-	1,422	-
Cash - beginning of year		494	-	243	-
Cash - end of year		\$ 1,665	\$ -	\$ 1,665	\$ -

See accompanying notes to the condensed interim consolidated financial statements.

# Chronos Resources Ltd.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2022 and 2021

(Tabular amounts in thousands)

## 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

These unaudited condensed consolidated interim financial statements have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). Certain information and disclosures normally required to be included in the notes to the annual audited financial statements have been condensed, omitted or have been disclosed on an annual basis only. Accordingly, these Financial Statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2021. The Company's accounting policies are discussed in note 3 to the December 31, 2021 audited consolidated financial statements. These accounting policies have been applied consistently to all periods presented in these interim financial statements. The use of estimates and judgments is also consistent with the December 31, 2021 annual audited consolidated financial statements.

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company's functional currency. All financial information is rounded to the nearest thousand, except as otherwise noted.

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

## 3. Exploration and evaluation assets

A reconciliation of the carrying value of exploration and evaluation assets as at September 30, 2022 and December 31, 2021 is set out below:

	September 30, 2022	December 31, 2021
Balance, beginning of year	\$ 755	\$ 1,594
Additions	92	31
Transfers to property, plant and equipment	-	(870)
Balance, end of period	\$ 847	\$ 755

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 September 30, 2022, \$847 thousand (December 31, 2021 - \$755 thousand) remained in E&E assets. The Company incurred costs in the nine months ended September 30, 2022, of \$92 thousand related to the purchase of mineral lands. The Company does not amortize its exploration and evaluation assets.

### Impairment

At September 30, 2022 and September 30, 2021, there were no indicators of impairment or impairment reversal for E&E assets.

# Chronos Resources Ltd.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2022 and 2021

(Tabular amounts in thousands)

## 4. 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.

	<b>Lloydminster Acquisition</b>	
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 amounts in the table above include all final statement of adjustments and no further amendments have been made since December 31, 2021.

## 5. Property, plant and equipment

A reconciliation of the carrying value of property, plant and equipment as at September 30, 2022 and December 31, 2021 is set out below:

<b>Cost</b>	Development and production assets		Other Assets		Total Property, plant and equipment	
Balance, December 31, 2020	\$	96,379	\$	661	\$	97,040
Additions		637		-		637
Acquisition through business combination <sup>(1)</sup>		10,356		-		10,356
Transfers from exploration and evaluation assets		870		-		870
Increase in right of use asset		112		-		112
Disposition		(47)		-		(47)
Changes in decommissioning liabilities		5,025		-		5,025
Balance, December 31, 2021	\$	113,332	\$	661	\$	113,993
Additions <sup>(2)</sup>		4,482		28		4,510
Decrease in right of use asset		(14)		(42)		(56)
Disposition		-		-		-
Changes in decommissioning liabilities		(3,062)		-		(3,062)
<b>Balance, September 30, 2022</b>	<b>\$</b>	<b>114,738</b>	<b>\$</b>	<b>647</b>	<b>\$</b>	<b>115,385</b>
<b>Accumulated depletion, depreciation and impairment</b>						
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
Depletion and depreciation		4,803		82		4,885
Impairment (reversal)		(19,589)		-		(19,589)
<b>Balance, September 30, 2022</b>	<b>\$</b>	<b>43,358</b>	<b>\$</b>	<b>613</b>	<b>\$</b>	<b>43,971</b>
Net carrying value:						
December 31, 2021	\$	55,188	\$	130	\$	55,318
<b>September 30, 2022</b>	<b>\$</b>	<b>71,380</b>	<b>\$</b>	<b>34</b>	<b>\$</b>	<b>71,415</b>

(1) Acquisition additions are consistent with the December 31, 2021 financial statements and no further amendments have been made.

(2) Includes capitalized general and administrative expenses of \$58 thousand.

# Chronos Resources Ltd.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2022 and 2021

*(Tabular amounts in thousands)*

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At September 30, 2022, estimated future development costs of \$29.0 million (December 31, 2021 - \$29.0 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 September 30, 2022 excluded \$5.0 million of estimated net salvage value (December 31, 2021 - \$10.6 million).

Included in net carrying value of development and production assets at September 30, 2022 is \$0.1 million related to the right-of-use asset for a field truck (December 31, 2021 - \$0.1 million). During the nine months ended September 30, 2022, the Company cancelled the head office lease and field truck lease resulting in the derecognition of \$42 thousand and \$14 thousand of the right of use assets which is included in the carrying value of other assets and development and production assets, resulting in a loss on derecognition for the nine months ended September 30, 2022 of \$20 thousand recorded against gain on disposals.

For the three and nine months ended September 30, 2022, Chronos recorded a gain of \$98 thousand and \$316 thousand related to the disposition of various equipment in the field.

## **Impairment**

At September 30, 2022, 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, 2021 and the increase in reserve value for the southwest Saskatchewan CGU justified a review for impairment or impairment reversal. At September 30, 2022, 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 internal 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 September 30, 2022, the Company determined that the recoverable amount of the southwest Saskatchewan CGUs exceeded the carrying value, net of depletion, by \$19.6 million. Accordingly, an impairment reversal of \$19.6 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 September 30, 2022. 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.

# Chronos Resources Ltd.

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(Tabular amounts in thousands)

	WTI Price - Oil (US\$/bbl) <sup>(1)</sup>	WCS Price - Oil (\$/bbl)	AECO Price - Gas (\$/MMBtu) <sup>(1)</sup>	Exchange Rate (\$Cdn/\$US)
2022	85.00	91.45	5.42	0.75
2023	81.67	86.92	4.90	0.77
2024	79.17	83.51	4.31	0.77
2025	76.61	79.91	3.98	0.77
2026	77.79	80.69	4.04	0.78
2027	78.98	81.47	4.10	0.78
2028	80.56	83.52	4.19	0.78
2029	82.17	85.31	4.27	0.78
2030	83.82	87.05	4.36	0.78
2031	85.49	88.79	4.44	0.78
2032	87.20	90.57	4.53	0.78
2033	88.94	92.38	4.62	0.78
2034	90.72	94.23	4.71	0.78
2035	92.54	96.11	4.81	0.78
2036	94.39	98.04	4.90	0.78

Escalation rate of 2% per year thereafter

<sup>(1)</sup> 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 September 30, 2022, 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	(1,514)	(2,470)	(3,909)

## 6. Investment in Associate

The Company holds a 21.85% significant influence in Chronos Duvernay LP ("the Partnership") with a private equity firm for the development of the Company's assets base in Alberta. Results of the investment in associate are included in the consolidated statements of income (loss).

Summarized below is the financial information of the Partnership accounted for using the equity method:

	September 30, 2022
Current assets	\$ 6,608
Non-current assets	30,611
Current liabilities	(7,812)
Non-current liabilities	(11,098)
Net Assets	\$ 18,309
Share of interest in associate (percentage)	21.85%
Share of net assets	\$ 4,001
Transaction costs <sup>(1)</sup>	\$ 341
Investment in associate	\$ 4,342

<sup>(1)</sup> The amount represents transactions costs incurred in 2018 and 2019 on the financing of the limited partnership that is not included in the net assets of the Partnership.

# Chronos Resources Ltd.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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(Tabular amounts in thousands)

Results of Operations	Three months ended September 30, 2022	Nine months ended September 30, 2022
Revenues	\$ 8,411	\$ 19,963
Expenses	(3,637)	(10,076)
Depletion	(1,278)	(3,035)
Exploration expense	(485)	(485)
Impairment	(15,071)	(15,071)
Net loss	\$ (12,060)	\$ (8,704)
Share of interest in associate (weighted average percentage)	21.85%	21.85%
Share of net loss from investment in associate	\$ (2,634)	\$ (1,901)

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

	Investment in Associate
Investment in associate, December 31, 2020	\$ 5,785
Dilution gain on additional equity partner contribution	841
Impact of weighted average income pick up	124
Share of net income in associate	180
Investment in associate, December 31, 2021	\$ 6,931
Share of net loss in associate	(1,901)
Loss on portion related to Class D unit distribution <sup>(1)</sup>	(688)
Investment in associate, September 30, 2022	\$ 4,342

<sup>(1)</sup> During the nine months ended, the Partnership paid a distribution of \$3.2 million to the class D unitholders, resulting in a loss of \$688 thousand.

Subsequent to September 30, 2022, the Partnership paid an additional \$1.1 million to class D unitholders, resulting in an additional loss of \$240 thousand.

## 7. 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 amount of cash flows required to settle its decommissioning liabilities is approximately \$20.6 million (December 31, 2021 - \$20.4 million). These payments are expected to be made over the next 60 years. A risk-free rate of 3.1% (2021 - 1.68%) and an inflation rate of 1.7% (2021 - 1.82%) was used to calculate the fair value of the decommissioning liabilities.

	Note	September 30, 2022	December 31, 2021
Balance, beginning of year		\$ 20,716	\$ 6,599
Liabilities acquired on acquisition		-	9,212
Change in estimates <sup>(1)</sup>		(3,062)	(1,175)
Liabilities settled		(20)	-
Liabilities settled by government grants <sup>(2)</sup>		(396)	-
Revaluation of liabilities incurred		-	6,010
Accretion		341	70
Balance, end of year		\$ 17,579	\$ 20,716

<sup>(1)</sup> The change in estimates is due to a change in discount and inflation rates totaling \$(3.1) million (December 31, 2021 - \$(1.1) million).

<sup>(2)</sup> The liabilities settled related to government grants earned for well site rehabilitation and recognized in other income.

## 8. 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.

# Chronos Resources Ltd.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2022 and 2021

(Tabular amounts in thousands)

## (b) Issued and outstanding common shares

No shares were issued during the period ended September 30, 2022 and year ended December 31, 2021.

## (c) Per share amounts

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

	Three months ended September 30, 2022		Nine months ended September 30, 2021	
Income for the period	\$ 15,646	\$ 1,827	\$ 18,619	\$ 1,275
Weighted average common shares outstanding, basic & diluted	31,399	31,399	31,399	31,399
Income per share, basic & diluted	\$ 0.50	\$ 0.06	\$ 0.59	\$ 0.04

## 9. Revenue

The Company sells its production pursuant to fixed or variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, condensate, natural gas or natural gas liquids to the customer. Revenue is recognized when a unit of production is delivered to the customer. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

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:

	Three months ended September 30, 2022		Nine months ended September 30, 2021	
Heavy crude oil and natural gas liquids	\$ 9,194	\$ 3,440	\$ 25,317	\$ 7,721
Natural Gas	18	20	79	48
Petroleum and natural gas	\$ 9,212	\$ 3,460	\$ 25,396	\$ 7,769

Included in accounts receivable as at September 30, 2022 is \$4.2 million accrued oil and natural gas sales related to September 2022 production.

## 10. Finance expense

	Three months ended September 30, 2022		Nine months ended September 30, 2021	
Interest expense	\$ -	12	5	48
Interest on lease obligations	1	3	4	9
Accretion on decommissioning liabilities	139	31	341	71
	\$ 140	\$ 46	\$ 350	\$ 128

# Chronos Resources Ltd.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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(Tabular amounts in thousands)

## 11. Supplementary cash flow information

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Accounts receivable	\$ (444)	\$ (99)	\$ (2,452)	\$ (395)
Due from related party	50	267	81	212
Prepaid expenses	(30)	123	(547)	244
Accounts payable and accrued liabilities	3,158	(21)	2,596	331
Total non-cash working capital	\$ 2,734	\$ 270	\$ (322)	\$ 392
Relating to:				
Operating activities	\$ 1,795	\$ -	\$ (1,655)	\$ 34
Investing activities	939	270	1,333	358
	\$ 2,734	\$ 270	\$ (322)	\$ 392

No cash tax was paid in the periods ended September 30, 2022 and 2021.

## 12. Related party transactions

The Company is related to a limited partnership, Chronos Duvernay LP (note 6) in that a wholly owned subsidiary has a partnership interest in Chronos Duvernay LP.

The Company performs management and advisory services for the partnership and is reimbursed for these services. During the nine months ended September 30, 2022, the Company charged Chronos Duvernay LP \$0.7 million (September 30, 2021 - \$0.7 million) related to management and advisory services, which is recovered against G&A and invoiced \$0.7 million (September 30, 2021- \$nil) of expenses.

As at September 30, 2022 the Company had a net receivable of \$0.7 million due from Chronos Duvernay LP (December 31, 2021 - \$0.8 million). After the quarter end, the Company collected the outstanding receivable.

## 13. 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.

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.

### 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

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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.

The Company has accounted for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value in the Statement of Financial Position. Settlements on these physical delivery sales contracts are recognized in sales in the period the product is delivered to the sales point.

As at September 30, 2022, the Company has the following physical sales contracts:

Benchmark	Period	Volume	Price/Unit
Lloydminster Kerrobert	October 1, 2022 to December 31, 2022	100 bbl/d	CAD \$101.50

### Interest rate risk

The Company is exposed to interest rate risk on bank credit facility to the extent of changes in market interest rates. As at September 30, 2022, the Company had no interest rate swap or derivative contracts in place.

### Foreign exchange risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. The Company is exposed to foreign exchange risk in relation to its crude oil sales. As at September 30, 2022, 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 September 30, 2022, the Company's receivables consisted of \$4.2 million from petroleum and natural gas purchasers, \$0.9 million due from joint venture partners and other receivables, \$0.4 million due from government for goods and services tax receivable.

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. 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.

The carrying amount of accounts receivable and due from related party represents the maximum credit exposure. The Company has calculated the expected credit losses as prescribed by IFRS 9 using the simplified approach which permits the use of the lifetime expected loss provision. To assess the expected credit loss, the Company uses historical information and forward-looking information. No loss provision was recorded for the three months ended September 30, 2022. Historically, there was no indication that amounts were non-collectable thus, an allowance for doubtful accounts was not set up.

As at September 30, 2022 the Company's accounts receivables are aged as follows:

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(Tabular amounts in thousands)

Years ended	Total Receivables		< 90 Days		Past Due
September 30, 2022	\$	5,471	\$	5,103	\$ 368
		100%		93%	7%
December 31, 2021	\$	3,019	\$	2,906	\$ 113
		100%		96%	4%

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 accounts receivable, due from related party, accounts payable and accrued liabilities included in the balance sheet approximate fair value due to the short-term nature of those instruments or the indexed rate of interest on cash.

## 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. As at September 30, 2022, Chronos is generating positive cash flows from its operating activities and maintaining a positive working capital position.

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 September 30, 2022:

	Less than 1 year		1 to 2 years		Thereafter		Total
Accounts payable and accrued liabilities	\$	8,327	\$	-	\$	-	\$ 8,327
Lease Obligations	\$	32	\$	12	\$	-	\$ 44

## 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

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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 September 30, 2022 is as follows:

	September 30, 2022	December 31, 2021
Working capital (net debt <sup>(1)</sup> )	\$ 636	\$ (1,222)
Shareholders' equity	\$ 59,649	\$ 37,740

<sup>(1)</sup> 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:

	September 30, 2022	December 31, 2021
Cash	\$ 1,665	243
Accounts receivable	5,471	3,019
Due from related party	726	807
Prepaid expenses	1,133	586
Accounts payable and accrued liabilities	(8,327)	(5,731)
Lease obligations	(32)	(146)
Working capital (net debt)	\$ 636	\$ (1,222)

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

## 14. Government Grants

The Company recognized \$nil in the nine months ended September 30, 2022 (September 30, 2021 – \$0.3 million) 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 for the three and nine months ended September 30, 2022, is \$156 thousand (September 30, 2021 - \$nil) and \$396 thousand (September 30, 2021 - \$nil) related to government grants earned for well site rehabilitation.

## 15. 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 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.

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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;

	<b>Total ('000s)</b>
Issued common shares of Chronos	31,399
Issued share capital 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 <sup>(1)</sup>	17,143
Issued units in Chronos for \$782 thousand of advisory fees at \$0.70/unit <sup>(1)</sup>	1,117
<b>Total commons shares issued</b>	<b>125,374</b>
20 to 1 exchange of Chronos commons shares to Samoth	2,507,475
Samoth issued share capital	37,707
<b>Total commons shares issued post transaction</b>	<b>2,545,182</b>
<b>Total common shares issued (post 8 to 1 consolidation)</b>	<b>318,148</b>

<sup>(1)</sup> 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 94 thousand per year plus operating costs defined annually by the landlord.