Consolidated Financial Statements

For the year ended
December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lycos Energy Inc.

Opinion

We have audited the consolidated financial statements of Lycos Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of income and comprehensive income 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 Company as at December 31, 2022 and December 31, 2021, 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 the 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 Company 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.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable petroleum and natural gas reserves on property, plant and equipment ("PP&E")

Description of the matter

We draw attention to note 2, note 3 and note 7 to the financial statements. The Company uses estimated proved and probable petroleum and natural gas reserves to deplete its development and production assets included in PP&E and to assess for indicators of impairment or impairment reversal on each of the Company's cash-generating units ("CGUs") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGUs.

The Company has $64.8 million of PP&E as at December 31, 2022.

At December 31, 2022, the Company conducted an assessment of indicators of impairment or impairment reversal for the Company's CGUs. In performing the assessment, management determined an impairment or impairment reversal trigger existed for the southwest Saskatchewan CGU and therefore conducted an impairment test. At December 31, 2022, the Company determined that the recoverable amount of the southwest Saskatchewan CGU was $41.5 million. Accordingly, an aggregate impairment reversal of $8.9 million was recorded for the year ended December 31, 2022.

The estimated recoverable amount of the southwest Saskatchewan CGU involved significant estimates and assumptions, including:

- The estimate of proved and probable petroleum and natural gas reserves
- The discount rates.

The Company depletes its net carrying value of development and production assets included within PP&E at the CGU level using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable petroleum and natural gas reserves before royalties, taking into account expenditures incurred to date together with estimated future development costs necessary to bring those reserves into production and excludes salvage value.

Depletion and depreciation expense on property, plant and equipment was $6.4 million for the year ended December 31, 2022.

The estimate of proved and probable petroleum and natural gas reserves includes significant estimates and assumptions related to:

- Forecasted petroleum and natural gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engaged independent third-party reserve evaluators to estimate proved and probable petroleum and natural gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable petroleum and natural gas reserves on PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable petroleum and natural gas reserves and the discount rates. Additionally, the assessment of the recoverable amount for impairment requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved and probable petroleum and natural gas reserves at December 31, 2022:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted petroleum and natural gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved petroleum and natural gas reserves to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, forecasted royalty costs and forecasted future development costs assumptions by comparing to 2022 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the southwest Saskatchewan CGU discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of the southwest Saskatchewan CGU by comparing the Company's estimate to market metrics and other external data.

We assessed the depletion expense calculation for compliance with IFRS as issued by the IASB.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Company 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 27, 2023

Lycos Energy Inc.
Consolidated Statements of Financial Position

(in thousands)

	Notes		**December 31, 2022**		December 31, 2021
Assets					
Current assets					
Cash		**$**	**59,628**	$	243
Accounts receivable	18		**4,998**		3,019
Due from related party	17		**426**		807
Prepaid expenses and deposits			**968**		586
Total current assets			**66,020**		4,655
Exploration and evaluation assets	5		**755**		755
Property, plant and equipment	6 & 7		**64,797**		55,318
Investment in associate	8		**3,676**		6,931
Total assets		**$**	**135,248**	$	67,659
Liabilities and Shareholders' Equity					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**9,141**	$	5,731
Current portion of lease obligations			**44**		146
Current portion of decommissioning liabilities	9		**1,000**		-
Total current liabilities			**10,185**		5,877
Lease obligations			**-**		36
Decommissioning liabilities	9		**16,662**		20,716
Total liabilities			**26,847**		26,629
Shareholders' equity					
Share capital	10		**177,032**		113,332
Contributed surplus			**6,954**		6,954
Deficit			**(75,585)**		(79,256)
Total shareholders' equity			**108,401**		41,030
Total liabilities and shareholders' equity		**$**	**135,248**	$	67,659

Commitments (note 20)

Subsequent events (note 11 and note 21)

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

Lycos Energy Inc.

Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share data)

	Notes	For the year ended December 31, 2022	2021 Adjusted (Note 22)
Revenue			
Petroleum and natural gas sales	13	**$ 40,994**	$ 14,858
Royalties		**(5,076)**	(2,656)
Petroleum and natural gas sales, net of royalties		**35,918**	12,202
Other income	9 & 19	**646**	217
Total revenue and other income		**36,564**	12,419
Expenses			
Operating		**19,009**	6,885
Blending and transportation		**8,458**	725
General and administrative		**2,634**	1,443
Transaction costs		**404**	63
Finance expense	14	**486**	148
Depletion and depreciation	7	**6,386**	2,875
Impairment reversal	7	**(8,922)**	(11,509)
Gain on disposition		**(296)**	(78)
Listing expense	4	**1,479**	-
		29,638	552
Net income before investment in associate		**$ 6,926**	$ 11,867
Dilution gain on additional partner contribution	8	**-**	841
Share of profit (loss) of investment in associate	8	**(2,327)**	304
Adjustment related to Class D distribution	8	**(928)**	-
Income (loss) from investment in associate		**$ (3,255)**	$ 1,145
Net income and comprehensive income		**$ 3,671**	$ 13,012
Net income per share			
Basic	10	**$ 0.04**	$ 0.17
Diluted	10	**$ 0.03**	$ 0.17

Lycos Energy Inc.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except share amounts)

	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2020[1]	10	78,498,598	$ 113,332	$ 6,954	$ (92,268)	$ 28,018
Net income		-	-	-	13,012	13,012
Balance, December 31, 2021		78,498,598	$ 113,332	$ 6,954	$ (79,256)	$ 41,030
Balance, December 31, 2021[1]	10	78,498,598	$ 113,332	$ 6,954	$ (79,256)	$ 41,030
Issued on private placement	4 & 10	234,935,826	65,782	-	-	65,782
Issuance on reverse takeover	4 & 10	4,713,382	1,320	-	-	1,320
Share issue costs	10	-	(3,402)	-	-	(3,402)
Net income		-	-	-	3,671	3,671
Balance, December 31, 2022		**318,147,806**	**$ 177,032**	**$ 6,954**	**$ (75,585)**	**$ 108,401**

[1] The number of common shares has been adjusted retrospectively to reflect the 2.5:1 share exchange ratio in the December 12, 2022 RTO transaction (note 4).

See accompanying notes to the consolidated financial statements

Lycos Energy Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Notes	For the year ended December 31, 2022	2021
Operating Activities			
Net income		**$ 3,671**	$ 13,012
Items not affecting cash:			
Finance expense	14	**482**	81
Depletion and depreciation	7	**6,386**	2,875
Impairment reversal	7	**(8,922)**	(11,509)
Gain on disposition		**(296)**	(78)
Other income	9	**(503)**	(190)
Share of loss (profit) of investment in associate	8	**3,255**	(1,145)
Listing expense	4	**1,479**	-
Decommissioning expenditures	9	**(28)**	-
Change in non-cash operating working capital	16	**(132)**	1,348
Cash flow from operating activities		**5,392**	4,394
Financing Activities			
Change in bank loan		**-**	(2,273)
Payments on lease obligations		**(107)**	(158)
Proceeds on private placement	4	**65,000**	-
Share issue costs	10	**(2,620)**	-
Cash flow (used in) financing activities		**62,273**	(2,431)
Investing Activities			
Capital expenditures - exploration and evaluation	5	**-**	(31)
Capital expenditures - property, plant and equipment	7	**(10,091)**	(637)
Acquisition through business combination	6	**-**	(1,144)
Proceeds on disposition	7	**316**	125
Change in non-cash investing working capital	16	**1,495**	(32)
Cash flow used in investing activities		**(8,280)**	(1,719)
Change in cash		**59,385**	243
Cash, beginning of year		**243**	-
Cash, end of year		**$ 59,628**	$ 243

See accompanying notes to the consolidated financial statements.

1. Corporate information

Lycos Energy Inc. ("Lycos" or the "Company") is a Canadian resource company engaged in the exploration for and development of petroleum and natural gas production in western Canada. The consolidated financial statements (the "financial statements") of the Company are comprised of the accounts of Lycos and its wholly owned subsidiaries, Chronos Duvernay Ltd., Chronos Duvernay MIS Ltd. and Chronos Duvernay Sub Co. Ltd., which are incorporated in Canada. Lycos is a public company existing under the Alberta Business Corporations Act with common shares listed on the TSX Venture Exchange ("TSXV") under the symbol "LCX".

On December 12, 2022, Samoth Oilfield Inc. ("Samoth") completed a business combination transaction (the "Business Combination") with Chronos Resources Ltd. ("Chronos"), pursuant to which Chronos raised aggregate gross proceeds of $65.0 million pursuant to a private placement, a new management team of Samoth was appointed and the board of directors of Samoth was reconstituted. The resulting entity was renamed from "Samoth Oilfield Inc." to "Lycos Energy Inc." and on December 15, 2022 the common shares of the Company commenced trading under the new symbol "LCX" on the TSX Venture Exchange. For accounting purposes, it was accounted for as a reverse takeover ("RTO"). Accordingly, following completion of the RTO, although Samoth was the reporting issuer, Chronos is the continuing entity from an accounting perspective and the Financial Statements are those of Chronos (see note 4).

Lycos principal place of business is located at 1900, 215 – 2nd Street S.W., Calgary, Alberta and its registered office is located at 4300 Bankers Hall West, 888-3rd Street 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 April 27th, 2023.

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 and its subsidiaries functional currency. The functional currency of the Company's Investment in Associate (note 8) 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.

Evolving Demand for Energy

The following provides certain disclosures as to the impact of the evolving demand for energy and climate change on the amounts recorded in the financial statements as at and for the year ended December 31, 2022. The below is not a comprehensive list or analysis of all climate change impacts and risks.

Emissions, carbon and other regulations impacting climate and climate related matters are dynamic and constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified by the Company.

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 and impairment reversal on its property, plant and equipment. The measurement of impairment and impairment reversal for the Company's petroleum and natural gas properties was based on proved and probable petroleum and natural gas reserves where the majority of the cash flows incorporated into the estimate of the recoverable amount are estimated to be realized in the next 20 years. At December 31, 2022, and 2021, 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. Depletion of the Company's petroleum and natural gas properties was based on proved and probable petroleum and natural gas reserves, the life of which is generally less than 20 years. The ultimate period in which global energy markets can transition from carbon-based sources to alternative energy is highly uncertain, however, the majority of the Company's proved and probable petroleum and natural gas reserves per the 2022 reserve report should be realized prior to the elimination of carbon-based energy. At this time, the Company has not capped its reserve life for purposes of calculating depletion expense, however, this estimate will be monitored as the energy evolution continues.

The Company engages an independent third-party reserve evaluators to estimate proved and probable petroleum and natural gas reserves. The reserve report includes anticipated impacts from emissions related taxes and carbon pricing, most notably the reserve report includes the estimated carbon charge related to the Company's operations based on current legislated rates.

The evolving energy transition and general sentiment to the oil and gas industry may result in reduced access to capital markets. Management will continue to adjust the capital structure to the dynamic environment. The Company's financial results for 2022 were not directly impacted from a climate event. In 2022, the Company did not incur material weather-related damages to its property, plant and equipment. During 2022, management is not aware of a material disruption in its supply chain or the marketers of the Company's product related to climate events.

The Company maintains insurance coverage that provides a level of insurance for certain events that may arise due to climate change factors; however, the Company's insurance program is subject to limits and various restrictions. No claims were made under the Company's insurance policies in 2022 with respect to climate related matters.

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) Business Combinations

Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3 Business Combinations ("IFRS 3"). Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events.

The assumptions and estimates with respect to determining the fair value of property, plant and equipment ("PP&E") and exploration and evaluation ("E&E") assets acquired generally require the most judgment and include estimate of proved and probable petroleum and natural gas reserves acquired, forecast benchmark commodity prices, discount rates, future costs and the assessment of recent comparable market transactions. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill or bargain purchase gain.

(ii) 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. The determination of these CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. 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.

(iii) Impairment and impairment reversals of petroleum and natural gas assets

Judgments are required to assess when indicators of impairment or impairment reversal exist and impairment testing is required. In determining the estimated recoverable amount of assets or CGUs, in the absence of quoted market prices, impairment tests are based on the estimate of proved and probable petroleum and natural gas reserves, including significant estimates and assumptions related to forecasted petroleum and natural gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs, forecasted futured development costs and discount rates.

(iv) 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 proved and probable petroleum and natural gas reserves have been found in assessing economic and technical feasibility.

(v) 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.

(vi) 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 the Consolidated Statement of Income and Comprehensive Income in the period in which the change occurs.

(vii) 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 Consolidated Financial Statements.

(i) Depletion, depreciation, amortization and impairment (reversal)

Amounts recorded for depletion, depreciation and amortization and amounts used for impairment and impairment reversal calculations are based on estimate of proved and probable petroleum and natural gas reserves. By their nature, the estimate of proved and probable petroleum and natural gas reserves, including significant assumptions related to forecasted petroleum and natural gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs, forecasted future development costs and discount rates, are subject to measurement uncertainty. Accordingly, the impact on the financial statements of future periods could be material.

(ii) Reserves

The Company uses estimated proved and probable petroleum and natural gas reserves to deplete its development and production assets included in property, plant and equipment and to assess for indicators of impairment or impairment reversal on each of the Company's CGUs and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGUs. The estimate of proved and probable petroleum and natural gas reserves include significant estimates and assumptions related to forecasted petroleum and natural gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs, and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological, and technical factors used to estimate reserves may change from period to period. Changes in reported proved and probable petroleum and natural gas reserves can impact the carrying values of the Company's property, plant and equipment, the calculation of depletion, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimate of proved and probable petroleum and natural gas reserves from the Company's property, plant and equipment are estimated by independent third-party reserve evaluators at least annually.

The Company's proved and probable 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 petroleum and natural gas 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 of 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. Petroleum and natural gas reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. The Company's proved and probable petroleum and natural gas reserves are determined pursuant National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

(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 petroleum and natural gas properties based upon the estimation of recoverable quantities of proved and probable petroleum and natural gas 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 Consolidated Statement of Income and Comprehensive Income 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 Consolidated Statement of Income and Comprehensive Income 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, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through Consolidated Statement of Income and Comprehensive Income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash is comprised of cash held with Canadian chartered banks on deposit and/or in highly liquid investments.

Other non-derivative financial instruments, such as accounts receivable, due from related party, 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 Consolidated Statement of Income and Comprehensive Income and are recorded on the statement of financial position at fair value. Transaction costs are recognized in Consolidated Statement of Income and Comprehensive Income 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 Consolidated Statement of Income and Comprehensive Income. Changes in the fair value of separable embedded derivatives are recognized immediately in the Consolidated Statement of Income and Comprehensive Income.

(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 centers 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 proved and/or probable petroleum and natural gas reserves are determined to exist.

A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable petroleum and natural gas reserves have been discovered. Upon determination of proved and/or probable petroleum and natural gas reserves, E&E assets attributable to those proved and probable petroleum and natural gas 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 the Consolidated Statement of Income and Comprehensive Income.

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 and reversals. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

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 the Consolidated Statement of Income and Comprehensive Income 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 from disposal or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in the Consolidated Statement of Income and Comprehensive Income.

(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 the Consolidated Statement of Income and Comprehensive Income as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable petroleum and natural gas reserves and bringing in or enhancing production from such proved and probable petroleum and natural gas 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 the Consolidated Statement of Income and Comprehensive Income as operating costs when incurred.

(iii) Depletion and depreciation:

The Company depletes its net carrying value of development and production assets included within property, plant and equipment at the CGU level using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable petroleum and natural gas reserves before royalties, taking into account expenditures incurred to date together with estimated future development costs necessary to bring those reserves into production and excludes salvage value.

Relative volumes of proved and probable petroleum and natural gas 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 proved and probable petroleum and natural gas reserves.

The Company engages independent third-party reserve evaluators to estimate the proved and probable petroleum and natural gas reserves.

Proved and probable petroleum and natural gas reserves are estimated using independent third-party reserve evaluators 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.

The Company has deemed the estimated useful lives for gathering systems and processing facilities to be consistent with the reserve lives of the CGUs for which they serve. As a result, the Company includes the cost of these assets within their associated CGUs for the purpose of depletion using the unit-of-production method.

For other assets, depreciation is recognized in the Consolidated Statement of Income and Comprehensive Income 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.

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 the Consolidated Statement of Income and Comprehensive Income. 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 the Consolidated Statement of Income and Comprehensive Income.

(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 or that historical impairment may be reversed. The estimate of proved and probable petroleum and natural gas reserves is significant to the Company's assessment. 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 and impairment reversal 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 petroleum and natural gas reserves.

Fair value less costs to sell is determined as the amount that would be obtained from the sale of an asset or a CGU 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 and probable petroleum and natural gas reserves in a CGU including any expansion prospects, 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 Consolidated Statement of Income and Comprehensive Income.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, 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 or CGU'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 directors, officers, employees and certain 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 stock options 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) Transportation and blending:

Transportation services procured by the Company are recognized in blending and transportation expense.

The Company is required to purchase commodity products from third parties to utilize in blending activities. The Company subsequently sells the blended products to its customers. These transactions are presented in revenue with the related expense included in blending and transportation expense recognized in the Consolidated Statement of Income and Comprehensive Income. The costs associated with the transportation of crude oil, natural gas and NGLs, including the cost of diluent used in blending, are recognized when the product is sold.

j) 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.

k) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Statement of Income and Comprehensive Income 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.

l) 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 Statement of Income and Comprehensive Income over the lease term.

m) 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 the Consolidated Statement of Income and Comprehensive Income. Operational results of the business acquired are included in earnings from the closing date of acquisition.

n) 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 are deducted in reporting the related expense and are recorded in the period in which the eligible expenses were incurred. Claims under government grant programs related to long-term assets are recorded as a reduction to the asset's carrying amount and are depreciated over the useful life of the asset.

s) Net income per share:

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. For the diluted net income per share calculation, the weighted average number of common shares outstanding is adjusted for the potential number of common shares which may have a dilutive effect on net income per share. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

4. Reverse Takeover Transaction (“RTO”)

On December 12, 2022, Lycos (formerly Samoth Oilfield Inc. or “Samoth”) and Chronos Resources Ltd. (formerly “Chronos”) completed an amalgamation (the “Transaction”) pursuant to a Definitive Agreement dated November 7, 2022, between Samoth and Chronos. The amalgamation was treated as a reverse takeover transaction (“RTO”) for accounting purposes. In accordance with IFRS 3, Samoth did not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination, but instead a share-based payment to acquire Samoth’s listing status, with Chronos being the continuing entity from an accounting perspective.

On December 12, 2022, in conjunction with the Definitive Agreement, Chronos completed a non-brokered private placement (“Subscription Receipt Private Placement”), whereby Chronos issued an aggregate of 75,714,285 Subscription Receipts or common shares at an offering price of $0.70 for aggregate gross proceeds of $53.0 million and 17,142,858 Units at an offering price of $0.70 for aggregate gross proceeds of $12.0 million. Each Unit was comprised of one Chronos Share and one Chronos Share purchase warrant.

Advisors received aggregate compensation equal to $2.6 million in cash and 1,117,144 Units, at a deemed issuance price of $0.70 per Unit, with respect to the RTO and the Subscription Receipt Private Placement. Each unit was comprised of one Chronos Share and One Chronos Share purchase warrant.

Pursuant to the Definitive Agreement, Lycos acquired each issued and outstanding common shares in Chronos in exchange for twenty (20) common shares of Lycos (“formerly Samoth”) at a deemed price of $0.035 per Lycos Share. On December 12, 2022, Lycos completed a share consolidation on the basis of one (1) common share of Lycos for every eight (8) pre-consolidation Lycos Share, representing an exchange ratio on a post-Consolidation basis, of two and a half (2.5) Lycos Shares at a deemed price of $0.28 per Lycos Share for every Chronos Share.

The following were the issued and outstanding common shares from share capital of the combined equity:

	Number of Shares		Amount
Chronos Resources Ltd.			
Balance, December 12, 2022	31,399,439	$	113,332
Issued common shares of Chronos for $53.0 million proceeds at $0.70/share	75,714,285		53,000
Issued units of Chronos for $12.0 million proceeds at $0.70/unit	17,142,858		12,000
Issued units of Chronos for $782 thousand of advisory fees at $0.70/unit	1,117,144		782
Balance, December 12, 2022	125,373,726	$	179,114
20 to 1 exchange of Chronos to Samoth Common Shares	2,507,474,520		-
Elimination of common share to effect a 8:1 consolidation	(2,194,040,096)		-
Balance as of December 12, 2022	313,434,424	$	179,114

	Number of Shares		Amount
Samoth Oilfield Inc.			
Balance, December 12, 2022	37,707,055	$	1,320
Elimination of common share to effect a 8:1 consolidation	(32,993,673)		-
Balance as of December 12, 2022 prior to the transaction	4,713,382	$	1,320
Total share capital at December 12, 2022	318,147,806	$	180,434

Based on the statement of financial position of Samoth at the time of the transaction, the estimated fair value of net liabilities acquired by Chronos and the resulting listing expense recorded in the Consolidated Statement of Income and Comprehensive Income were as follows:

Consideration		
Common shares 37,707,055	**$**	**1,320**
Fair value of net liabilities acquired		
Working capital		(67)
Decommissioning liabilities		(92)
Net liabilities acquired		(159)
Listing expense	**$**	**1,479**
Total consideration	**$**	**1,320**

IFRS 2 applies to transactions where an entity grants equity instruments and cannot identify specifically some or all the goods or services received in return. Samoth issued shares with a value that exceeded the net liabilities acquired, therefore an amount of $1.5 million has been determined to be a listing expense and included in the Consolidated Statement of Income and Comprehensive Income.

5. Exploration and evaluation assets

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

		December 31, 2022		December 31, 2021
Balance, beginning of year	**$**	**755**	$	1,594
Additions		**-**		31
Transfers to property, plant and equipment		**-**		(870)
Balance, end of year	**$**	**755**	$	755

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

At December 31, 2022, $0.8 million (December 31, 2021 - $0.8 million) remained in E&E assets. The Company does not amortize its exploration and evaluation assets.

Impairment

At December 31, 2022 and 2021, there were no indicators of impairment for E&E assets.

6. 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 (Lloydminster).

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.

Total consideration paid	$	1,144
Property, plant and equipment	$	10,356
Decommissioning liability		(9,212)
Fair value of net assets acquired	$	1,144

The amounts in the table above include all final statement of adjustments and no further amendments have been made since December 31, 2021.

7. Property, plant and equipment

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

Cost	**Notes**		**Total Property, plant and equipment**
Balance, December 31, 2020		$	97,040
Additions			637
Acquisition through business combination [(1)]	6		10,356
Transfers from exploration and evaluation assets	5		870
Increase in right of use asset			112
Disposition			(47)
Changes in decommissioning liabilities	9		5,025
Balance, December 31, 2021		$	113,993
Additions			10,091
Disposal of right-of-use asset			(499)
Changes in decommissioning liabilities	9		(3,000)
Balance, December 31, 2022		**$**	**120,585**

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

Accumulated depletion, depreciation and impairment		
Balance, December 31, 2020	$	67,309
Depletion and depreciation		2,875
Impairment reversal		(11,509)
Balance, December 31, 2021	$	58,675
Depletion and depreciation		6,386
Impairment reversal		(8,922)
Disposal of right-of-use asset		(351)
Balance, December 31, 2022	**$**	**55,788**
Net carrying value:		
December 31, 2021	$	55,318
December 31, 2022	**$**	**64,797**

At December 31, 2022, estimated future development costs of $50.3 million (December 31, 2021 - $29.0 million) associated with the development of the Company's proved and probable petroleum and natural gas reserves were added to the Company's carrying value in the depletion and depreciation calculation. The depletion and depreciation calculation as at December 31, 2022 excluded $4.9 million of estimated net salvage value (December 31, 2021 - $10.6 million).

The Company capitalized $0.7 million of general and administrative costs for the year ended December 31, 2022 (December 31, 2021 - $nil).

Impairment

At December 31, 2022, the Company conducted an assessment of indicators of impairment or impairment reversal for the Company's CGUs. In performing the assessment, management determined an impairment or impairment reversal trigger existed for the southwest Saskatchewan CGU and therefore conducted an impairment test. At December 31, 2022, there were no indicators of impairment for the Lloyd Saskatchewan CGU.

The recoverable amount of the southwest Saskatchewan CGU were estimated using value in use based on the net present value of before tax cash flows from proved and probable petroleum and natural gas reserves estimated by the Company's independent third-party reserve evaluators discounted 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, 2022, the Company determine the recoverable amount of the southwest Saskatchewan CGU was $41.5 million. Accordingly, an aggregate impairment reversal of $8.9 million was recorded for the year ended December 31, 2022.

The following table outlines forecasted commodity prices and exchange rates used in the Company's impairment reversal test as at December 31, 2022. The forecasted commodity prices are consistent with those used by the Company's independent third-party reserve evaluators and are a key assumption in assessing recoverable amount. The independent third-party 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.

	WTI Price - Oil (US$/bbl) [1]	WCS Price - Oil ($/bbl)	AECO Price - Gas ($/MMBtu) [1]	Exchange Rate ($Cdn/$US)
2023	86.00	88.00	4.33	0.75
2024	84.00	89.38	4.34	0.80
2025	80.00	84.06	4.00	0.80
2026	81.60	85.74	4.08	0.80
2027	83.23	87.46	4.16	0.80
2028	84.90	89.21	4.24	0.80
2029	86.59	90.99	4.33	0.80
2030	88.33	92.81	4.42	0.80
2031	90.09	94.67	4.50	0.80
2032	91.89	96.56	4.59	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, 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 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	1,286	1,942	3,164

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 assessment, 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 6). The recoverable amount of the southwest Saskatchewan CGU were estimated using value in use based on the net present value of before tax cash flows from proved and probable petroleum and natural gas reserves estimated by the Company's independent 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 CGU exceeded the carrying value, net of depletion, by $11.5 million. Accordingly, an impairment reversal of $11.5 million was recorded in the Consolidated Statement of Income and Comprehensive Income.

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 independent third-party reserve evaluators and are a key assumption in assessing recoverable amount. The independent third-party 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.

	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 and sensitivity analysis.

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 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

8. 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 Consolidated Statement of Income and Comprehensive Income. In 2019, the private equity firm 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, the private equity partner contributed additional cash in exchange for additional equity interest in the Partnership, resulting in a related dilution gain to the Company. Summarized below are the additional cash contributions made throughout 2021 and the associated dilution gain recorded as Lycos ownership percentage decreased.

	Partner Contribution ($)	Ownership %	Reduction in Onwership %	Dilution Gain
December 31, 2020 Ownership % in Associate	-	29.59%	-	-
Cash contribution by private equity firm [(1)]	718	28.91%	0.68%	74
Cash contribution by private equity firm [(2)]	10,051	21.85%	7.06%	766
December 31, 2021 and 2022 Ownership % in Associate	**-**	**21.85%**	**-**	**-**

(1) 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.

(2) 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.

The Partnership is authorized to issue an unlimited number of Units to consist of four classes of units designated as Class A Units, Class B Units, Class C and Class D Units. The Class A, B and D Units are voting and participate in profits and capital distributions based on the allocation established in the Limited Partnership Agreement. Class C Units are non-voting and the General Partner is not permitted to issue more than 30,000 Class C Units. The Class C Units are entitled to participate in capital distributions based on allocations established in the Limited Partnership Agreement. The General Partner does not hold any units.

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In 2022, the private equity firm did not contribute any additional cash in exchange for additional equity interest in the Partnership.

Summarized below is the financial information of Chronos Duvernay LP.

		December 31, 2022		December 31, 2021
Current assets	**$**	**3,801**	$	4,219
Non-current assets		**29,092**		43,904
Current liabilities		**(5,882)**		(4,519)
Non-current liabilities		**(11,750)**		(13,443)
Net assets	**$**	**15,261**	$	30,161
Share of associate (percentage)		**21.85%**		21.85%
Share of net assets	**$**	**3,335**	$	6,590
Unrecognized portion of transaction costs [(1)]		**341**		341
Investment in associate	**$**	**3,676**	$	6,931

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

Results of Operations		**December 31, 2022**		December 31, 2021
Revenues	**$**	**24,125**	$	4,452
Expenses		**(30,325)**		(2,864)
Depletion		**(4,451)**		(594)
Net income (loss)	**$**	**(10,651)**	$	994
Share of investment in associate (weighted average percentage)		**21.85%**		**18.1%**
Share of net income (loss) from investment in associate		**(2,327)**		180
Dilution gain on private equity partner contribution [(1)]		**-**		841
Impact of share of income based on weighted average change in ownership %		**-**		124
Share of profit (loss) of investment in associate	**$**	**(2,327)**	$	1,145

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

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

Investment in associate, December 31, 2020	$	5,786
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
Share of net income from investment in associate		(2,327)
Adjustment related to Class D unit distribution [(1)]		(928)
Investment in associate, December 31, 2022	**$**	**3,676**

[(1)] During 2022, the Partnership paid a distribution of $4.2 million to the class D unitholders which are held with the private equity firm.

9. 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 underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. The Company estimates the total future undiscounted uninflated amount of cash flows required to settle its decommissioning liabilities for December 31, 2022, is approximately $20.6 million (December 31, 2021 - $20.4 million). These payments are expected to be made over the next 20 to 40 years. A risk-free rate of 3.28% (2021 – 1.68%) and an inflation rate of 2.09% (2021 – 1.82%) was used to calculate the decommissioning liabilities.

	Note		**December, 2022**		December, 2021
Balance, beginning of year		**$**	**20,716**	$	6,599
Change in estimates [1]			**(3,272)**		(1,175)
Additions			**101**		-
Decommissioning expenditures			**(28)**		-
Liabilities settled by government grants	19		**(503)**		-
Liabilitied acquired on RTO [2]	4		**92**		-
Liabilities acquired on acquisition	6		**-**		9,212
Revaluation of liabilities incurred [3]			**79**		6,010
Accretion	14		**477**		70
Balance, end of year		**$**	**17,662**	$	20,716
Expected to be incurred within one year		**$**	**1,000**	$	-
Expected to be incurred beyond one year		**$**	**16,662**	$	20,716

(1) The change in estimates in 2022 is due to a change in estimated abandonment and remediation costs of $0.2 million (December 31, 2021 - $(1.1) million and change in discount and inflation rates totaling $3.1 million (December 31, 2021 - $(0.1) million).

(2) The amount represents the decommissioning liability incurred in the RTO transaction.

(3) The decommissioning liabilities assumed in the RTO (note 4) and acquired in the business combination (note 6) were initially recognized using a credit adjusted risk free discount rate in calculating fair value. They were subsequently revalued using the risk-free rate resulting in a change in estimate with the offset recorded to property, plant and equipment.

10. 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, 2022 and 2021.

	December 31, 2022			December 31, 2021		
	Number of Shares		**Amount**	Number of Shares		Amount
Balance, beginning of year	**78,498,598**	**$**	**113,332**	78,498,598	$	113,332
Shares issued as part of subscription receipt private placement	**189,285,826**		**53,000**	-		-
Shares issued as part of unit private placement	**42,857,140**		**12,000**	-		-
Shares issued as part of subscription receipt unit private placement - advisory fee	**2,792,860**		**782**	-		-
Acquired on reverse takeover	**4,713,382**		**1,320**	-		-
Share issue costs	**-**		**(3,402)**	-		-
Balance, end of year	**318,147,806**	**$**	**177,032**	78,498,598	$	113,332

The 2021 opening balance of 31,399,439 common shares was retrospectively adjusted for the 2.5 to 1 share exchange ratio as part of the RTO transaction (note 4).

On December 12, 2022, the Company in conjunction with the RTO, there was a private placement as follows:

The Subscription Receipt Private Placement

On November 7, 2022, Chronos issued an aggregate of 75,714,285 (189,285,826 after consolidation) (Subscription Receipts at an offering price of $0.70 per Subscription Receipt under the Subscription Receipt Private Placement for aggregate gross proceeds of $53.0 million). Additionally, advisors received aggregate compensation equal to $2.6 million in cash and 1,117,144 (2,792,860 after consolidation) in Units at a deemed issuance price of $0.70 per Unit for aggregate gross proceeds of $0.7 million, with respect to the Transaction and the Subscription Receipt Private Placement, as applicable.

Pursuant to the terms of the subscription receipt agreement (the "Subscription Receipt Agreement"), each Subscription Receipt was automatically exchanged for one Chronos Share immediately prior to the Transaction being affected. Each Chronos Share issued pursuant to the Subscription Receipts was acquired by Samoth in exchange for twenty (20) Samoth Shares, and subject to the Consolidation, resulting in each holder of Subscription Receipts receiving two and a half (2.5) Lycos Shares for each Subscription Receipt held. The Company recorded $3.4 million in share issue costs related to commissions and fees.

Unit Private Placement - Warrants

On November 7, 2022, an aggregate of 17,142,858 (42,857,140 after consolidation) Units were issued pursuant to a Unit Private Placement at an offering price of $0.70 per Unit for aggregate gross proceeds of $12.0 million. Each Unit was comprised of one Chronos Share and one Chronos share purchase warrant (each, a "Chronos Warrant"). Each Chronos Share issued pursuant to the Units was acquired by Samoth in exchange for twenty (20) Samoth Shares, and following the completion of the share consolidation, resulted in each holder of Units receiving two and a half (2.5) Lycos Shares for each Unit held. Each Chronos Warrant was exchanged at the same ratio, resulting in holders of Units receiving two and a half (2.5) Lycos Share purchase warrants (each, a "Lycos Warrant") for each Unit held. Each whole Lycos Warrant entitles the holder thereof to purchase one (1) Lycos Share for a period of five (5) years following the date of issuance at an exercise price of $0.28 (post consolidation) per Lycos Warrant (the "Exercise Price") and shall vest and become exercisable as to one-third upon the 10-day weighted average trading price of the Lycos Share (the "Market Price") equaling or exceeding $0.42 (post consolidation), an additional one-third upon the Market Price equaling or exceeding $0.49 (post consolidation), and a final one-third upon the Market Price equaling or exceeding $0.56 (post consolidation). As at December 31, 2022, all warrants issued pursuant to the Unit Private Placement have vested.

Warrants

	Number of Shares	
	December 31, 2022	December 31, 2021
Balance, beginning of year	**-**	-
Issued	**45,650,000**	-
Balance, end of year	**45,650,000**	-

On December 12, 2022, the Company issued 18,260,000 (45,650,000 after consolidation) warrants in connection with the Transaction which were recorded in the share capital.

	Warrants outstanding			Warrants exercisable		
	Number of oustanding	Weighted average exercise price	Weighted average life remaining (years)	Number of oustanding	Weighted average exercise price	Weighted average life remaining (years)
Balance, end of year	45,650,000	$ 0.28	5	45,650,000	$ 0.28	5

(c) Per share amounts

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

	December 31, 2022	December 31, 2021
Weighted average number of shares basic	**90,973,488**	78,498,598
Effect of dilutive warrants	**23,985,593**	-
Weighted average number of shares diluted	**114,959,081**	78,498,598

At December 31, 2022 and 2021, nil warrants were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

11. 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. No stock options were issued during the years ended December 31, 2022 and 2021.

On January 25, 2023, Lycos issued the grant of 15,935,000 stock options to certain employees, directors, and officers. The stock options expire five years from the date of grant and are exercisable at a price of $0.55 per common share. The options vest as to one-third on each of the first, second and third anniversary of the grant date.

12. 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, 2022	December 31, 2021
Salaries and benefits	**$ 1,434**	$ 917
Total	**$ 1,434**	$ 917

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

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

	December 31, 2022	December 31, 2021 Adjusted (note 22)
Crude oil	**$ 39,343**	$ 14,330
Natural gas	**116**	71
Petroleum and natural gas revenues	**39,459**	14,401
Processing income	**1,535**	457
Total petroleum and natural gas sales	**$ 40,994**	$ 14,858

Included in accounts receivable as at December 31, 2022, is $3.7 million (December 31, 2021 - $2.4 million) of accrued crude oil and natural gas sales related to December production.

14. Finance expense

	Note	**December 31, 2022**	December 31, 2021
Interest expense		**$ 4**	$ 67
Interest on lease obligations		**5**	11
Accretion on decommissioning liabilities	9	**477**	70
		$ 486	$ 148

15. Income tax

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Company has not recognized a total deferred income tax asset of approximately $11.5 million as at December 31, 2022.

(i) Deferred income tax expense recovery

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, 2022		December 31, 2021
Net income	**$**	**3,671**	$	13,012
Combined federal and provincial rate		**25.37%**		25.37%
Computed "expected" income tax expense		**931**		3,301
Increase (decrease) in income tax resulting from:				
Non-deductible expense		**478**		-
Rate change and other		**89**		90
Change in unrecognized deferred tax assets		**(1,498)**		(3,391)
Income tax expense (recovery)	**$**	**-**	$	-

(ii) Deferred income tax asset

The components of the Company's recognized deferred income tax asset are as follows:

		December 31, 2022		December 31, 2021
Deferred income tax liabilities:				
Property, plant and equipment	**$**	**(8,309)**	$	(7,974)
Investment in joint ventures		**(933)**		(1,758)
Future income tax assets:				
Decommissioning liabilities		**4,481**		5,255
Non-capital losses		**4,058**		4,429
Share Issue costs		**690**		-
Lease obligation		**11**		46
Others		**2**		2
Deferred income tax asset	**$**	**-**	$	-

The following table provides a continuity of the deferred income tax asset:

		December 31, 2021		Recognized in Consolidated Statement of Income and Comprehensive Income		**December 31, 2022**
Property, plant and equipment	$	(7,974)	$	(335)	**$**	**(8,309)**
Investment in joint ventures		(1,758)		825		**(933)**
Decommissioning liabilities		5,255		(774)		**4,481**
Non-capital losses		4,429		(371)		**4,058**
Share Issue costs		-		690		**690**
Lease obligation		46		(35)		**11**
Others		2		-		**2**
Deferred income tax asset	$	-	$	-	**$**	**-**

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

		December 31, 2022		December 31, 2021
Non-capital losses	**$**	**45,327**	$	43,426
Deferred income tax asset	**$**	**45,327**	$	43,426

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 $61.3 million (December 31, 2021 - $57.6 million) which are available to shelter future taxable income and these non-capital losses will begin to expire in 2035.

16. Supplementary cash flow information

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

	Notes		December 31, 2022		December 31, 2021
Accounts receivable		**$**	**(1,979)**	$	(1,897)
Due from related party			**381**		195
Working capital assumed on RTO [(1)]	4		**(67)**		-
Prepaid expenses and deposits			**(382)**		(251)
Accounts payable and accrued liabilities			**3,410**		3,269
		$	**1,363**	$	1,316
Relating to:					
Operating activities		**$**	**(132)**	$	1,348
Investing activities			**1,495**		(32)
		$	**1,363**	$	1,316

(1) The amount represents the working capital acquired on the RTO Transaction.

No cash tax was paid in the years ended December 31, 2022 or 2021. No interest was paid in cash on the bank loan during year ended December 31, 2022 (December 31, 2021 - $0.1 million).

17. Related party transactions

The Company is related to a limited partnership, Chronos Duvernay LP (note 8) 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, 2022, the Company charged Chronos Duvernay LP $1.0 million (2021 - $1.0 million) related to management and advisory services which was netted against G&A and invoiced $1.0 million (2021 - $0.1 million). As at December 31, 2022 the Company had a net receivable of $0.4 million due from Chronos Duvernay LP (December 31, 2021 - $0.8 million). Subsequent to year end, the Company collected the outstanding receivable. All transactions are recorded at the exchange amount which is the amount agreed upon between the parties.

18. 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 Consolidated 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.

Market risk

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

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

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 that were entered into by the Company continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements which meets 'own use exemption'. These contracts are accounted for as executory contracts and are not considered financial instruments; therefore, no asset or liability has been recognized in the financial statements. As at December 31, 2022, no financial derivative contracts have been entered into by the Company.

Interest rate risk

The Company is exposed to interest rate risk on cash balances to the extent of changes in market interest rates. As at December 31, 2022 and 2021, 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, 2022, and 2021, 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 and counterparties to cash and cash equivalents, joint venture partners and the counterparties to risk management contracts. As at December 31, 2022, the Company's receivables consisted of $3.7 million from petroleum and natural gas purchasers, $0.8 million due from joint venture partners and other receivables, $0.4 million due from government for goods and services tax receivable.

The Company's cash and cash equivalents is made up entirely of cash, which is deposited in high yield saving accounts with financial institutions and are subject to counterparty credit risk. The Company mitigates this risk by only transacting with investment grade financial institutions with high credit ratings.

During the year ended December 31, 2022, the Company sold its crude oil and natural gas production to various counterparties with one counterparty accounting for 73% of sales (2021 one counterparty accounted for 73% 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. 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.

The carrying amount of accounts receivable and due from related party represents the maximum credit exposure. The Company has calculated the expected credit losses 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 year ended December 31, 2022. Historically, there was no indication that amounts were non-collectable thus, an allowance for doubtful accounts was not set up.

As at December 31, 2022, and 2021 the Company's accounts receivables are aged as follows:

Years ended	Total Receivables	< 90 Days	Past Due
December 31, 2022	**$ 4,998**	**$ 4,327**	**$ 671**
	100%	**87%**	**13%**
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 cash, accounts receivable, due from related party, and accounts payable and accrued liabilities included in the Consolidated Statement of Financial Position approximate fair value due to the short-term nature of those instruments or the indexed rate of interest.

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.

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, 2022:

	Less than 1 year	1 to 2 years	Total
Accounts payable and accrued liabilities	$ 9,141	$ -	$ 9,141
Lease obligations	$ 38	$ 6	$ 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 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.

i) Adjusted funds flow from operations:

Management considers adjusted funds flow from operations to be a key measure to assess the performance of the Company's oil and gas properties and the Company's ability to fund future capital investment. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of costs. Changes in non-cash working capital, decommissioning costs incurred and transaction costs vary from period to period and Management believes that excluding the impact of these provides a useful measure of Lycos' ability to generate the funds necessary to manage the capital needs of the Company.

	December 31, 2022	December 31, 2021
Cash flow from operating activities	**$ 5,392**	$ 4,394
Changes in non-cash working capital	**132**	1,348
Funds flow from operations	**5,524**	3,046
Decommissioning costs incurred	**28**	-
Transaction costs	**404**	63
Adjusted funds flow from operations	**$ 5,956**	$ 3,109

ii) Adjusted working capital:

Managements considers adjusted working capital to be a key measure to assess the Company's liquidity and capital management:

	December 31, 2022	December 31, 2021
Working capital	**$ 55,835**	$ (1,222)
Current portion of decommissioning liabilities	**1,000**	-
Adjusted working capital (net debt)	**$ 56,835**	$ (1,222)

The Company's capital structure at December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Adjusted working capital	**$ 56,835**	$ (1,222)
Shareholders' equity	**$ 108,401**	$ 41,030

iii) Capital expenditures:

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

	December 31, 2022	December 31, 2021
Net cash used in investing activities	**$ 8,280**	$ 1,719
Change in non-cash working capital	**1,495**	(32)
Capital expenditures	**$ 9,775**	$ 1,687

19. Government Grants

The Company recognized in other income a total of $0.5 million in 2022 (2021 - $0.2 million) related to government grants earned for well site rehabilitation. In addition, the Company recognized a total of $nil in 2022 (2021 – $0.2 million) under both the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy programs which was applied against general and administrative expenses.

20. Commitments

Future minimum payments relating to variable office rent payments and vehicle leases at December 31, 2022 are as follows:

	December 31, 2022
Less than 1 year	$ 520
1-3 years	1,461
Total commitments	**$ 1,981**

On November 24, 2022, Lycos 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.

21. Subsequent Events

1) On February 28, 2023, the Company acquired the remaining 78.15 percent partnership interest in Chronos Duvernay LP from our joint venture partner though a wholly owned subsidiary. As a result, the Company's interest in Chronos Duvernay LP is now 100 percent. The cash consideration for the acquisition was $50.0 million in cash and the grant of a 3 percent gross overriding royalty to the former ownership group on any newly drilled wells on the acquired lands.

   The Company intends to account for the acquisition as a business combination in accordance with IFRS 3. Given the transaction closed on February 28, 2023, as at the date of our annual Consolidated Financial Statements we do not have sufficient information to determine fair values and complete the purchase price allocation or the proforma financial information disclosures. The Company has engaged our independent third-party reserve evaluator to assist in determining the value of proved and probable petroleum and natural gas reserves to support the fair value of petroleum, plant and equipment acquired and are assessing the related deferred tax impacts.

2) On January 16, 2023, Lycos entered into a credit agreement in respect of a new revolving credit facility for up to $20.0 million, of which $10.0 million is immediately available for general corporate purposes and an additional $10.0 million is available at the discretion of the Lender.

3) On January 25, 2023, Lycos granted 15,935,000 stock options to certain employees, directors and officers. The stock options expire five years from the date of grant and are exercisable at a price of $0.55 per common share. The options vest as to one-third on each of the first, second and third anniversary of the grant date.

4) On April 17, 2023, the Company entered into the following financial derivative contracts.

Option Traded	Term	Volume	Price/Unit
Swap - WCS/CAD	June 1, 2023 to June 30, 2023	250 bbl/d	CAD $87.30
Swap - WCS/CAD	July 1, 2023 to September 30, 2023	250 bbl/d	CAD $85.35

22. Adjustment of the Consolidated Financial Statements

The Company has adjusted petroleum and natural gas sales, operating expenses and blending and transportation expenses to record certain transactions gross that had previously been recorded net. The adjustment is not a result of any change to the Company's operations or the Company's business. For any and all of the periods adjusted there is no impact on the overall cash position, cash flow from operating, investing or financing activities on the Consolidated Statement of Cash Flows, or any of the inputs used to determine the Company's recoverable reserves. See the table below for a reconciliation of the impact of the adjustment to the Consolidated Statement of Income and Comprehensive Income.

	For the year ended, December 31, 2021		
	Previously Reported	Adjustment	Adjusted
Petroleum and natural gas sales	13,934	924	14,858
Operating expense	6,428	457	6,885
Blending and transportation expense	258	467	725
Net income and comprehensive income	13,012	-	13,012
Net income per share amounts:			
Basic & diluted	$ 0.17	-	$ 0.17