



Touchstone Exploration Inc.

Interim Condensed Consolidated Financial Statements (unaudited)

As at and for the three and nine months ended September 30, 2023 and 2022

Touchstone Exploration Inc.
Interim Condensed Consolidated Balance Sheets
Unaudited, stated in thousands of United States dollars

As at	Note	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash		3,794	16,335
Accounts receivable	3	12,859	7,487
Inventory		86	129
Prepaid expenses		631	1,342
Assets held for sale		-	1,122
		17,370	26,415
Exploration and evaluation assets			
Property, plant and equipment	4	37,054	51,352
Restricted cash	5	96,711	67,162
Other assets	8	844	1,021
Abandonment fund		371	481
		1,698	1,446
Total assets		154,048	147,877
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6	17,038	12,737
Income taxes payable	10	751	1,014
Current portion of bank debt	8	13,000	6,000
Liabilities associated with assets held for sale		-	1,672
		30,789	21,423
Lease liabilities			
Lease liabilities	7	1,662	1,373
Bank debt	8	16,469	20,962
Decommissioning liabilities	9	11,594	11,182
Deferred income taxes	10	13,318	14,557
Total liabilities		73,832	69,497
Shareholders' equity			
Shareholders' capital	11	114,965	114,635
Contributed surplus		5,748	4,905
Other comprehensive loss		(13,492)	(13,517)
Deficit		(27,005)	(27,643)
Total shareholders' equity		80,216	78,380
Total liabilities and shareholders' equity		154,048	147,877

Commitments (note 17)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

Touchstone Exploration Inc.**Interim Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)**

Unaudited, stated in thousands of United States dollars (except per share amounts)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
Revenue					
Petroleum and natural gas sales	12	11,682	9,933	27,339	33,025
Less: royalties		(3,193)	(3,411)	(7,849)	(11,516)
Petroleum and natural gas revenue, net of royalties		8,489	6,522	19,490	21,509
Other revenue		21	10	55	30
Total revenue		8,510	6,532	19,545	21,539
Expenses					
Operating		2,478	2,126	7,001	6,547
General and administration		2,560	1,993	7,037	5,863
Net finance	13	674	692	1,736	2,252
Gain on asset dispositions		-	-	(800)	(120)
Foreign exchange gain	14	(5)	(285)	(67)	(481)
Equity-based compensation	11	212	328	825	971
Depletion and depreciation	5	1,606	1,204	4,024	3,109
Impairment	4	18	10	47	181
Other	15	(112)	132	(552)	672
Total expenses		7,431	6,200	19,251	18,994
Earnings before income taxes		1,079	332	294	2,545
Provision for income taxes					
Current expense	10	491	1,381	886	3,556
Deferred (recovery) expense	10	(400)	(271)	(1,230)	265
Total income tax expense (recovery)		91	1,110	(344)	3,821
Net earnings (loss)		988	(778)	638	(1,276)
Currency translation adjustments		(179)	(450)	25	(317)
Comprehensive income (loss)		809	(1,228)	663	(1,593)
Net earnings (loss) per common share					
Basic and diluted	11	0.00	(0.00)	0.00	(0.01)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

Touchstone Exploration Inc.**Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**

For the nine months ended September 30

Unaudited, stated in thousands of United States dollars

	Note	2023	2022
Shareholders' capital			
Balance, beginning of period		114,635	101,757
Equity-based settlements	11	330	609
Balance, end of period		114,965	102,366
Contributed surplus			
Balance, beginning of period		4,905	3,466
Equity-based settlements	11	(120)	(215)
Equity-based compensation expense	11	825	971
Equity-based compensation capitalized	4,5	138	252
Balance, end of period		5,748	4,474
Other comprehensive loss			
Balance, beginning of period		(13,517)	(13,219)
Other comprehensive income (loss)		25	(317)
Balance, end of period		(13,492)	(13,536)
Deficit			
Balance, beginning of period		(27,643)	(24,446)
Net earnings (loss)		638	(1,276)
Balance, end of period		(27,005)	(25,722)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

Touchstone Exploration Inc.
Interim Condensed Consolidated Statements of Cash Flows
Unaudited, stated in thousands of United States dollars

		Three months ended September 30,		Nine months ended September 30,	
	Note	2023	2022	2023	2022
Operating activities					
Net earnings (loss)		988	(778)	638	(1,276)
Items not involving cash from operations:					
Gain on asset dispositions		-	-	(800)	(120)
Unrealized foreign exchange gain	14	(19)	(237)	(86)	(516)
Equity-based compensation expense	11	212	328	825	971
Depletion and depreciation expense	5	1,606	1,204	4,024	3,109
Impairment expense	4	18	10	47	181
Other	13	27	78	(159)	363
Deferred income tax (recovery) expense	10	(400)	(271)	(1,230)	265
Decommissioning expenditures	9	-	(78)	(18)	(128)
Funds flow from operations		2,432	256	3,241	2,849
Change in non-cash working capital		(2,089)	2,802	990	4,092
Cash from operating activities		343	3,058	4,231	6,941
Investing activities					
Exploration and evaluation expenditures	4	(3,498)	(2,692)	(17,043)	(7,498)
Property, plant and equipment expenditures	5	(111)	(207)	(720)	(1,323)
Abandonment fund expenditures		(131)	(26)	(253)	(85)
Proceeds from asset dispositions		-	11	250	146
Change in non-cash working capital		(1,090)	824	(978)	(5,982)
Cash used in investing activities		(4,830)	(2,090)	(18,744)	(14,742)
Financing activities					
Changes in restricted cash	8	59	59	177	99
Net (payment) advance of bank debt	8	(1,500)	(1,500)	2,500	(1,500)
Net finance lease payments	7	(465)	(390)	(665)	(237)
Issuance of common shares	11	141	177	210	394
Change in non-cash working capital		(109)	(168)	(361)	(418)
Cash (used in) from financing activities		(1,874)	(1,822)	1,861	(1,662)
Change in cash		(6,361)	(854)	(12,652)	(9,463)
Cash, beginning of period		10,138	9,425	16,335	17,936
Impact of foreign exchange on foreign denominated cash balances		17	161	111	259
Cash, end of period		3,794	8,732	3,794	8,732
Supplementary information for cash flow from operating activities:					
Interest paid in cash	8	642	586	1,673	1,714
Income taxes paid in cash	10	47	1,081	1,146	1,637

See accompanying notes to these unaudited interim condensed consolidated financial statements.

1. Nature of Business

Touchstone Exploration Inc. and its subsidiaries (collectively, "Touchstone" or the "Company") are engaged in the business of petroleum and natural gas exploration, development, acquisition and production. The Company is currently active in the Republic of Trinidad and Tobago ("Trinidad").

Touchstone Exploration Inc. is incorporated under the laws of Alberta, Canada with its head and principal office located at 4100, 350 7th Avenue SW, Calgary, Alberta, Canada T2P 3N9. Touchstone's common shares are listed on the Toronto Stock Exchange and on the AIM market of the London Stock Exchange ("AIM") under the stock symbol "TXP".

2. Basis of Presentation

Statement of compliance

These unaudited interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 (the "2022 audited financial statements").

These financial statements have been prepared on a historical cost basis. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the 2022 audited financial statements. Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars ("\$" or "US\$"). Canadian dollars ("C\$") and Trinidad and Tobago dollars ("TT\$") may also be referenced herein.

These financial statements were approved and authorized for issuance by Touchstone's Board of Directors (the "Board") on November 13, 2023.

Use of estimates, judgements and assumptions

The timely preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results may differ from estimates.

In preparing these financial statements, the judgments made by Management in applying the Company's accounting policies and the key sources of significant estimation uncertainty were the same as those applied to the 2022 audited financial statements.

3. Financial Assets and Credit Risk

As at September 30, 2023, Touchstone was exposed to credit risk with respect to its accounts receivable and finance lease receivable balances.

Credit risk is considered to be low for the Company's accounts receivable, as Touchstone's credit exposure typically pertains to monthly petroleum and natural gas sales and joint interest billings due from Trinidad government-owned petroleum and natural gas entities, and value added taxes ("VAT") due from the Trinidad government. The credit risk associated with Touchstone's finance lease receivable are considered negligible as the assets are secured by the underlying equipment, with ownership transferring to the counterparties subsequent to receipt of the final lease payments.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

The following table details the composition of Touchstone's accounts receivable balance for the periods indicated.

(\$000's)	September 30, 2023	December 31, 2022
Petroleum sales	4,374	1,845
Natural gas sales	2,643	558
Joint interest billings	700	478
VAT	4,453	4,190
Other	689	416
Accounts receivable balance	12,859	7,487

As at September 30, 2023, Touchstone determined that the average expected credit loss on its accounts receivable balance was \$nil. The Company believes that the accounts receivable balances that are past due are ultimately collectible, as they predominately represent VAT amounts due from the Trinidad government. Although the timing of settlement is uncertain, Touchstone has not historically experienced any collection issues. The following table discloses the aging of the Company's accounts receivable for the periods indicated.

(\$000's)	September 30, 2023	December 31, 2022
Current (less than 30 days)	8,425	3,398
31-60 days	465	293
61-90 days	369	307
Past due (greater than 90 days)	3,600	3,489
Accounts receivable balance	12,859	7,487

4. Exploration and Evaluation Assets

(\$000's)	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance, beginning of period	51,352	50,760
Additions	17,570	10,383
Transfers to property, plant and equipment (note 5)	(31,803)	(7,915)
Dispositions	-	(2,046)
Impairment expense	(75)	(90)
Effect of change in foreign exchange rates	10	260
Balance, end of period	37,054	51,352

During the three and nine months ended September 30, 2023, \$171,000 and \$547,000 of direct and attributable overhead charges were capitalized to exploration and evaluation ("E&E") assets, respectively (2022 - \$254,000 and \$690,000).

Transfer to property, plant and equipment

Upon first production in September 2023, the Company transferred \$30,434,000 of E&E costs related to its Cascadura cash-generating unit ("CGU") to property, plant and equipment ("PP&E"). Immediately prior to transferring the assets to PP&E, Touchstone performed the required impairment test to estimate the recoverable amount of the CGU. It was determined that the recoverable amount of the CGU exceeded its carrying value, resulting in no impairment expense recognized.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

Impairment

During the three and nine months ended September 30, 2023, the Company recognized E&E asset impairment expenses of \$18,000 and \$47,000 related to non-core properties, respectively (2022 - \$10,000 and \$181,000). The impairment expenses primarily reflected licence financial obligations.

The September 30, 2023 E&E asset carrying value of \$37,054,000 represented investments in the Company's Ortoire exploration property. No indicators of impairment were identified by the Company as at September 30, 2023.

5. Property, Plant and Equipment

(\$000's)	Petroleum and natural gas development assets	Right-of-use assets	Corporate assets	Total
Cost				
Balance, January 1, 2022	142,894	2,950	2,396	148,240
Additions	1,533	7	94	1,634
Change in decommissioning asset	528	-	-	528
Transfer from E&E assets	7,915	-	-	7,915
Foreign exchange translation	829	(20)	(135)	674
Balance, December 31, 2022	153,699	2,937	2,355	158,991
Additions	519	1,256	256	2,031
Transfers from (to) E&E assets (note 4)	32,204	(401)	-	31,803
Change in decommissioning asset	(167)	-	-	(167)
Foreign exchange translation	(151)	(11)	-	(162)
Balance, September 30, 2023	186,104	3,781	2,611	192,496
Accumulated depletion, depreciation and impairment				
Balance, January 1, 2022	84,668	409	1,888	86,965
Depletion and depreciation	4,106	81	146	4,333
Foreign exchange translation	661	(10)	(120)	531
Balance, December 31, 2022	89,435	480	1,914	91,829
Depletion and depreciation	3,784	121	119	4,024
Foreign exchange translation	(64)	-	(4)	(68)
Balance, September 30, 2023	93,155	601	2,029	95,785
Carrying amounts				
Balance, December 31, 2022	64,264	2,457	441	67,162
Balance, September 30, 2023	92,949	3,180	582	96,711

During the three and nine months ended September 30, 2023, \$93,000 and \$314,000 of direct and attributable overhead charges were capitalized to PP&E, respectively (2022 - \$93,000 and \$293,000).

Impairment

On September 30, 2023, the Company evaluated its petroleum and natural gas development assets included in PP&E for indicators of any potential impairment or reversal. As a result of this assessment, no indicators were identified.

6. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Touchstone actively manages its liquidity risk through strategies such as continuously monitoring actual and forecasted cash and working capital balances and cash flows from operating, investing and financing activities, ensuring compliance with bank debt covenants, and seeking opportunities to expand its existing bank debt facility or to issue additional equity. Management

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

believes that future cash flows generated from these sources will be adequate to settle financial obligations as they come due.

The Company's near-term development plan is strategically balanced between maintaining base commodity production levels and investing in development and exploratory activities. Touchstone will continue to take a measured approach to future developmental and exploration capital expenditures to manage financial liquidity while proceeding with this plan. During the nine months ended September 30, 2023, liquidity risk increased due to the need to balance significant capital investments and variability in operating results, resulting in Management actively managing short term liquidity levers. Touchstone will continue to actively monitor its liquidity to ensure that cash flows, potential credit facility capacity and working capital are adequate to support current and future financial liabilities, as well as the Company's capital programs and future work commitments.

Refer to Note 8 "Bank Debt", Note 16 "Capital Management" and Note 17 "Commitments" for further details regarding the Company's debt structure and capital management objectives and policies. The following table sets forth estimated undiscounted cash outflows and financial maturities of Touchstone's financial liabilities as at September 30, 2023.

(\$000's)	Undiscounted cash outflows ⁽¹⁾	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities ⁽²⁾	15,999	15,999	-	-
Income taxes payable (note 10)	751	751	-	-
Lease liabilities (note 7)	3,691	1,263	594	1,834
Bank debt principal (note 8)	29,500	13,000	12,000	4,500
Bank debt interest (note 8)	3,799	1,910	1,727	162
Total financial liabilities	53,740	32,923	14,321	6,496

Notes:

- (1) The undiscounted cash outflows equal their carrying values, with the exception of lease liabilities and bank debt principal.
- (2) Excludes the current portion of lease liabilities.

7. Lease Liabilities

Touchstone is a party to lease arrangements for a drilling rig, office space and office equipment. The following table provides a continuity of the Company's lease liabilities for the periods indicated.

(\$000's)	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance, beginning of period	2,255	2,648
Additions	1,256	7
Interest expense	203	242
Repayments	(1,009)	(624)
Effect of change in foreign exchange rates	(4)	(18)
Balance, end of period	2,701	2,255
Current (included in accounts payable and accrued liabilities)	1,039	882
Non-current	1,662	1,373
Lease liabilities balance	2,701	2,255

The Company entered into a minimum five-year lease for additional office space in Trinidad effective April 1, 2023, resulting in a \$1,256,000 lease liability and associated right-of-use asset recognized.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

8. Bank Debt

On May 25, 2023 Touchstone's indirect wholly owned Trinidadian subsidiary, Touchstone Exploration (Trinidad) Ltd., entered into a second amended and restated loan agreement with its existing Trinidad based lender providing for a \$7,000,000 revolving loan facility in addition to the existing \$30,000,000 term loan facility (the "Seconded Amended Loan Agreement"). Aside from adding the revolving loan component, the Second Amended Loan Agreement did not alter any material terms of the prior December 21, 2021 amended and restated loan agreement.

The revolving loan component matures on May 30, 2024 and may be extended by additional periods of up to one year by agreement between the parties. The revolving loan component bears an interest rate of 7.29 percent for the initial year and is reset annually if extended. Outstanding principal may be repaid at any time, on or before the maturity date without penalty and any amounts repaid may be redrawn at any time. The \$7,000,000 revolving loan component was fully drawn on June 1, 2023, and the Company incurred \$114,000 in related debt issuance costs during the nine months ended September 30, 2023.

The term loan component matures on June 15, 2027 and bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. As at September 30, 2023, the principal balance of the term loan component was \$22,500,000, with fifteen equal and consecutive quarterly principal payments of \$1,500,000 outstanding. The following table details the movements of the Company's bank debt balance for the periods indicated.

(\$000's)	Term loan component	Revolving loan component	Bank debt
Balance, January 1, 2022	29,896	-	29,896
Payments	(3,000)	-	(3,000)
Accretion	66	-	66
Balance, December 31, 2022	26,962	-	26,962
Payments	(4,500)	-	(4,500)
Advances	-	7,000	7,000
Accretion	7	-	7
Balance, September 30, 2023	22,469	7,000	29,469
Current	6,000	7,000	13,000
Non-current	16,469	-	16,469
Bank debt balance	22,469	7,000	29,469

The Second Amended Loan Agreement contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which are evaluated on an annual basis. As at September 30, 2023, the Company was compliant with all covenants provided for in the Second Amended Loan Agreement.

Pursuant to the Seconded Amended Loan Agreement, Touchstone must at all times maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments related to the term loan component. Accordingly, the Company classified \$844,000 of cash as long-term restricted cash as at September 30, 2023 (December 31, 2022 - \$1,021,000).

9. Decommissioning Liabilities

The Company has estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$11,594,000 as at September 30, 2023 based on an inflation adjusted undiscounted future liability of \$18,383,000 (December 31, 2022 - \$11,182,000 and \$17,920,000, respectively). Decommissioning liabilities were estimated as at September 30, 2023 using a weighted average long-term risk-free rate of 5.2 percent and a long-term inflation rate of 2.1 percent (December 31, 2022 - 5.3 percent and 2.4 percent, respectively).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

The following table summarizes the movements of Touchstone's estimated decommissioning liability provision for the periods indicated.

(\$000's)	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance, beginning of period	11,182	10,012
Liabilities incurred from development activities	477	268
Liabilities settled	(18)	(130)
Accretion expense	188	222
Revisions to estimates	(227)	732
Effect of change in foreign exchange rates	(8)	78
Balance, end of period	11,594	11,182

10. Income Taxes

The following table is a reconciliation of income taxes calculated by applying the applicable aggregate Trinidad statutory petroleum tax rate to net earnings before income tax expense.

(\$000's unless otherwise stated)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net earnings before taxes	1,079	332	294	2,545
Trinidad statutory income tax rate	55.0%	55.0%	55.0%	55.0%
Expected income tax expense at statutory tax rate	594	183	162	1,400
Effect on income tax resulting from:				
Change in income tax assets not recognized	(879)	(633)	(1,917)	(530)
Income tax rate differential	(442)	(1,724)	57	(1,418)
Other	818	3,284	1,354	4,369
Income tax expense (recovery)	91	1,110	(344)	3,821

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of income tax matters under review, and Touchstone believes that the provision for income taxes is adequate.

11. Shareholders' Capital

Issued and outstanding common shares

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The holders of the common shares are entitled to one vote in respect of each common share held at all meetings of shareholders and the rights to any dividends declared.

	Number of shares	Shareholders' capital (\$000's)
Balance, January 1, 2022	210,731,727	101,757
Issued pursuant to private placements, net of fees	19,924,400	12,269
Equity-based settlements	2,381,099	609
Balance, December 31, 2022	233,037,226	114,635
Equity-based settlements	1,175,500	330
Balance, September 30, 2023	234,212,726	114,965

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

Equity compensation plans

Touchstone has a stock option plan (the "Legacy Plan") pursuant to which options to purchase common shares of the Company were granted by the Board to directors, officers and employees of Touchstone. Touchstone adopted an omnibus incentive compensation plan (the "Omnibus Plan"), which was approved by the Company's shareholders on June 29, 2023. The Omnibus Plan was adopted by the Board primarily to allow for a variety of equity-based awards that provide the Company with the ability to grant different types of incentives to directors, officers, employees and consultants including stock options, restricted share units and performance share units.

No additional stock options will be granted under the Legacy Plan, and all outstanding stock options previously issued pursuant to the Legacy Plan will continue to be governed by such plan and will continue to vest in accordance with their existing vesting schedules. The aggregate number of common shares reserved for issuance under the Legacy Plan and the Omnibus Plan at any time is limited to 10 percent of the Company's issued and outstanding common shares.

Unless otherwise determined by the Board, stock option vesting typically occurs one third on each of the next three anniversaries of the grant date as recipients render continuous service to the Company, and the stock options typically expire five years from the grant date. Equity-based compensation expense is recognized as the stock options vest. The following table summarizes changes in outstanding stock options and the related weighted average exercise prices for the periods indicated.

	Number of stock options	Weighted average exercise price (C\$)
Issued and outstanding, December 31, 2022	11,233,334	0.72
Granted	3,338,000	1.43
Exercised	(2,381,099)	0.21
Forfeited	(261,800)	1.47
Issued and outstanding, December 31, 2022	11,928,435	1.00
Granted	3,644,000	1.15
Exercised	(1,175,500)	0.24
Forfeited	(43,000)	1.58
Issued and outstanding, September 30, 2023	14,353,935	1.10
Exercisable, September 30, 2023	7,440,937	0.89

During the three and nine months ended September 30, 2023, the Company recorded equity-based compensation expenses of \$212,000 and \$825,000, respectively (2022 - \$328,000 and \$971,000).

Weighted average common shares

The following table sets forth the details of weighted average common shares used in calculating net loss per common share for the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Weighted average common shares outstanding - basic	233,541,004	212,646,840	233,242,521	211,897,908
Dilutive impact of equity-based compensation	3,597,421	-	3,704,278	-
Weighted average common shares outstanding - diluted	237,138,425	212,646,840	236,946,799	211,897,908

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2023 and 2022

There was no dilutive impact to the weighted average number of common shares for the three and nine months ended September 30, 2022, as approximately 4.3 million and 5.1 million common shares reserved under granted stock options were excluded from the diluted weighted average share calculation as they were anti-dilutive, respectively.

12. Petroleum and Natural Gas Sales

Touchstone derives its primary revenue from contracts with Trinidad government-owned entities through the transfer of commodities at the end of each month. The following table sets forth petroleum and natural gas sales by product type for the periods indicated.

(\$000's)	Three months ended		Nine months ended	
	2023	September 30, 2022	2023	September 30, 2022
Crude oil	7,827	9,933	21,697	33,025
Natural gas liquids	1,264	-	1,264	-
Natural gas	2,591	-	4,378	-
Petroleum and natural gas sales	11,682	9,933	27,339	33,025

At September 30, 2023, accounts receivable from petroleum and natural gas sales were \$7,017,000 (December 31, 2022 - \$2,403,000).

13. Net Finance Expenses

(\$000's)	Three months ended		Nine months ended	
	2023	September 30, 2022	2023	September 30, 2022
Interest income	(12)	(15)	(57)	(23)
Finance lease interest income	(10)	(15)	(34)	(49)
Lease liability interest expense (note 7)	75	61	203	187
Bank debt interest expense (note 8)	594	583	1,657	1,761
Accretion on bank debt (note 8)	8	10	7	57
Debt issuance expense (note 8)	-	-	114	-
Production liability revaluation (gain) loss	(45)	20	(353)	139
Accretion on decommissioning liabilities (note 9)	65	48	188	168
Other	(1)	-	11	12
Net finance expenses	674	692	1,736	2,252
Cash net finance expense	647	614	1,895	1,889
Non-cash net finance expense (income)	27	78	(159)	363
Net finance expenses	674	692	1,736	2,252

14. Financial Instruments and Market Risk Management

Financial instruments

As of September 30, 2023, the Company's financial instruments included cash, accounts receivable, restricted cash, finance lease receivable (included in other assets on the interim condensed consolidated balance sheets), accounts payable and accrued liabilities, income taxes payable, lease liabilities and bank debt.

The Company's financial instruments that are carried at fair value include cash, restricted cash and the production liability included in accounts payable and accrued liabilities. The carrying values of Touchstone's accounts receivable, accounts payable and accrued liabilities and income taxes

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For the three and nine months ended September 30, 2023 and 2022

payable as of September 30, 2023 approximate their fair values due to the short-term nature of these instruments.

Market risk management

The Company is exposed to certain financial risks inherent in the international oil and natural gas industry including, but not limited to, commodity price risk, foreign exchange rate risk, credit risk (refer to note 3) and liquidity risk (refer to note 6). The risk exposures are proactively reviewed by Touchstone, and Management seeks to mitigate these risks through various business processes and controls. Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board to establish risk management guidelines to be used by Touchstone.

Commodity price risk

Touchstone's operational and financial results are largely dependent on the commodity prices received from crude oil, natural gas and natural gas liquids production. The Company has entered into a long-term fixed price contract for its natural gas production from its Ortoire property. However, movements in crude oil and liquids pricing could have a significant positive or negative effect on the Company's comprehensive income (loss) and cash flows. To mitigate this risk, Touchstone maintains a risk management strategy to protect funds flow from operations from the volatility of crude oil and liquids pricing. The Company's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in crude oil and liquids prices while allowing for participation in price increases. Touchstone had no commodity-based risk management contracts in place as at or during the three and nine months ended September 30, 2023 and 2022. The Company will continue to monitor forward commodity prices and may enter into future commodity-based risk management contracts to reduce the volatility of crude oil and liquids sales and protect future development and exploration capital programs.

Foreign currency risk

Foreign currency 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. Touchstone's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum and natural gas sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency risk through collecting and paying foreign currency denominated balances in a timely fashion. Touchstone does not hedge its foreign exchange risk.

As the Company operates in Trinidad, fluctuations in the exchange rate between the TT\$ and the US\$ could have a significant effect on financial results. Although the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices, the majority of the invoices for such sales are paid in TT\$, exposing Touchstone to foreign exchange risk. To mitigate this risk, the Company attempts to match revenues received in TT\$ by entering into contracts denominated and payable in TT\$ when possible. In addition, Touchstone has US\$ denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT\$ is informally pegged to the US\$ and all natural gas liquids and natural gas sales are denominated and payable in US\$.

The Company has further foreign exchange exposure on cash balances denominated in C\$ and pounds sterling, head office costs and the production liability denominated and payable in C\$, and costs denominated and payable in pounds sterling required to maintain its AIM listing. Any material movements in the C\$ to US\$ and the pound sterling to US\$ exchange rates may result in unanticipated fluctuations or have a material effect on Touchstone's reporting results.

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For the three and nine months ended September 30, 2023 and 2022

15. Other Expenses

For the three and nine months ended September 30, 2022, the Company accrued \$132,000 and \$672,000 in estimated costs related to an oil spill that occurred as a result of vandalism in June 2022, respectively. During the three and nine months ended September 30, 2023, Touchstone received insurance proceeds of \$112,000 and \$552,000 relating to the incident, respectively.

16. Capital Management

Touchstone actively manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. Touchstone considers its capital structure to include shareholders' equity, working capital and bank debt. The Company's long-term goal is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only cash flows from operations. Exploration and development activities will be financed with a combination of cash flows from operations and other sources of capital. Touchstone uses share equity and bank debt as its primary sources of capital.

Touchstone considers funds flow from operations to be a key measure of capital management and operating performance as it demonstrates the Company's ability to generate the funds necessary to finance capital expenditures and repay debt. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds flow from operations provides a useful measure of the Company's ability to generate cash that is not subject to short-term movements in non-cash operating working capital.

Touchstone monitors working capital and net debt as part of the Company's capital structure to evaluate its true debt and liquidity position and to manage capital and liquidity risk. Working capital is calculated as current assets minus current liabilities as they appear on the interim condensed consolidated balance sheets. Net debt is determined as the sum of the Company's working capital and the principal (undiscounted) long-term amount of senior secured bank debt.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of two times in a normalized commodity price environment. Touchstone's net debt to funds flow from operations ratio has exceeded its target based on continuing facility capital expenditures required to bring its natural gas discoveries onstream.

Touchstone also monitors its capital management through the net debt to managed capital ratio. Management defines managed capital as the sum of net debt and shareholders' equity. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to managed capital at a ratio of less than 0.4 to 1.

Net debt, managed capital, net debt to funds flow from operations ratio and net debt to managed capital ratio are considered non-IFRS capital management measures and therefore may not be comparable to similar measures presented by other companies.

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For the three and nine months ended September 30, 2023 and 2022

The following table sets forth Touchstone's internal capital management calculations for the reporting periods indicated.

(\$000's)	Target measure	September 30, 2023	December 31, 2022
Current assets		(17,370)	(26,415)
Current liabilities		30,789	21,423
Working capital deficit (surplus)		13,419	(4,992)
Principal non-current balance of bank debt		16,500	21,000
Net debt		29,919	16,008
Shareholders' equity		80,216	78,380
Managed capital		110,135	94,388
Trailing twelve-month funds flow from operations ⁽¹⁾		3,932	3,540
Net debt to funds flow from operations ratio	At or < 2.0 times	7.61	4.52
Net debt to managed capital ratio	< 0.4 times	0.27	0.17

Note:

(1) Trailing twelve-month funds flow from operations as at September 30, 2023 includes the sum of funds flow from operations for the nine months ended September 30, 2023 and funds flow from operations for the October 1 through December 31, 2022 interim period.

17. Commitments

Touchstone has contractual obligations in the normal course of business which include minimum work obligations under various operating agreements with Heritage Petroleum Company Limited ("Heritage"), exploration and commitments under its Cory Moruga and Ortoire block exploration and production licences with the Trinidad and Tobago Ministry of Energy and Energy Industries, and various lease commitments (refer to note 7). The following table sets forth the Company's estimated minimum contractual payments as at September 30, 2023.

(\$000's)	Total	Estimated payments due by year			
		2023	2024	2025	Thereafter
Operating agreements	22,772	4,987	5,205	5,321	7,259
Exploration agreements	15,636	207	299	6,588	8,542
Other commitments	756	90	180	203	283
Minimum payments	39,164	5,284	5,684	12,112	16,084

Pursuant to its operating agreements with Heritage, the Company is required to fulfill minimum work obligations on an annual basis over each licence term. With respect to these obligations, Touchstone has four development wells and two heavy workover commitments to perform prior to December 31, 2023.

As of September 30, 2023, Touchstone is obligated to drill two exploration wells on its Ortoire concession prior to the end of the July 31, 2026 licence term.

The Company is involved in a limited number of legal claims arising in the normal course of operations. Such claims are not expected to have a material impact on Touchstone's results of operations or cash flows.



Corporate Information

Directors

John D. Wright
Chair of the Board

Jenny Alfandary
Paul R. Baay
Priya Marajh
Kenneth R. McKinnon
Peter Nicol
Beverley Smith
Stanley T. Smith
Harrie Vredenburg

Corporate Secretary
Thomas E. Valentine

Officers and Senior Executives

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

Brian Hollingshead
Vice President Engineering and Business Development

Alex Sanchez
Vice President Production and Environment

Cayle Sorge
Vice President Finance

Head Office

Touchstone Exploration Inc.
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Calgary, Alberta, Canada
T2P 3N9

Registered Office

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T2P 4H2

Operating Offices

Touchstone Exploration (Trinidad) Ltd.
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Fyzabad, Trinidad, W.I.

Primera Oil and Gas Limited
14 Sydney Street
Rio Claro, Trinidad, W.I.

Stock Exchange Listings
Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

Banker

Republic Bank Limited
Port of Spain, Trinidad, W.I.

Auditor

KPMG LLP
Calgary, Alberta, Canada

Reserves Evaluator

GLJ Ltd.
Calgary, Alberta, Canada

Legal Counsel

Norton Rose Fulbright LLP
Calgary, Alberta, Canada
London, United Kingdom

Transfer Agent and Registrar

Odyssey Trust Company
Calgary, Alberta, Canada

Link Group

London, United Kingdom

UK Nominated Advisor and Joint Broker

Shore Capital
London, United Kingdom

UK Joint Broker

Canaccord Genuity
London, United Kingdom

UK Public Relations

FTI Consulting
London, United Kingdom