



**Touchstone Exploration Inc.**

**Consolidated Financial Statements**

**December 31, 2017**

## Management's Report

The Management of Touchstone Exploration Inc. has prepared the accompanying consolidated financial statements of Touchstone Exploration Inc. in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial and operating information presented throughout the regulatory filings is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the consolidated financial statements include estimates that are based on Management's informed judgments. Management has established systems of internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

Ernst and Young LLP, an independent firm of Chartered Professional Accountants, was appointed by the Company's shareholders to conduct an audit of the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises responsibilities primarily through its Audit Committee, which is comprised on three independent and financially literate directors. The Audit Committee meets regularly with Management and with the independent auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Audit Committee has reported its findings to the Board of Directors, who have in turn approved the consolidated financial statements for issuance to the shareholders.

/s/ Paul R. Baay  
President, Chief Executive Officer and Director

/s/ Scott Budau  
Chief Financial Officer

Calgary, Alberta  
March 26, 2018

## **Independent Auditors' Report**

To the Shareholders of Touchstone Exploration Inc.:

We have audited the accompanying consolidated financial statements of Touchstone Exploration Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Touchstone Exploration Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Ernst + Young LLP*

Chartered Professional Accountants  
Calgary, Canada  
March 26, 2018

**Consolidated Statements of Financial Position**  
(thousands of Canadian dollars)

	Note	December 31, 2017	December 31, 2016
<b>Assets</b>	11		
Current assets			
Cash		\$ 13,920	\$ 8,433
Accounts receivable	17	8,544	8,809
Crude oil inventory		168	125
Prepaid expenses		475	368
		<b>23,107</b>	17,735
Exploration assets	6	2,084	1,858
Property and equipment	7	62,851	59,661
Abandonment fund	12	1,049	697
Restricted cash and cash equivalents	9	376	8,461
Other assets	10	1,869	873
		<b>\$ 91,336</b>	\$ 89,285
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 13,233	\$ 13,384
Income taxes payable	15	3,066	3,505
		<b>16,299</b>	16,889
Provisions		68	466
Term loan and associated liabilities	11	14,632	14,496
Decommissioning obligations	12	11,853	16,455
Deferred income taxes	15	10,280	4,745
		<b>53,132</b>	53,051
<b>Shareholders' equity</b>			
Shareholders' capital	13	27,143	169,995
Contributed surplus		2,253	2,144
Accumulated other comprehensive income		6,621	9,231
Accumulated earnings (deficit)		2,187	(145,136)
		<b>38,204</b>	36,234
		<b>\$ 91,336</b>	\$ 89,285

Commitments and contingencies (note 19)  
Subsequent event (note 22)

See accompanying notes to these consolidated financial statements.

**Approved on behalf of the Board of Directors of Touchstone Exploration Inc.:**

/s/ John D. Wright  
Director and Chairman of the Board of Directors

/s/ Stanley T. Smith  
Director and Chair of the Audit Committee

**Consolidated Statements of Comprehensive Loss**  
*(thousands of Canadian dollars, except per share amounts)*

	Note	Year ended December 31,	
		2017	2016
<b>Revenues</b>			
Petroleum revenue		\$ 32,020	\$ 24,036
Royalties		(8,982)	(5,917)
		<b>23,038</b>	18,119
Loss on financial derivatives	17	-	(1,970)
		<b>23,038</b>	16,149
<b>Expenses</b>			
Operating	21	11,716	10,943
General and administrative	21	6,320	6,398
Net finance expenses	14	1,856	230
Gain on asset dispositions	10	(378)	-
Foreign exchange loss	17	512	163
Share-based compensation	13	165	157
Depletion and depreciation	7	4,415	5,012
Impairment (recovery) expense	8	(7,851)	5,337
Accretion on term loan	11	550	164
Accretion on decommissioning obligations	12	154	378
		<b>17,459</b>	28,782
<b>Net earnings (loss) before income taxes</b>		<b>5,579</b>	(12,633)
<b>Income taxes</b>			
Current tax expense	15	440	466
Deferred tax expense (recovery)	15	6,086	(246)
		<b>6,526</b>	220
<b>Net loss</b>		<b>(947)</b>	(12,853)
Foreign currency translation adjustment		(2,610)	(3,787)
<b>Comprehensive loss</b>		<b>\$ (3,557)</b>	\$ (16,640)
<b>Net loss per common share</b>			
Basic and diluted	16	\$ (0.01)	\$ (0.15)

See accompanying notes to these consolidated financial statements.

## Consolidated Statements of Changes in Shareholders' Equity

(thousands of Canadian dollars)

	Note	Shareholders' capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Accumulated (deficit) earnings	Shareholders' Equity
<b>Balance as at January 1, 2016</b>		\$ 169,950	\$ 33	\$ 1,939	\$ 13,018	\$ (132,283)	\$ 52,657
Net loss		-	-	-	-	(12,853)	(12,853)
Other comprehensive loss		-	-	-	(3,787)	-	(3,787)
Share-based compensation expense	13	-	-	157	-	-	157
Share-based compensation capitalized	7	-	-	57	-	-	57
Share-based settlements	13	45	-	(42)	-	-	3
Transfer of unexercised warrants		-	(33)	33	-	-	-
<b>Balance as at December 31, 2016</b>		\$ 169,995	\$ -	\$ 2,144	\$ 9,231	\$ (145,136)	\$ 36,234
Net loss		-	-	-	-	(947)	(947)
Other comprehensive loss		-	-	-	(2,610)	-	(2,610)
Issued pursuant to private placements	13	5,329	-	-	-	-	5,329
Share-based settlements	13	89	-	(84)	-	-	5
Share-based compensation expense	13	-	-	165	-	-	165
Share-based compensation capitalized	7	-	-	28	-	-	28
Accumulated deficit elimination	13	(148,270)	-	-	-	148,270	-
<b>Balance as at December 31, 2017</b>		\$ 27,143	\$ -	\$ 2,253	\$ 6,621	\$ 2,187	\$ 38,204

See accompanying notes to these consolidated financial statements.

**Consolidated Statements of Cash Flows**  
(thousands of Canadian dollars)

	Note	Year ended December 31,	
		2017	2016
<b>Cash provided by (used in) the following activities:</b>			
<b>Operating activities</b>			
Net loss for the year		\$ (947)	\$ (12,853)
Items not involving cash from operations:			
Non-cash loss on financial derivatives	17	-	8,432
Gain on asset dispositions	10	(378)	-
Unrealized foreign exchange loss	17	827	199
Share-based compensation	13	165	157
Depletion and depreciation	7	4,415	5,012
Impairment (recovery) expense	8	(7,851)	5,337
Accretion on term loan	11	550	164
Accretion on decommissioning obligations	12	154	378
Other	21	89	(463)
Deferred income tax expense (recovery)	15	6,086	(246)
Funds flow from operations		3,110	6,117
Change in non-cash operating working capital	21	(2,406)	2,820
		704	8,937
<b>Investing activities</b>			
Restricted cash and cash equivalents	9	7,871	(8,461)
Exploration asset expenditures	6	(1,240)	(2,029)
Property and equipment expenditures	7	(8,138)	(1,852)
Abandonment fund expenditures	12	(411)	(185)
Proceeds from dispositions	7	-	650
Change in non-cash investing working capital	21	1,817	102
		(101)	(11,775)
<b>Financing activities</b>			
Payment of term loan production obligation	11	(320)	(47)
Payment of bank loan	11	-	(7,864)
Advance of term loan, net of fees	11	-	14,379
Finance lease receipts	10	83	42
Issuance of common shares	13	5,334	3
Change in non-cash financing working capital	21	46	47
		5,143	6,560
Change in cash		5,746	3,722
Cash, beginning of year		8,433	4,710
Impact of foreign exchange in foreign denominated cash balances		(259)	1
<b>Cash, end of year</b>		<b>\$ 13,920</b>	<b>\$ 8,433</b>
<b>Supplemental information:</b>			
Cash interest paid		1,025	152
Cash income taxes paid		657	107

See accompanying notes to these consolidated financial statements.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

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### 1. Reporting Entity

Touchstone Exploration Inc. (the "Company") is incorporated under the laws of Alberta, Canada with its head office located in Calgary, Alberta. The Company is an oil and gas exploration and production company active in the Republic of Trinidad and Tobago ("Trinidad"). The Company's common shares are listed on the Toronto Stock Exchange ("TSX") and on the AIM market of the London Stock Exchange ("AIM") under the symbol "TXP".

The principal address of the Company is 4100, 350 7<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3N9.

### 2. Basis of Preparation and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, amounts presented in these consolidated financial statements are rounded to thousands of Canadian dollars and tabular amounts are stated in thousands of Canadian dollars. Certain reclassification adjustments have been made to these consolidated financial statements to conform to the current presentation.

The consolidated financial statements have been prepared on the historical cost basis, except as detailed in the accounting policies disclosed in note 3.

The preparation of the consolidated financial statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in note 5.

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2018.

### 3. Summary of Significant Accounting Policies

#### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2017. The Company's principal subsidiaries are:

Entity	Country of incorporation	Ownership %
Touchstone Energy Inc.	Canada (Alberta)	100%
Touchstone Exploration (Barbados) Ltd.	Barbados	100%
Touchstone Exploration (Trinidad) Ltd.	Trinidad	100%
Primera Oil and Gas Limited	Trinidad	100%
Territorial Oilfield Management Services Limited	Trinidad	100%

Intercompany balances and transactions are eliminated in preparing consolidated financial statements. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. A nominal amount of the Company's operating cash flows is derived through joint operations which are involved in the development and production of crude oil in Trinidad. The consolidated financial statements reflect only the Company's proportionate interest in such activities.



## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

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### (b) Functional and foreign currency

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company. The functional currency of the Company’s Barbados subsidiary is the United States dollar (“US\$”), and the functional currency of the Company’s three Trinidadian subsidiaries is the Trinidad and Tobago dollar (“TT\$”).

Foreign currency transactions are translated into the respective functional currency of the Company and its subsidiaries using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

The results and financial position of all the Company’s consolidated subsidiaries that have a functional currency different from the presentation currency are translated into the Canadian dollar presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the reporting date closing rate;
- (ii) revenue and expenses for each period are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in accumulated other comprehensive income, a separate component of equity.

### Financial instruments

Financial assets and financial liabilities are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument’s classification, as described below.

- *Fair value through profit or loss:* Financial assets and liabilities classified as held-for-trading or designated as at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to earnings. The Company classifies its cash and restricted cash and cash equivalents as held-for-trading.
- *Held-to-maturity investments, loans and receivables and other financial liabilities:* Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Company classifies accounts receivable as loans and receivables and classifies accounts payable and accrued liabilities, income taxes payable and term loan and associated liabilities as other financial liabilities.
- *Available-for-sale financial assets:* Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in earnings. Amounts recognized in

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As at December 31, 2017 and for the years ended December 31, 2017 and 2016

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other comprehensive income for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is an impairment.

Derivatives may be used by the Company to manage exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. The Company does not designate its financial derivatives contracts as hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded and carried on the consolidated statement of financial position at fair value with actual amounts received or paid on the settlement of the financial derivative instrument recorded in earnings. Forward crude oil derivative contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price, using quoted market prices.

### (c) Fair value measurement

The Company measures its cash and restricted cash and cash equivalents at fair value at each reporting date. Fair value less costs of disposal is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment. In addition, the fair value of term loan and associated liabilities is disclosed in note 11.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. To estimate the fair value of its financial instruments, the Company uses quoted market prices when available or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk. All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value:

- (i) Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- (ii) Level 2 – inputs other than quoted prices used in Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs which can be observed or corroborated in the market place.
- (iii) Level 3 – inputs that are less observable, unavailable or where observable data does not support the majority of the instrument's fair value.

At each reporting date, the Company determines whether transfers have occurred between levels in the fair value hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the consolidated financial statements. Assessments of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy.

### (d) Impairment of financial assets

The Company assesses whether there is objective evidence that indicates if a financial asset or group of financial assets is impaired at each reporting date. Objective evidence exists if one or more loss events occur after initial recognition of the financial asset which has an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. Objective evidence of impairment may include indications that a debtor is experiencing significant financial difficulty, that a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, and changes in economic conditions that

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correlate with defaults.

If a receivable or group of receivables carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the receivable and its recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in general and administrative expenses. If the amount of the impairment loss decreases in a subsequent period because of a specific event, the impairment loss is reversed through the allowance account. Receivables and the associated allowance balance are written off when there is no longer a probability of future recovery.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is measured as the difference between the acquisition cost of the financial asset and its fair value and is reclassified from equity to general and administrative expenses.

### **(e) Crude oil inventory**

Crude oil is valued at the lower of cost using the weighted average cost method and net realizable value. Costs of crude oil inventory includes expenditures incurred in bringing the crude oil to its existing location and condition. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

### **(f) Exploration assets**

Expenditures incurred before the Company has obtained legal rights to explore an area are recognized in the consolidated statement of earnings as exploration expenses.

Exploration assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, drilling and completion costs and directly attributable employee salaries and benefits are capitalized and accumulated pending determination of technical feasibility and commercial viability. Exploration assets are not depleted. When assets are determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment within the cash-generating unit ("CGU"), and the recoverable amount is transferred to property and equipment. Management considers technical feasibility and commercial viability to exist when a project is expected to be free cash flow positive for the remaining life of the project, as demonstrated by the assignment of proved reserves, combined with Management's judgement of other factors impacting current project status and forecasted operating and financial results.

Exploration assets are also assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Indications of impairment are assessed by the Company on a quarterly basis.

### **(g) Property and equipment**

All costs directly associated with the acquisition and development of petroleum properties are capitalized and measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include transfers of exploration assets, property acquisitions, facilities, directly attributable overhead and share-based compensation expenses, as well as land acquisition, decommissioning obligations, geological and geophysical, and drilling and completion costs. Routine repairs and maintenance costs are charged to earnings during the period in which they are incurred.

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Petroleum assets are accumulated in cost centres based on CGUs. CGUs are depleted using the unit-of-production method based upon estimated gross proved plus probable reserves, determined annually by independent professional engineers. Estimated future development costs necessary to bring the reserves into production are included in the depletion calculation.

The Company operates under numerous production and exploration leases with varying expiry dates. Under its leases with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"), the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment testing and depletion purposes, the Company assumes that all relevant agreements will be renewed under similar terms based on the Company's previous experience with the renewal process in Trinidad.

Other property and equipment assets are depreciated over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis. Depreciation methods, useful lives and residual values are reviewed at least annually.

Gains or losses on the disposition of an item in property and equipment, including petroleum properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in earnings.

Property and equipment balances are tested for impairment when indications of impairment exist. Indications of impairment are assessed by the Company on a quarterly basis.

### **(h) Impairment of non-financial assets**

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If the recoverable amount is less than the carrying value, the asset is considered to be impaired. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs. The Company assesses exploration asset and property and equipment indicators of impairment on a quarterly basis.

In assessing value in use, estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and 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 proven plus probable reserves. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. Available fair value indicators, such as recent market information and appropriately discounted cash flow valuation models, are typically used in determining fair value less costs to sell.

Impairment losses are recognized in earnings. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in facts and circumstances used to determine the asset's recoverable amount since the last impairment was recognized, such that the impairment no longer exists or has decreased. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment has been recognized.

### **(i) Assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the

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sale to be highly probable, Management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, and the sale should be expected to be completed within one year from the date of classification.

Immediately before the non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and fair value less costs of disposal, with any impairment loss or reversal of impairment recognized in earnings. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

### **(j) Dispositions**

Gains on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount of the assets held for sale and are recognized separately in earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured. Where the exchange is measured at fair value, a gain or loss is recognized in earnings.

### **(k) Restricted cash and cash equivalents**

Restricted cash and cash equivalents include restricted cash on hand, market deposits or similar type instruments with an original maturity of three months or less when purchased. The Company's restricted cash and cash equivalents are held to collateralize bonds and letters of credit that provide credit support in respect of Trinidad exploration and development licence future work commitments. Balances are classified as long-term assets if the funds collateralize work commitments that are expected to occur after one year.

### **(l) Lease arrangements**

When it is determined that an arrangement contains a lease, the Company classifies the lease as either a financing lease or operating lease. Financing leases are those which will transfer substantially all the benefits and risks of ownership to the lessee.

When the Company is a lessee, assets acquired under financing leases are depleted and depreciated with property and equipment. Obligations recorded under financing leases are reduced by the principal as incurred, and the imputed interest portion of financing lease payments is charged to interest expense. Payments under operating leases are expensed as incurred.

Where the Company is the lessor in an arrangement classified a finance lease, the Company records the short-term portion of the finance lease in accounts receivable and the long-term portion in other assets. Finance income related to the lease is recognized using an approach that equals a constant rate of return on the net investment of the lease. The net investment of the lease is the aggregate of the net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in earnings over the lease term.

### **(m) 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 is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are measured using the best estimate of the expenditure required to settle the obligation.

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### **(n) Term loan and associated liabilities**

At inception, the debt instrument was determined to be comprised of two components: the term loan and the production payment obligation.

The term loan was initially measured at fair value, net of all transaction fees. The term loan is subsequently recognized as other financial liabilities measured at amortized cost using the effective interest rate method. The discount on the term loan is unwound using the effective interest rate method to the face value at maturity and is expensed to accretion.

The production payment liability is measured at fair value at each financial reporting date using internal forecasts of future production and forward commodity strip pricing. The liability is reduced by future amounts paid. Once the liability is reduced to \$nil, any subsequent amounts paid are recorded as finance expenses in the period incurred.

### **(o) Decommissioning obligations and abandonment fund**

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property and equipment incurred upon the acquisition, construction, development and use of the asset. The initial liability is measured at the discounted value of the estimated costs to reclaim and abandon using a risk-free rate, subsequently adjusted for the accretion of discount and changes in expected costs. The decommissioning cost is capitalized in the relevant asset category. Costs capitalized to property and equipment are depleted into earnings based upon the unit-of-production method consistent with the underlying assets. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

Pursuant to production and exploration licences with both Petrotrin and the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI"), the Company is obligated to remit payments into abandonment funds based on production. The abandonment fund obligations are determined based on cumulative crude oil sales. As these funds are effectively a reimbursement right, there is no associated reduction to the decommissioning liability. Accrued obligations are recorded as a long-term asset as the funds will be used for the future abandonment of wells in the licenced area.

With respect to decommissioning obligations associated with the Company's leases with Petrotrin, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a well site in comparison to the well's cumulative historical production. The Company is not responsible for the decommissioning of existing infrastructure and sales facilities. The Company is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum operations conducted on its MEEI and private production and exploration agreements.

### **(p) Revenue recognition**

Revenue from the sale of crude oil is recognized when delivery of the product has been completed and when legal title passes to an external party. Revenue is measured at the fair value of the consideration received or receivable.

### **(q) Share-based compensation**

The Company grants share options and incentive share options to certain employees, officers and directors. The grant date fair values, as measured using the Black-Scholes option-pricing model, are recognized over the vesting periods of the awards, with a corresponding increase in contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of

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options that vest. When share options are exercised, the consideration received and the associated amounts previously recorded as contributed surplus are reclassified to shareholder's capital.

### **(r) Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case the related income tax is also recognized in equity.

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

Deferred tax is recognized using the statement of financial position 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 measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the financial position 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 the Company intends to settle current tax liabilities and assets on a net basis, or the tax assets and liabilities will be realized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is neither a business combination nor an event resulting in income or expense. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### **(s) Per share information**

Basic earnings per share amounts are calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net earnings and the weighted average number of common shares outstanding using the treasury stock method for the effects of dilutive instruments including outstanding share options, incentive share options and common share purchase warrants.

### **(t) Segment reporting**

Effective January 1, 2017, the Company's operations were viewed as a single operating segment by the chief operating decision makers of the Company for the purposes of resource allocation and assessing operational performance. Accordingly, certain reclassification adjustments have been made to the comparative period to conform to the current presentation.

## **4. Changes in Accounting Policies**

### **(a) Accounting standards adopted**

There were no new or amended accounting standards or interpretations adopted by the Company during the year ended December 31, 2017.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

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### **(b) Standards issued but not yet adopted**

A number of accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2018 have not been applied in preparing the consolidated financial statements for the year ended December 31, 2017 as described below.

#### ***Revenue Recognition***

IFRS 15 *Revenue from Contracts with Customers* provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15 will be applied by the Company on January 1, 2018. The impact of the standard is currently being evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosures will be required upon implementation to provide sufficient information to enable users to understand the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers.

#### ***Financial Instruments***

IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a company can recognize the portion of the change in fair value related to the change in the company's own credit risk through other comprehensive income rather than in earnings. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company will adopt IFRS 9 on a retrospective basis on January 1, 2018. The Company has determined there will not be any material changes in the measurement and carrying values of the Company's financial instruments upon the adoption of IFRS 9.

#### ***Leases***

IFRS 16 *Leases* replaces IAS 17 *Leases* and requires entities to recognize lease assets and lease obligations on the statement of financial position. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.



## Notes to the Consolidated Financial Statements

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The Company plans to apply IFRS 16 on January 1, 2019 and is currently evaluating the impact of the standard on its financial statements. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on the Company's consolidated statements of financial position.

### 5. Use of Estimates, Judgements and Assumptions

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. Estimates and underlying assumptions are reviewed on an ongoing basis, and any revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates and judgements made by Management in the preparation of these consolidated financial statements are outlined below.

#### (a) Fair value of financial instruments

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward commodity prices, foreign exchange rates and interest rates, volatility curves and risk of non-performance. Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of financial derivatives was based on fair values provided by counterparties with whom the transactions were completed. By their nature, these estimates and assumptions were subject to measurement uncertainty.

#### (b) Crude oil reserves, recoverability of asset carrying values and depletion

The amounts recorded for exploration assets, property and equipment, depletion and depreciation and impairment testing are based on estimates of proven and probable reserves, production rates, future oil prices, future costs, future foreign exchange rates and other relevant assumptions. All the Company's petroleum reserves are evaluated and reported by independent engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101.

There are a number of inherent uncertainties associated with estimating reserves and resources. Reserve and resource estimates are based on engineering data, estimated future prices, expected future rates of production and the timing and amount of future expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2017, which could differ significantly from other points in time throughout the year or in future periods. Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves. Changes in the economic environment could result in significant changes to the discount rate used to calculate net present values. Changes in reserves impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property and equipment for impairment calculations.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

### (c) Determination of cash-generating units

Determination of what constitutes a CGU is subject to the judgement of Management. The recoverability of development and production asset carrying values are assessed at the CGU level, and the asset composition of a CGU can directly impact the recoverability of the assets included therein. Furthermore, the transfer of exploration assets to property and equipment is based on Management's judgement of technical feasibility and commercial viability.

### (d) Decommissioning obligations

The provision for decommissioning obligations is based on numerous assumptions and judgements including the ultimate settlement amounts, historical production volumes, inflation factors, risk free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing decommissioning obligation, a corresponding adjustment is made to the property and equipment balance.

### (e) Share-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share option awards is typically measured by reference to the five-day weighted average trading price of the common shares on the TSX prior to the date of grant. The fair value of share options is measured using a Black-Scholes option pricing model. Measurement inputs include weighted average share prices prior to the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Government of Canada bonds).

### (f) Income taxes

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and earnings.

## 6. Exploration Assets

The following table is a continuity schedule of the Company's exploration assets for the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 1,858</b>	<b>\$ 1,654</b>
Additions	1,240	4,076
Dispositions	-	(60)
Impairments (note 8)	(871)	(5,040)
Transfer from held for sale (note 8)	-	1,413
Effect of change in foreign exchange rates	(143)	(185)
<b>Balance, end of year</b>	<b>\$ 2,084</b>	<b>\$ 1,858</b>

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

During the year ended December 31, 2017, \$57,000 (2016 - \$206,000) of general and administrative expenses were capitalized to exploration assets.

### 7. Property and Equipment

The following table is a continuity schedule of the Company's property and equipment for the years ended December 31, 2017 and 2016:

	Petroleum assets	Corporate assets	Total
<b>Cost:</b>			
<b>Balance, January 1, 2016</b>	<b>\$ 166,653</b>	<b>\$ 7,221</b>	<b>\$ 173,874</b>
Additions	4,471	138	4,609
Dispositions	-	(5,011)	(5,011)
Effect of change in foreign exchange rates	(12,204)	-	(12,204)
<b>Balance, December 31, 2016</b>	<b>\$ 158,920</b>	<b>\$ 2,348</b>	<b>\$ 161,268</b>
Additions	7,011	112	7,123
Dispositions (note 10)	(2,897)	-	(2,897)
Effect of change in foreign exchange rates	(11,298)	-	(11,298)
<b>Balance, December 31, 2017</b>	<b>\$ 151,736</b>	<b>\$ 2,460</b>	<b>\$ 154,196</b>
<b>Accumulated depletion, depreciation and impairments:</b>			
<b>Balance, January 1, 2016</b>	<b>\$ 102,064</b>	<b>\$ 1,720</b>	<b>\$ 103,784</b>
Depletion and depreciation	4,852	190	5,042
Impairments (note 8)	47	-	47
Dispositions	-	(144)	(144)
Decommissioning obligation change in estimate (note 12)	349	-	349
Effect of change in foreign exchange rates	(7,471)	-	(7,471)
<b>Balance, December 31, 2016</b>	<b>\$ 99,841</b>	<b>\$ 1,766</b>	<b>\$ 101,607</b>
Depletion and depreciation	4,235	180	4,415
Impairment recoveries (note 8)	(8,557)	-	(8,557)
Dispositions (note 10)	(1,912)	-	(1,912)
Decommissioning obligation change in estimate (note 12)	2,736	-	2,736
Effect of change in foreign exchange rates	(6,944)	-	(6,944)
<b>Balance, December 31, 2017</b>	<b>\$ 89,399</b>	<b>\$ 1,946</b>	<b>\$ 91,345</b>
<b>Net book value:</b>			
Balance, December 31, 2016	\$ 59,079	\$ 582	\$ 59,661
<b>Balance, December 31, 2017</b>	<b>62,337</b>	<b>514</b>	<b>62,851</b>

As at December 31, 2017, \$85,287,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2016 - \$70,870,000). During the year ended December 31, 2017, \$1,021,000 and \$28,000 in general and administrative expenses and share-based compensation expenses were capitalized to property and equipment, respectively (2016 - \$1,010,000 and \$57,000).

In February 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs. The Company received cash proceeds of \$650,000 and 35,000 non-voting preferred shares of the purchaser which were subsequently impaired (see note 8).

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

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### ***Lease operatorship agreements***

The Company's Lease Operating Agreements ("LOAs") in respect of its four core properties (Coora 1, Coora 2, WD-4 and WD-8) with Petrotrin expire on December 31, 2020, with the Company holding a five-year renewal option upon reaching agreement regarding the proposed work program and financial obligations. The practice in Trinidad is for extensions to be issued in most cases on terms substantially similar to those in effect at the time. Presently, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020 (see note 19). Under the LOAs, failing to reach minimum production levels does not constitute a breach provided the minimum work obligations have been completed.

In 2016, the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 1, Coora 2 and WD-8 LOAs or the minimum work obligations specified in the WD-4 LOA. The Company fulfilled its 2016 and 2017 work commitments on its Coora 1 and WD-4 properties by drilling four approved wells in 2017.

In 2017, the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 2 and WD-8 LOAs. Subsequent to December 31, 2017, the Company received all necessary approvals to drill two well locations on Coora 2 and two well locations on WD-8. Drilling commenced on March 16, 2018. Upon completion of the four wells, all 2016 through 2017 associated work commitments will be satisfied on the two properties.

The minimum work obligations are set out on a "period basis" rather than on an annual basis. The period is defined as five years. The way in which the term "Work Obligation" is defined in the LOAs is ambiguous, and it is not clear whether the obligations must be satisfied each year (i.e. on an annual basis) or whether the obligations only need to be completed within the period (i.e. whether the obligations may be deferred from one year into the next year, provided that the obligations are ultimately completed prior to the last year in the period). The practice of Petrotrin has been to audit the work obligations and, in the event that they have not been satisfied, request that the operator submit a plan for the completion of the obligations. Although the LOAs provide that the minimum production levels and work obligations are to be achieved on a best endeavors basis, the LOAs also describe the failure to achieve the minimum production levels or the failure to complete the work obligations as potentially constituting a material breach of the LOAs.

### ***Exploration and production licences***

The Company's Fyzabad and Palo Seco exploration and production agreements with the MEEI contain no major work obligations or covenants but both expired on August 19, 2013. The Company is currently negotiating licence renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licences will not be renewed.

During the year ended December 31, 2017, production volumes produced under expired MEEI production licences represented 4.5% of total production (2016 – 5.4%). As at December 31, 2017, the net book value of the properties operating under expired MEEI production licences was approximately \$1,866,000, representing 3.0% of the Company's property and equipment balance (2016 – \$3,364,000 and 5.6%, respectively).

### ***Private lease agreements***

The Company is operating under a number of private lease agreements which have expired and are currently being renewed. Based on legal opinions received, the Company is continuing to recognize revenue on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the revenue has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The

## Notes to the Consolidated Financial Statements

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continuation of production from expired private leases during the renegotiation process is common in Trinidad. During the year ended December 31, 2017, production volumes produced under expired private lease agreements represented 3.0% of total production (2016 – 2.8%).

### 8. Impairments

#### (a) Exploration asset impairments

Exploration asset impairments for the years ended December 31, 2017 and 2016 by CGU were as follows:

CGU	Year ended December 31,	
	2017	2016
Cory Moruga	\$ -	\$ 241
East Brighton	667	4,334
Corporate	39	465
<b>Exploration asset impairments</b>	<b>\$ 706</b>	<b>\$ 5,040</b>

#### 2017 Impairments

During the year ended December 31, 2017, the Company impaired \$667,000 relating to its East Brighton property given its estimated recoverable value was \$nil. 2017 additions were mainly accrued lease expenses and letter of credit holding costs. An additional \$39,000 in corporate exploration property lease expenses were incurred and impaired during the year ended December 31, 2017, as the Company has no further plans to develop the properties.

The Company's net book value and recoverable amounts for each exploration asset CGU tested as at December 31, 2017 were as follows:

CGU	Net book value	Recoverable value
Cory Moruga	\$ -	\$ -
East Brighton	-	-
Ortoire	2,084	2,084
Various - Corporate	-	-
<b>Total</b>	<b>\$ 2,084</b>	<b>\$ 2,084</b>

#### 2016 Impairments

During the year ended December 31, 2016, the following exploration asset impairment charges were recognized:

- The Company incurred \$241,000 in partner expenses related to the non-operated Cory Moruga property. The expenses were impaired as the estimated recoverable amount of the property was \$nil.
- The Company incurred \$4,334,000 of East Brighton property expenses which were impaired as the estimated recoverable amount of the asset was less than the corresponding carrying amount. The property, which was classified as held for sale at December 31, 2015, was no longer classified as held for sale at December 31, 2016 as the transaction failed to close. The Company revalued its decommissioning liability and incurred lease payments and letter of credit holding costs in relation to the property which resulted in additional impairments recorded in the year.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

- The Company identified indicators of impairment on its corporate exploration assets due to potential decreased undeveloped land fair values and minimal capital development activity incurred in 2016. The Company performed impairment tests which resulted in total charges of \$465,000. All CGUs had a fair value assessment of \$nil as the Company had no further plans to develop the properties.

### **Impairment Assumptions**

In estimating the recoverable amount of each exploration asset CGU, the fair value of land was internally estimated by Management based upon recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU. Furthermore, Management factored in future development plans and lease expiries into the relevant CGU assessment.

### **(b) Property and equipment impairments**

The carrying amounts of the Company's property and equipment assets are reviewed at each reporting date to determine whether there are any indications of impairment or reversal of previous impairments. Property and equipment impairments for the years ended December 31, 2017 and 2016 consisted of the following (recoveries) charges:

CGU	Year ended December 31,	
	2017	2016
Coora	\$ (7,190)	\$ 1,200
WD-4	(1,370)	35
WD-8	-	(3,823)
New Dome	-	246
South Palo Seco	3	1
Barrackpore	-	879
Fyzabad	-	1,148
San Francique	-	361
Corporate	-	250
<b>Property and equipment impairments</b>	<b>\$ (8,557)</b>	<b>\$ 297</b>

### **2017 Impairments**

Based on the results of the Company's December 31, 2017 evaluation of potential impairment or related reversals, indicators of impairment reversals were identified for the Company's Coora and WD-4 properties. The results of 2017 drilling and increased drilling locations, capital expenditures and corresponding cash flows from the reserve report and operating costs reductions were deemed to be the primary triggers indicating impairment reversals. The Company performed impairment calculations using the value in use method (level 3 inputs). As a result, impairment recoveries of \$7,190,000 and \$1,370,000 were recorded relating to the Company's Coora CGU and WD-4 CGU during the year ended December 31, 2017, respectively.

Additionally, the Company completed an impairment review of its South Palo Seco development CGU based on no future reserves associated with the property as at December 31, 2017. The recoverable amount was estimated using value in use (level 3 inputs) and was determined to be \$nil for these assets. An impairment charge of \$3,000 was recorded for the year ended December 31, 2017.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

The Company's net book value and recoverable amounts for each property and equipment CGU tested as at December 31, 2017 were as follows:

<b>CGU</b>	<b>Net book value</b>	<b>Recoverable value</b>
Coora	\$ 19,794	\$ 19,794
WD-4	15,938	15,938
South Palo Seco	-	-
<b>Total</b>	<b>\$ 35,732</b>	<b>\$ 35,732</b>

### **2016 Impairments**

The Company evaluated its Trinidad development and production assets for indicators of any potential impairment or related reversal on December 31, 2016. Based on the continued low oil price environment and operating cost efficiencies achieved in 2016, impairment tests were performed on all CGUs, resulting in net charges of \$47,000.

In addition, the Company initially recorded a \$250,000 preferred share conversion receivable relating to the sale of its Kerrobert property which closed in February 2016. The asset was subsequently written to a fair value of \$nil as the purchaser entered creditor protection, resulting in an impairment expense of \$250,000.

### **Impairment Assumptions**

The recoverable amounts of the Company's property and equipment CGUs as at December 31, 2017 were estimated based on value in use calculations using discounted after-tax cash flows derived from the Company's proved developed producing reserves in 2018 and 2019 and proved plus probable oil reserves thereafter as estimated by the Company's independent reserve evaluator as at December 31, 2017. The Company used the same approach for its tests as at December 31, 2016. The reserve evaluation was based on an estimated reserve life up to a maximum of 50 years. Key input estimates used in the determination of cash flows from oil and gas reserves included the following:

- Production and reserves – Management engaged external reserve evaluators to review the Company's internal estimates of volume and the value of proved and probable reserves in each CGU based upon production history, geological data and analysis. The data generated for each CGU took into consideration the development plans approved by Management and reasonable assumptions that a market participant would apply in establishing a development plan for the assets.
- Royalty rates, operating costs, general and administrative costs, income tax expenses and future development capital – estimates were based on historical results and Management's views regarding inflation over the forecast periods. Income tax rates were based on the published statutory income tax rates for the appropriate cash flow streams.
- Discount rate – the discount rate used to calculate the net present value of cash flows was based on estimates of an approximate industry peer group weighted average cost of capital, which factors in debt and equity weightings of comparable corporations. Changes in the general economic environment could result in significant changes to this estimate.

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The estimated recoverable amounts were based on value in use calculations using an after-tax discount rate of 20% (2016 – 20%), and the following forward commodity price, foreign exchange and inflation rate forecasts by the Company's independent reserves evaluator as at January 1, 2018:

Forecast Year	NYMEX WTI at Cushing, Oklahoma (US\$/bbl) <sup>(1)</sup>	Brent Blend FOB North Sea (US\$/bbl) <sup>(1)</sup>	Inflation Rate (%/year) <sup>(2)</sup>	US\$/C\$ Exchange Rate
2018	59.00	65.50	2.0	0.79
2019	59.00	63.50	2.0	0.79
2020	60.00	63.00	2.0	0.80
2021	63.00	66.00	2.0	0.81
2022	66.00	69.00	2.0	0.82
2023	69.00	72.00	2.0	0.83
2024	72.00	75.00	2.0	0.83
2025	75.00	78.00	2.0	0.83
2026	77.33	80.33	2.0	0.83
2027	78.88	81.88	2.0	0.83
Thereafter % change per year	2.0%	2.0%	Nil	Nil

Notes:

(1) This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer. Product sales prices will reflect these reference prices with further adjustments for quality differentials and transportation to point of sale.

(2) Inflation rates for forecasting pricing and costs.

The following table demonstrates the effect of the assumed discount rate and the effect of forward realized price estimates on impairment recoveries for the Coora and WD-4 CGUs recorded during the year ended December 31, 2017. The sensitivity was based on a one per cent increase and a one per cent decrease in the assumed discount rate and a five per cent increase and a five per cent decrease in the estimated realized crude oil price.

CGU	Increase in discount rate of 1%	Decrease in discount rate of 1%	Increase in crude oil prices of 5%	Decrease in crude oil prices of 5%
Coora	\$ (1,213)	\$ 1,325	\$ 2,909	\$ (2,911)
WD-4	(1,138)	1,249	2,763	(2,782)
<b>Impairment recovery (decrease) increase</b>	<b>\$ (2,351)</b>	<b>\$ 2,574</b>	<b>\$ 5,672</b>	<b>\$ (5,693)</b>

### 9. Restricted Cash and Cash Equivalents

As at December 31, 2017, the Company had cash collateralized bonds totaling US\$299,000 related to its work commitments on its Petrotrin concessions.

The Company has provided the MEEI with a US\$2,150,000 guarantee in the form of a letter of credit to support exploration work commitments under its East Brighton block. Export Development Canada ("EDC") has provided a performance security guarantee to support the full value of the letter of credit issued by the Company. The letter of credit may be reduced from time to time to reflect any work performed on the block.



## Notes to the Consolidated Financial Statements

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A reconciliation of the long-term restricted cash and cash equivalents balance is set forth below:

	US\$	\$
<b>Balance, January 1, 2016</b>	\$ -	\$ -
Additions	6,299	8,457
Interest	2	3
Effect of change in foreign exchange rates	-	1
<b>Balance, December 31, 2016</b>	<b>\$ 6,301</b>	<b>\$ 8,461</b>
Letter of credit reduction	(3,858)	(5,144)
Release of cash collateral	(2,165)	(2,754)
Interest	21	27
Effect of change in foreign exchange rates	-	(214)
<b>Balance, December 31, 2017</b>	<b>\$ 299</b>	<b>\$ 376</b>

In March 2017, the Company received approval to reduce the former cash collateralized letter of credit issued to the MEEI in connection with the East Brighton property from US\$6,000,000 to US\$2,150,000.

In November 2017, EDC provided the Company's bank with a performance security guarantee to support the full amount of the Company's East Brighton letter of credit, thereby releasing US\$2,150,000 plus earned interest to the Company.

### 10. Other Assets

Effective October 1, 2017, the Company entered into a five-year, US\$1,836,000 contractual agreement to lease its four service rigs and ancillary equipment to a third party. The lease arrangement also included the Company's coil tubing unit that was previously leased to the same party on May 1, 2015. The lease bears a fixed interest rate of 8% per annum, compounded and payable monthly. Principal payments commence in January 2018, and the Company continues to hold title to the assets until all principal and associated interest payments have been collected.

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. The \$985,000 carrying value of the service rigs was reclassified from property and equipment to other assets on the statement of financial position. A gain of \$343,000 was recorded in connection with the transaction.

The Company's net investment in the finance lease receivable as at December 31, 2017 and 2016 were as follows:

	Year ended December 31,	
	2017	2016
<b>Net investment in finance lease:</b>		
Gross investment in finance lease receivable	\$ 2,795	\$ 1,256
Unearned finance income	(487)	(196)
<b>Present value of minimum lease payments receivable</b>	<b>\$ 2,308</b>	<b>\$ 1,060</b>
Current (included in accounts receivable)	491	274
Non-current (included in other assets)	1,817	786
<b>Finance lease receivable</b>	<b>\$ 2,308</b>	<b>\$ 1,060</b>

In addition to the long-term portion of the finance lease receivable, the Company has prepaid expenses and deposits of \$52,000 (2016 – \$87,000) included in other assets that are considered long-term in nature.

## Notes to the Consolidated Financial Statements

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### 11. Term Loan and Associated Liabilities

On November 23, 2016, the Company completed an arrangement for a \$15,000,000, five-year term loan from a Canadian investment fund. The term loan replaced the Company's former bank loan, which was discharged.

The term loan matures on November 23, 2021, with no mandatory repayment of principal until January 1, 2019. The Company is required to repay \$810,000 per quarter commencing on January 1, 2019 through October 1, 2021, and the then outstanding principal balance is repayable on the maturity date. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly.

In connection with the term loan, the Company granted the lender a production payment equal to 1% of total petroleum sales from then current Company land holdings in Trinidad. The production payments are payable on a quarterly basis until October 31, 2021 regardless of any repayment or prepayment of the term loan. The Company may prepay any principal portion of the term loan after May 23, 2018 and has the option to negotiate a buyout of the future production payment obligations if the term loan balance is prepaid in full. The term loan and the Company's obligations in respect of the production payment are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The Company and lender executed a First Amending Agreement to the Credit Agreement on May 15, 2017. The amendment further clarified certain of the Company's positive financial covenants included in the term loan agreement to provide greater compliance flexibility to the Company.

At inception, the debt instrument was determined to be comprised of two components: the term loan and the production payment obligation.

The term loan was initially measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan balance less transaction costs is unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings.

The production payment obligation was initially measured at fair value, based on estimated future production and pricing at the inception of the loan and a discount rate of 15%. The obligation was revalued at December 31, 2017 based on estimated future production and updated forward crude oil pricing discounted by 15%, resulting in a revaluation loss of \$166,000.

The fair value of the term loan and production payment obligation were determined using inputs that would be considered Level 3 within the fair value hierarchy.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

The following is a continuity schedule of the term loan and associated liabilities balance from inception to December 31, 2017:

	Term loan liability	Production payment liability	Total
<b>Balance, November 23, 2016</b>	\$ 13,132	\$ 1,247	\$ 14,379
Accretion	164	-	164
Payments / transfers to accounts payable	-	(47)	(47)
<b>Balance, December 31, 2016</b>	\$ 13,296	\$ 1,200	\$ 14,496
Revaluation loss	-	166	166
Accretion	550	-	550
Payments / transfers to accounts payable	-	(319)	(319)
<b>Balance, December 31, 2017</b>	\$ 13,846	\$ 1,047	\$ 14,893
Current (included in accounts payable)	-	261	261
Non-current	13,846	786	14,632
<b>Term loan and associated liabilities</b>	\$ 13,846	\$ 1,047	\$ 14,893

The term loan arrangement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at December 31, 2017 were as follows:

Covenant	Covenant threshold	Year ended December 31, 2017
Cash reserves (\$000's)	> 5,000	13,920
Net funded debt to equity ratio <sup>(2)</sup>	< 0.50 times	0.04 times <sup>(1)</sup>
Net funded debt to EBITDA ratio <sup>(3)</sup>	< 2.50 times	0.20 times <sup>(1)</sup>

Notes:

- (1) Estimated position subject to final approval by the lender.
- (2) Net funded debt is defined as interest-bearing debt less cash reserves. Equity is defined as book value of shareholders' equity less accumulated other comprehensive income (loss).
- (3) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined as net earnings before interest, income taxes and non-cash items.

## 12. Decommissioning Obligations and Abandonment Fund

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal and land reclamation based on current environmental regulations. The total decommissioning obligation is estimated by Management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods.

Pursuant to certain production and exploration licences, the Company is obligated to remit payments into an abandonment fund based on production. The Company remits US\$0.25 per barrel of crude oil sold, and the funds will be used for the future abandonment of wells in the related licenced area. As of December 31, 2017, the Company classified \$1,049,000 of accrued or paid fund contributions as long-term abandonment fund assets (2016 - \$697,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning obligations to be \$11,853,000 at December 31, 2017 (2016 - \$16,783,000) based on an inflation adjusted future liability of \$39,193,000 (2016 - \$68,580,000). Payments to

## Notes to the Consolidated Financial Statements

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settle the obligations occur over the operating lives of the underlying assets, estimated to be from four to 45 years, with the majority of the costs to be incurred subsequent to 2042. The obligations are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement. The following table summarizes the Company's decommissioning obligation provision:

	Year ended December 31,	
	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 16,783</b>	<b>\$ 16,987</b>
Dispositions	-	(4,028)
Liabilities incurred	148	1
Accretion expense	154	378
Revision to estimates	(4,133)	4,367
Effect of change in foreign exchange rates	(1,099)	(922)
<b>Balance, end of year</b>	<b>\$ 11,853</b>	<b>\$ 16,783</b>

In 2017, the Company incurred decommissioning liabilities of \$148,000 primarily based on the drilling of four wells. A further increase in Petrotrin related decommissioning obligations was driven by 2017 production, which increased the Company's proportionate interest in future well abandonments.

At December 31, 2017, decommissioning obligations were revalued using an adjusted long-term risk-free rate of 6.1% and an adjusted long-term inflation rate of 3.3%, which represented a 0.3% increase and a 1.5% decrease from previous estimates, respectively. The revisions in estimates resulted in a net decrease to the estimated liability of \$4,133,000 (2016 – increase of \$4,367,000).

In February 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU. Through the disposition, the Company extinguished its associated decommissioning liability carrying value \$4,028,000.

### 13. Shareholders' Capital

#### (a) Issued and outstanding common shares

The Company has authorized an unlimited number of voting common shares without nominal or par value. The following table is a continuity schedule of the Company's common shares outstanding and shareholders' capital for the years ended December 31, 2017 and 2016:

	Number of shares	Amount (\$000's)
<b>Balance, January 1, 2016</b>	<b>83,087,143</b>	<b>\$ 169,950</b>
Exercise of incentive share options	50,000	45
<b>Balance, December 31, 2016</b>	<b>83,137,143</b>	<b>\$ 169,995</b>
Issued pursuant to June 26, 2017 private placement	20,000,000	777
Issued pursuant to December 22, 2017 private placement	25,784,285	4,552
Share-based settlements	100,000	89
Accumulated deficit elimination	-	(148,270)
<b>Balance, December 31, 2017</b>	<b>129,021,428</b>	<b>\$ 27,143</b>

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

### (b) Private placements

On June 26, 2017, the Company completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the AIM admission, the Company placed an additional 20,000,000 common shares at a price of 7.25 pence (\$0.12) for gross proceeds of £1,450,000 (\$2,446,000). Fees incurred from the private placement were \$1,669,000, which included brokerage commissions and legal, accounting and corporate finance advisory fees. Net proceeds of the private placement were \$777,000.

On December 22, 2017, the Company completed an additional private placement, whereby gross proceeds of £2,965,000 (\$5,052,000) were raised by way of a placing of 25,784,285 new common shares at a price of 11.5 pence (\$0.20) per common share. Fees incurred from the private placement were \$500,000, resulting in net proceeds of \$4,552,000.

All common shares issued by the Company pursuant to the December 22, 2017 offering are freely transferable outside of Canada; however, these common shares are subject to a four-month restricted hold period in Canada which will prevent such common shares from being resold in Canada, through a Canadian exchange or otherwise, during the restricted period without an exemption from the Canadian prospectus requirement. The restriction period expires on April 23, 2018.

### (c) Share options and incentive share options

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the closing price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding common shares. The following table summarizes the share options outstanding at the end of the respective periods:

	Number of share options	Weighted average exercise price
<b>Outstanding, January 1, 2016</b>	<b>5,308,445</b>	<b>\$ 0.75</b>
Granted	1,578,800	0.23
Forfeited	(1,245,205)	0.72
<b>Outstanding, December 31, 2016</b>	<b>5,642,040</b>	<b>\$ 0.61</b>
Granted	1,558,800	0.15
Forfeited	(330,000)	0.72
<b>Outstanding, December 31, 2017</b>	<b>6,870,840</b>	<b>\$ 0.50</b>
<b>Exercisable, December 31, 2017</b>	<b>3,919,112</b>	<b>0.72</b>

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

Share options outstanding and the weighted average remaining life of the share options as at December 31, 2017 were as follows:

Exercise price	Options outstanding	Weighted avg. remaining life	Options exercisable	Weighted avg. remaining life
\$0.14 to \$0.23	2,942,100	3.9 years	461,102	3.5 years
\$0.33	1,412,200	2.3 years	941,470	2.3 years
\$0.59 to \$0.97	2,344,040	1.5 years	2,344,040	1.5 years
\$2.10	172,500	1.7 years	172,500	1.7 years
<b>\$0.14 to \$2.10</b>	<b>6,870,840</b>	<b>2.7 years</b>	<b>3,919,112</b>	<b>1.9 years</b>

The weighted average fair value of share options granted during the year ended December 31, 2017 was \$0.08 per option (2016 – \$0.13 per option) as estimated on the date of each grant using the Black-Scholes option pricing model. The weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted were as follows:

	Year ended December 31,	
	2017	2016
Risk-free interest rate	1.0%	0.5%
Expected life (years)	3.0	3.0
Expected volatility	86.7%	87.5%
Expected annual dividend yield	0.0%	0.0%
Forfeiture rate	5.0%	5.0%

The Company has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a \$0.05 exercise price. A maximum of two million incentive shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant. The following table summarizes the incentive share options outstanding at the end of the respective periods:

	Number of incentive share options	Weighted average exercise price
<b>Outstanding, January 1, 2016</b>	<b>298,125</b>	<b>\$ 0.06</b>
Exercised	(50,000)	0.05
Forfeited	(120,625)	0.06
<b>Outstanding, December 31, 2016</b>	<b>127,500</b>	<b>\$ 0.06</b>
Exercised	(100,000)	0.05
Forfeited	(12,500)	0.10
<b>Outstanding and exercisable, December 31, 2017</b>	<b>15,000</b>	<b>\$ 0.10</b>

The 15,000 incentive share options outstanding and exercisable on December 31, 2017 had an exercise price of \$0.10 and a weighted average remaining life of 2.0 years.

During the year ended December 31, 2017, the Company recorded share-based compensation expenses of \$165,000 (2016 – \$157,000) as a result of the vesting of outstanding share and incentive share options.

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

### (d) Deficit balance elimination

A special resolution was approved by the Company's shareholders on June 19, 2017 approving the reduction of the stated capital of the Company's common shares by an aggregated amount of up to \$150,000,000 without any such payments on the reduction on such date as may be determined by the Board of Directors.

The resolution was partially implemented as of November 30, 2017, as \$148,270,000 of the Company's accumulated deficit balance was eliminated by reducing the stated capital of the common shares.

### 14. Net Finance Expenses

The following table summarizes net finance expenses recorded during the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	2016
Interest income	\$ (112)	\$ (115)
Interest expense on bank loan	-	83
Interest expense on term loan	1,200	128
Production payment liability revaluation loss	166	-
Interest expense (recovery) on income taxes	602	(132)
Finance fees and other	-	266
<b>Net finance expenses</b>	<b>\$ 1,856</b>	<b>\$ 230</b>

### 15. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2017 and 2016 was a combined rate of 55% of taxable income. The following is a reconciliation of income taxes calculated by applying the applicable statutory rates to net loss before income taxes:

	Year ended December 31,	
	2017	2016
Net earnings (loss) before income taxes	\$ 5,579	\$ (12,633)
Statutory rate	55.00%	55.00%
Expected income tax expense (recovery)	\$ 3,068	\$ (6,948)
Increase (decrease) in income taxes resulting from:		
Supplemental petroleum tax	284	-
Deductible supplemental petroleum tax	(156)	-
Benefit of tax assets not recognized	201	5,343
Tax rate differential	1,569	1,669
Prior period adjustments and other	1,560	156
<b>Income tax expense</b>	<b>\$ 6,526</b>	<b>\$ 220</b>

## Notes to the Consolidated Financial Statements

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The net deferred income tax liability relates to the Company's Trinidad operations. The components of the liability for the years ended December 31, 2017 and 2016 were as follows:

	Balance, December 31, 2016	Recognized in equity	Recognized in net earnings	Balance, December 31, 2017
Property and equipment	\$ (21,899)	\$ -	\$ (5,491)	\$ (27,390)
Decommissioning obligation	6,997	-	(541)	6,456
PPT loss carry forwards	9,218	-	478	9,696
Other	939	-	19	958
<b>Net deferred income tax liability</b>	<b>\$ (4,745)</b>	<b>\$ -</b>	<b>\$ (5,535)</b>	<b>\$ (10,280)</b>

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

	December 31, 2017	December 31, 2016
Property and equipment and exploration assets	\$ (9,958)	\$ 1,045
Loss carry forwards	104,986	101,861
Decommissioning obligations	10,897	4,061
Other	14,102	11,994
<b>Unrecognized deductible temporary differences</b>	<b>\$ 120,027</b>	<b>\$ 118,961</b>

At December 31, 2017, the Company had approximately \$29,431,000 and \$2,050,000 (2016 - \$27,663,000 and \$1,772,000) in Trinidadian PPT and corporate tax losses respectively which may be carried forward indefinitely to reduce PPT and corporate tax in future years. The benefit of \$12,957,000 of Trinidad PPT and corporate tax losses were not recognized as at December 31, 2017 (2016 - \$11,555,000). The Company had approximately \$92,029,000 (2016 - \$91,418,000) in Canadian non-capital losses which begin to expire in 2026. The benefit of the Canadian non-capital losses was not recognized as at December 31, 2017 and 2016.

The Company previously acquired a Trinidad company that had overdue income tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the acquired subsidiary specified that upon confirmation from the BIR, the acquired subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the acquired subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of December 31, 2017, \$2,853,000 (2016 - \$3,068,000) in related interest was accrued in income taxes payable.

The acquired subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. During 2017, the seller was placed into joint liquidation. Management has received confirmation from external counsel that financial position of the seller and the Company's ability to recover funds under the indemnity are both unchanged from the prior year. The Company continues to work with the BIR to resolve this matter and does not believe that it will be required to make any further income tax payments nor any payments for the seller's portion of any interest.



## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

### 16. Loss per Common Share

	Year ended December 31,	
	2017	2016
Net loss (\$000's)	\$ (947)	\$ (12,853)
Weighted number of average common shares outstanding:		
Basic and diluted	94,203,562	83,121,842
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.15)</b>

There was no dilutive impact to the weighted average number of common shares for the years ended December 31, 2017 and 2016, as all share options, incentive share options and common share purchase warrants were excluded from the weighted average dilutive share calculation because their effect would be anti-dilutive.

### 17. Risk Management

#### (a) Credit risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Company's Trinidad crude oil production is sold, as determined by market based prices adjusted for quality differentials, to Petrotrin. Typically, the Company's maximum credit exposure to Petrotrin is revenue for one month's petroleum sales, of which \$2,196,000 was included in accounts receivable as at December 31, 2017 (2016 - \$1,880,000). The aging of accounts receivable as at December 31, 2017 and 2016 were as follows:

	December 31, 2017	December 31, 2016
Not past due	\$ 3,388	\$ 3,373
Past due greater than 90 days	5,156	5,436
<b>Accounts receivable</b>	<b>\$ 8,544</b>	<b>\$ 8,809</b>

No provision was made for past due receivables as the Company assessed that there were no impaired receivables. The Company believes that the accounts receivable balances that are past due are still collectible, as the majority are due from Trinidad government agencies. The Company's carrying values of accounts receivable represented the Company's maximum credit exposure.

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in its business environment.

To manage its capital structure in a period of low commodity prices, the Company may further reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. The Company will continue to manage its expenditures to reflect

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current financial resources in the interest of sustaining long-term viability. Undiscounted cash outflows relating to financial liabilities as at December 31, 2017 were as follows:

	Undiscounted amount	Less than 1 year	1 – 3 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 13,233	\$ 13,233	\$ -	\$ -
Income taxes payable	3,066	3,066	-	-
Term loan	15,000	-	6,480	8,520
<b>Financial liabilities</b>	<b>\$ 31,299</b>	<b>\$ 16,299</b>	<b>\$ 6,480</b>	<b>\$ 8,520</b>

### (c) Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due.

The Company had no commodity risk management contracts in place as at or during the year ended December 31, 2017. During the year ended December 31, 2016, the Company realized a net loss of \$1,970,000 related to commodity risk management contracts. The Company's then outstanding commodity price contracts were liquidated on June 2, 2016. Subsequent to December 31, 2017, the Company entered into financial derivative contracts to mitigate its exposure to fluctuations in commodity prices (see note 22).

To further manage commodity price risk, the Company has reduced its fixed operating and administrative cost structure. The Company may reduce capital expenditures, issue new equity or seek additional sources of debt should forward commodity pricing materially decrease. The Company will continue to monitor forward commodity prices and may enter into commodity based risk management contracts in the future to reduce the volatility of petroleum revenues and protect future development capital programs.

### (d) Foreign currency 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. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the TT\$ can have a significant effect on reported results. Given that the TT\$ is loosely pegged to the US\$, the underlying risk is based on movements between the Canadian dollar and the US\$.

The Company's revenues are subject to foreign exchange exposure as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices. An increase in the value of the Canadian dollar compared with the US\$ has a negative impact on the Company's reported results. Likewise, as the Canadian dollar weakens, the Company's reported results are higher. The Company's foreign exchange gain or losses primarily include unrealized gains or losses on the translation of the Company's US\$ and UK pounds sterling denominated working capital balances. The Company'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 revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion.

## Notes to the Consolidated Financial Statements

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Throughout 2017, the Canadian dollar appreciated relative to the US\$, and the TT\$ was range bound relative to the US\$. During the year ended December 31, 2017, the Company recorded \$512,000 in foreign exchange losses (2016 - \$163,000). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in prevailing exchange rates.

The Company had no contracts in place to manage foreign currency risk as at or during the year ended December 31, 2017. For the year ended December 31, 2017, with all other variables held constant, a 1% change in the Canadian dollar to TT\$ exchange rate would have resulted in an approximate \$182,000 (2016 - \$117,000) increase or decrease in net earnings.

### (e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. As at December 31, 2017 and 2016, the Company was not exposed to interest rate risk as its term loan interest rate remained fixed in nature.

## 18. Capital Management

The basis for the Company's capital structure is dependent on the Company's expected business growth and any changes in the business and commodity price environment. Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil prices, royalty expenses, operating expenses, general and administrative expenses, capital expenditures and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that in the Company's view would impact cash flow.

The Company's objective is to maintain net debt to trailing twelve-month funds flow from operations at or below a level of 3.0 to 1. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Net debt is a Non-IFRS measure calculated as working capital less long-term portions of undiscounted interest bearing financial liabilities. Working capital is a Non-IFRS measure calculated as current assets less current liabilities as they appear on the consolidated statements of financial position. Net debt is used by management as a key measure to assess the Company's liquidity.

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

	Target measure	December 31, 2017	December 31, 2016
Working capital surplus		\$ (6,808)	\$ (846)
Undiscounted term loan balance		15,000	15,000
Net debt		\$ 8,192	\$ 14,154
Shareholders' equity		38,204	36,234
Net debt plus equity		\$ 46,396	\$ 50,388
Annual funds flow from operations		\$ 3,110	\$ 6,117
<b>Net debt to funds flow from operations</b>	<b>&lt; 3.0 times</b>	<b>2.6</b>	<b>2.3</b>
<b>Net debt to net debt plus equity</b>	<b>&lt; 0.4 times</b>	<b>0.2</b>	<b>0.3</b>

## Notes to the Consolidated Financial Statements

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### 19. Commitments and contingencies

#### (a) Commitments

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under exploration licence and production agreements with the MEEI and various lease commitments for office space and equipment. As at December 31, 2017, the Company's estimated contractual capital requirements over the next three years and thereafter were as follows:

	Total	2018	2019	2020	Thereafter
Operating agreements	\$ 7,950	\$ 6,850	\$ 588	\$ 333	\$ 179
Exploration agreements	14,400	2,612	7,854	3,934	-
Office leases	1,348	440	320	306	282
Equipment leases	637	238	214	182	3
<b>Minimum payments</b>	<b>\$ 24,335</b>	<b>\$ 10,140</b>	<b>\$ 8,976</b>	<b>\$ 4,755</b>	<b>\$ 464</b>

Under the terms of its operating agreements, the Company must fulfill minimum work obligations on an annual basis over the specific licence term. In aggregate, the Company is obligated to drill 12 wells and perform 18 workovers prior to the end of 2021. As of December 31, 2017, four wells and 13 workovers have been completed with respect to these obligations (see note 7). The Company has provided US\$299,000 in cash collateralized guarantees to Petrotrin to support its operating agreement work commitments.

Under the terms of its exploration licences, the Company must drill five wells prior to the end of December 31, 2020; none of which have been completed as of December 31, 2017. The Company has provided a US\$2,150,000 letter of credit to the MEEI to support exploration work commitments on its East Brighton offshore concession. This letter of credit has been secured by a facility with the EDC (see note 9).

#### (b) Contingencies

The Company is involved in a limited number of legal claims associated with the ordinary conduct of business. The Company does not expect that these claims will have a material impact on its financial position, as \$24,000 for such claims was recorded as at December 31, 2017 (2016 – nil).

The Company is responsible for the retirement of long-lived assets at the end of their useful lives. As at December 31, 2017, the Company has recorded a discounted liability of \$11,853,000 based on current legislation and estimated future costs relating to its petroleum properties and facilities. Actual costs may differ from those estimated due to changes in legislation and changes in costs (see note 12).

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 tax matters under review, and the Company believes that the provision for income taxes is adequate.

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### 20. Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. The Company was formerly a party to an office sublease with Alvopetro Energy Ltd., which was considered a related party to the Company due to common Directors.

	Year ended December 31,	
	2017	2016
Legal fees charged by Norton Rose Fulbright Canada LLP	\$ 709	\$ 297
Office rent charged to Alvopetro Energy Ltd.	-	(85)
<b>Related party transactions</b>	<b>\$ 709</b>	<b>\$ 212</b>

As at December 31, 2017, \$188,000 and \$nil in related party amounts were included in accounts payable and accounts receivable, respectively (2016 - \$112,000 and \$nil).

The Company has determined that the key management personnel of the Company are comprised of its directors and three executive officers. Key management personnel compensation paid or payable during the years ended December 31, 2017 and 2016 were as follows:

	Year ended December 31,	
	2017	2016
Salaries, incentives and short-term benefits included in general and administrative expenses	\$ 1,256	\$ 1,201
Director fees included in general and administrative expenses	147	50
Share-based compensation (note 13)	146	224
<b>Key management compensation</b>	<b>\$ 1,549</b>	<b>\$ 1,475</b>

### 21. Supplemental Disclosures

#### (a) Presentation in the statements of comprehensive loss

The Company's consolidated statements of earnings are prepared primarily by nature of item, except for employee compensation expenses which are included in both operating and general and administrative expense line items.

The following table details the amount of employee compensation expenses included in operating and general and administrative expense line items in the consolidated statements of earnings:

	Year ended December 31,	
	2017	2016
Operating	\$ 2,591	\$ 2,808
General and administrative	3,343	3,801
<b>Employee compensation expenses</b>	<b>\$ 5,934</b>	<b>\$ 6,609</b>

## Notes to the Consolidated Financial Statements

As at December 31, 2017 and for the years ended December 31, 2017 and 2016

### (b) Presentation in the statements of cash flows

The following tables provide a breakdown of certain line items contained within cash flow from operating activities:

Net change in non-cash working capital	Year ended December 31,	
	2017	2016
Source (use) of cash:		
Accounts receivable	\$ 265	\$ 1,037
Crude oil inventory	(43)	136
Prepaid expenses	(107)	3,312
Derivative asset	-	(1,533)
Accounts payable and accrued liabilities	(151)	1,165
Income taxes payable	(439)	(1,132)
Transfer from other assets	270	(60)
Transfer from provisions	(405)	-
Transfer from bank loan and associated liabilities	(261)	-
Transfer from decommissioning obligations	328	44
<b>Net change in non-cash working capital</b>	<b>\$ (543)</b>	<b>\$ 2,969</b>
Related to operating activities	\$ (2,406)	\$ 2,820
Related to investing activities	1,817	102
Related to financing activities	46	47
<b>Net change in non-cash working capital</b>	<b>\$ (543)</b>	<b>\$ 2,969</b>

  

Other non-cash items	Year ended December 31,	
	2017	2016
Amortization of onerous lease	\$ (191)	\$ (399)
Non-cash lease inducement	197	36
Finance income from capital lease (note 10)	(83)	(100)
Production payment liability revaluation loss (note 11)	166	-
<b>Other non-cash items</b>	<b>\$ 89</b>	<b>\$ (463)</b>

## 22. Subsequent Event

### (a) Financial derivatives

On January 23, 2018, the Company entered into the following financial derivative contracts to mitigate its exposure to fluctuations in commodity prices:

Oil contract	Volume	Pricing point	Strike price	Term
Put options	500 barrels per day	Brent ICE	US\$55.00 per barrel	March 1, 2018 to December 31, 2018