Touchstone Exploration Inc.

Interim Consolidated Financial Statements (unaudited)

March 31, 2018

Interim Consolidated Statements of Financial Position

(Unaudited, thousands of Canadian dollars)

	Note	**March 31, 2018**	December 31, 2017
Assets	7		
Current assets			
Cash		**$ 10,353**	$ 13,920
Accounts receivable	13	**12,441**	8,544
Crude oil inventory		**215**	168
Prepaid expenses		**505**	475
Financial derivatives	13	**125**	-
		23,639	23,107
Exploration assets	4	**2,261**	2,084
Property and equipment	5	**67,375**	62,851
Abandonment fund	8	**1,121**	1,049
Restricted cash and cash equivalents	15	**386**	376
Other assets	6	**1,873**	1,869
		$ 96,655	$ 91,336
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 14,310**	$ 12,972
Income taxes payable		**3,287**	3,066
Term loan and associated liabilities	7	**1,120**	261
		18,717	16,299
Provisions		**-**	68
Term loan and associated liabilities	7	**13,921**	14,632
Decommissioning obligations	8	**12,361**	11,853
Deferred income taxes		**11,845**	10,280
		56,844	53,132
Shareholders' equity			
Shareholders' capital	9	**27,143**	27,143
Contributed surplus		**2,292**	2,253
Accumulated other comprehensive income		**8,064**	6,621
Accumulated earnings		**2,312**	2,187
		39,811	38,204
		$ 96,655	$ 91,336

Commitments (note 15)
Subsequent event (note 16)

See accompanying notes to these unaudited interim consolidated financial statements.

Interim Consolidated Statements of Comprehensive Income (Loss)
For the three months ended March 31, 2018 and 2017
(Unaudited, thousands of Canadian dollars, except per share amounts)

	Note		2018		2017
Revenues					
Petroleum sales		**$**	**10,384**	$	7,391
Royalties			**(2,955)**		(2,422)
Petroleum revenue			**7,429**		4,969
Loss on financial derivatives	13		**(74)**		-
Other income	10		**484**		-
			7,839		4,969
Expenses					
Operating			**2,772**		2,244
General and administrative			**1,732**		1,426
Net finance	11		**400**		772
Foreign exchange (gain) loss			**(341)**		80
Share-based compensation	9		**34**		56
Depletion and depreciation	5		**1,155**		1,128
Impairment	4		**202**		86
Accretion on term loan	7		**93**		255
Accretion on decommissioning obligations	8		**83**		40
			6,130		6,087
Earnings (loss) before income taxes			**1,709**		(1,118)
Income taxes					
Current tax expense			**375**		111
Deferred tax expense			**1,209**		320
			1,584		431
Net earnings (loss)			**125**		(1,549)
Foreign currency translation adjustment			**1,443**		(267)
Comprehensive income (loss)		**$**	**1,568**	$	(1,816)
Net earnings (loss) per common share					
Basic and diluted	12	**$**	**0.01**	$	(0.02)

See accompanying notes to these unaudited interim consolidated financial statements.

Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited, thousands of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Accumulated other comprehensive income	Accumulated (deficit) earnings	Shareholders' equity
Balance as at January 1, 2017		**$ 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	9	5,329	-	-	-	5,329
Share-based settlements	9	89	(84)	-	-	5
Share-based compensation expense	9	-	165	-	-	165
Share-based compensation capitalized		-	28	-	-	28
Accumulated deficit elimination	9	(148,270)	-	-	148,270	-
Balance as at December 31, 2017		**$ 27,143**	**$ 2,253**	**$ 6,621**	**$ 2,187**	**$ 38,204**
Net earnings		-	-	-	125	125
Other comprehensive income		-	-	1,443	-	1,443
Share-based compensation expense	9	-	34	-	-	34
Share-based compensation capitalized	5	-	5	-	-	5
Balance as at March 31, 2018		**$ 27,143**	**$ 2,292**	**$ 8,064**	**$ 2,312**	**$ 39,811**

See accompanying notes to these unaudited interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2018 and 2017
(Unaudited, thousands of Canadian dollars)

	Note	**2018**	2017
Cash provided by (used in) the following activities:			
Operating activities			
Net earnings (loss) for the period		**$ 125**	$ (1,549)
Items not involving cash from operations:			
Unrealized loss on financial derivatives	13	**74**	-
Unrealized foreign exchange (gain) loss		**(342)**	122
Share-based compensation	9	**34**	56
Depletion and depreciation	5	**1,155**	1,128
Impairment	4	**202**	86
Accretion on term loan	7	**93**	255
Accretion on decommissioning obligations	8	**83**	40
Other		**73**	(65)
Deferred income tax expense		**1,209**	320
Decommissioning obligations settled		**(105)**	-
Funds flow from operations		**2,601**	393
Change in non-cash operating working capital		**(3,495)**	(309)
Costs related to financial derivatives	13	**(190)**	-
		(1,084)	84
Investing activities			
Changes in restricted cash and cash equivalents		**-**	5,144
Exploration asset expenditures	4	**(228)**	(188)
Property and equipment expenditures	5	**(3,621)**	(546)
Abandonment fund expenditures	8	**(38)**	(31)
Change in non-cash investing working capital		**1,056**	156
		(2,831)	4,535
Financing activities			
Payment of term loan production obligation	7	**(104)**	(74)
Finance lease receipts	6	**74**	-
Change in non-cash financing working capital		**11**	27
		(19)	(47)
Change in cash		**(3,934)**	4,572
Cash, beginning of period		**13,920**	8,433
Impact of foreign exchange in foreign denominated cash balances		**367**	1
Cash, end of period		**$ 10,353**	$ 13,006
Supplemental information:			
Cash interest paid		**302**	128
Cash income taxes paid		**249**	30

See accompanying notes to these unaudited interim consolidated financial statements.

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 7th Avenue SW, Calgary, Alberta, T2P 3N9.

2. Basis of Preparation and Statement of Compliance

These unaudited interim consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017. Unless otherwise stated, amounts presented in these 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 financial statements to conform to the current presentation.

These financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 “Summary of Significant Accounting Policies” of the Company’s audited consolidated financial statements for the year ended December 31, 2017. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in Note 3 “Changes to Accounting Policies”. There have been no significant changes to the use of estimates or judgments since December 31, 2017.

These financial statements were authorized for issue by the Board of Directors on May 14, 2018.

3. Changes to Accounting Policies

(a) Adoption of IFRS 9 Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* (“IFRS 9”), which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 did not result in any adjustments to the measurement of financial instruments, and no adjustment to retained earnings was required.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale were eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company’s business model for managing the financial asset. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

In addition, IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The expected credit loss model applies to the Company’s accounts receivables.

On January 1, 2018, the Company classified its financial instruments into the appropriate IFRS 9 category and applied the expected credit loss model to financial assets classified as measured at

amortized cost. The classification and measurement of financial instruments under IFRS 9 did not have an impact on the Company's opening retained earnings as at January 1, 2018 and the application of the expected credit loss model to financial assets classified as measured at amortized cost did not result in any retrospective adjustments on transition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and financial liabilities. The classification of cash and restricted cash and cash equivalents were the only instruments with changes in their classification. There was no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets.

Financial Instrument	**Measurement Category**	
	IAS 39	**IFRS 9**
Cash	Held-for-trading (FVTPL)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Financial derivatives	FVTPL	FVTPL
Restricted cash and cash equivalents	Held-for-trading (FVTPL)	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost
Income taxes payable	Other financial liabilities (amortized cost)	Amortized cost
Term loan and associated liabilities	Other financial liabilities (amortized cost)	Amortized cost

Revisions to accounting policies

As a result of the adoption of IFRS 9, the Company has revised the description of its financial instrument accounting policies to reflect the new classification approach as follows:

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 instruments designated 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 net earnings. Financial instruments under this classification include derivative assets and liabilities.
- *Amortized costs:* Financial instruments designated as amortized costs are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include cash, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, income taxes payable and term loan and associated liabilities.
- *Fair value through other comprehensive income:* Financial instruments designated as fair value through other comprehensive income 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.

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 net 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.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. Expected credit losses exist 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. The Company uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. 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.

(b) Adoption of IFRS 15 Revenue Recognition

Effective January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 established a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized.

The Company's revenue relates to the sale of crude oil solely to the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin") at various sales batteries at specified prices referenced to benchmark pricing. The Company's sales batteries are tied into Petrotrin sales pipelines. The Company considers its performance obligations to be satisfied and control to be transferred when crude oil is delivered to the Petrotrin pipeline, as all risks and rewards of ownership have been transferred and the Company has the present right to payment.

The Company adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. The adoption of IFRS 15 did not impact the timing or measurement of revenue, and no adjustment to retained earnings was required.

Revision to accounting policy

As a result of the adoption of IFRS 15, the Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue associated with the sale of crude oil is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of crude oil coincides with title passing to the customer and the customer taking physical possession.

(c) Standards issued but not yet adopted

IFRS 16 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.

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.

4. Exploration Assets

Exploration assets consist of the Company's projects in the exploration and evaluation stage which are pending determination of technical and commercial feasibility. The following table is a continuity schedule of the Company's exploration assets at the end of the respective periods:

	Three months ended March 31, 2018	Year ended December 31, 2017
Balance, beginning of period	**$ 2,084**	$ 1,858
Additions	**228**	1,240
Impairments	**(117)**	(871)
Effect of change in foreign exchange rates	**66**	(143)
Balance, end of period	**$ 2,261**	$ 2,084

During the three months ended March 31, 2018, $8,000 (2017 - $20,000) of general and administrative expenses were capitalized to exploration assets.

During the three months ended March 31, 2018, the Company incurred $117,000 (2017 - $86,000) in lease expenses and letter of credit holding costs relating to its East Brighton property, which were impaired given the property's estimated recoverable value was $nil.

5. Property and Equipment

The following table is a continuity schedule of the Company's property and equipment at the end of the respective periods:

	Petroleum assets	**Corporate assets**	**Total**
Cost:			
Balance, January 1, 2017	**$ 158,920**	**$ 2,348**	**$ 161,268**
Additions	7,011	112	7,123
Dispositions	(2,897)	-	(2,897)
Effect of change in foreign exchange rates	(11,298)	-	(11,298)
Balance, December 31, 2017	**$ 151,736**	**$ 2,460**	**$ 154,196**
Additions	3,688	-	3,688
Effect of change in foreign exchange rates	4,850	-	4,850
Balance, March 31, 2018	**$ 160,274**	**$ 2,460**	**$ 162,734**

		Petroleum assets		Corporate assets		Total
Accumulated depletion, depreciation and impairments:						
Balance, January 1, 2017	**$**	**99,841**	**$**	**1,766**	**$**	**101,607**
Depletion and depreciation		4,235		180		4,415
Impairment recoveries		(8,557)		-		(8,557)
Dispositions		(1,912)		-		(1,912)
Decommissioning obligation change in estimate		2,736		-		2,736
Effect of change in foreign exchange rates		(6,944)		-		(6,944)
Balance, December 31, 2017	**$**	**89,399**	**$**	**1,946**	**$**	**91,345**
Depletion and depreciation		1,114		41		1,155
Effect of change in foreign exchange rates		2,859		-		2,859
Balance, March 31, 2018	**$**	**93,372**	**$**	**1,987**	**$**	**95,359**
Net book value:						
Balance, December 31, 2017	$	62,337	$	514	$	62,851
Balance, March 31, 2018		**66,902**		**473**		**67,375**

As at March 31, 2018, $84,553,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2017 - $85,287,000). During the three months ended March 31, 2018, $259,000 and $5,000 in general and administrative expenses and share-based compensation expenses were capitalized to property and equipment, respectively (2017 – $196,000 and $9,000).

At March 31, 2018, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded.

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 15). 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. During the three months ended March 31, 2018, the Company drilled one well on its WD-8 property. Subsequent to March 31, 2018, the Company drilled the remaining obligation wells on its Coora 2 and WD-8 concessions, satisfying the 2016 and 2017 associated work commitments on the two properties.

Exploration and production licences

The Company's Fyzabad and Palo Seco exploration and production agreements with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") contain no major work obligations or covenants; however both licences 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 three months ended March 31, 2018, production volumes produced under expired MEEI production licences represented 3.6% of total production (2017 – 5.4%). As at March 31, 2018, the net book value of the properties operating under expired MEEI production licences was approximately $1,889,000, representing 2.8% of the Company's property and equipment balance (December 31, 2017 – $1,866,000 and 3.0%).

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 continuation of production from expired private leases during the renegotiation process is common in Trinidad. During the three months ended March 31, 2018, production volumes produced under expired Trinidad private lease agreements represented 2.7% of total production (2017 – 2.7%).

6. 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 commenced in January 2018, and the Company continues to hold title to the assets until all principal and associated interest payments have been collected.

The Company's net investment in the finance lease receivable as at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Net investment in finance lease:		
Gross investment in finance lease receivable	**$ 2,796**	$ 2,795
Unearned finance income	**(455)**	(487)
Present value of minimum lease payments receivable	**$ 2,341**	$ 2,308
Current (included in accounts receivable)	**503**	491
Non-current (included in other assets)	**1,838**	1,817
Finance lease receivable	**$ 2,341**	$ 2,308

In addition to the long-term portion of the finance lease receivable, the Company has prepaid expenses and deposits of $35,000 (December 31, 2017 – $52,000) included in other assets that are considered long-term in nature.

7. 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 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 has 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 debt instrument was determined to be comprised of two components: the term loan and the production payment obligation. The term loan was 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 net 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 March 31, 2018 based on estimated future production and updated forward crude oil pricing discounted by 15%, resulting in a revaluation loss of $159,000 recognized during the three months ended March 31, 2018 (2017 - $nil).

The following is a continuity schedule of the term loan and associated liabilities balance at the end of the respective periods:

	Term loan liability	Production payment liability	Total
Balance, January 1, 2017	**$ 13,296**	**$ 1,200**	**$ 14,496**
Revaluation loss	-	166	166
Accretion	550	-	550
Payments / transfers to accounts payable	-	(319)	(319)
Balance, December 31, 2017	**$ 13,846**	**$ 1,047**	**$ 14,893**
Revaluation loss	-	159	159
Accretion	93	-	93
Payments / transfers to accounts payable	-	(104)	(104)
Balance, March 31, 2018	**$ 13,939**	**$ 1,102**	**$ 15,041**
Current	810	310	1,120
Non-current	13,129	792	13,921
Term loan and associated liabilities	**$ 13,939**	**$ 1,102**	**$ 15,041**

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 March 31, 2018 were as follows:

Covenant	Covenant threshold	Three months ended March 31, 2018
Cash reserves *($000's)*	> 5,000	**10,353**
Net funded debt to equity ratio(2)	< 0.50 times	**0.16 times(1)**
Net funded debt to EBITDA ratio(3)	< 2.50 times	**0.62 times(1)**

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.

8. 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 March 31, 2018, the Company classified $1,121,000 of accrued or paid fund contributions as long-term abandonment fund assets (December 31, 2017 - $1,049,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning obligations to be $12,361,000 at March 31, 2018 based on an inflation adjusted future liability of $40,378,000 (December 31, 2017 - $11,853,000 and $39,193,000). Payments to 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 at the end of the respective periods:

	Three months ended March 31, 2018	Year ended December 31, 2017
Balance, beginning of period	**$ 11,853**	$ 16,783
Liabilities incurred	**62**	148
Liabilities settled	**(105)**	-
Accretion expense	**83**	154
Revision to estimates	**85**	(4,133)
Effect of change in foreign exchange rates	**383**	(1,099)
Balance, end of period	**$ 12,361**	$ 11,853

At March 31, 2018, decommissioning obligations were valued using a long-term risk-free rate of 6.1% and a long-term inflation rate of 3.3% (December 31, 2017 – 6.1% and 3.3%).

9. 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:

	Number of shares		Amount ($000's)
Balance, January 1, 2017	**83,087,143**	**$**	**169,950**
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)
Balance, December 31, 2017 and March 31, 2018	**129,021,428**	**$**	**27,143**

(b) 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
Outstanding, January 1, 2017	**5,642,040**	**$**	**0.61**
Granted	1,558,800		0.15
Forfeited	(330,000)		0.72
Outstanding, December 31, 2017	**6,870,840**	**$**	**0.50**
Expired	(25,000)		2.10
Outstanding, March 31, 2018	**6,845,840**	**$**	**0.49**
Exercisable, March 31, 2018	**4,233,713**		**0.67**

Subsequent to March 31, 2018, the Company granted annual 2018 share options to officers and employees (see note 16).

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 one million common 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
Outstanding, January 1, 2017	**127,500**	**$**	**0.06**
Exercised	(100,000)		0.05
Forfeited	(12,500)		0.10
Outstanding and exercisable, December 31, 2017 and March 31, 2018	**15,000**	**$**	**0.10**

During the three months ended March 31, 2018, the Company recorded share-based compensation expenses of $34,000 (2017 – $56,000) in the consolidated statement of comprehensive income (loss) as a result of the vesting of options.

10. Other Income

During the three months ended March 31, 2018, the Company sold a licensed copy of 3D seismic data to a third-party broker for proceeds of $484,000 (2017 - $nil).

11. Net Finance Expenses

The following table summarizes net finance expenses recorded during the three months ended March 31, 2018 and 2017:

	Three months ended March 31,			
		2018		2017
Interest income	**$**	**(55)**	$	(17)
Interest expense on term loan (note 7)		**296**		296
Production payment liability revaluation loss (note 7)		**159**		-
Interest expense on income taxes		**-**		493
Net finance expenses	**$**	**400**	$	772

12. Net Earnings (Loss) per Common Share

	Three months ended March 31,			
		2018		2017
Net earnings (loss) *($000's)*	**$**	**125**	$	(1,549)
Weighted number of average common shares outstanding:				
Basic		**129,021,428**		83,137,143
Diluted		**129,691,693**		83,137,143
Basic and diluted earnings (loss) per share	**$**	**0.01**	$	(0.02)

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

13. 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 $4,389,000 was included in accounts receivable as at March 31, 2018 (December 31, 2017 - $2,196,000). The aging of accounts receivable as at March 31, 2018 and December 31, 2017 were as follows:

		March 31, 2018		December 31, 2017
Not past due	**$**	**6,637**	$	3,388
Past due greater than 90 days		**5,804**		5,156
Accounts receivable	**$**	**12,441**	$	8,544

As at March 31, 2018, the Company determined that the average expected credit loss on the Company's accounts receivables was nil. The Company believes that the accounts receivable balances that are past due are ultimately 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 current financial resources in the interest of sustaining long-term viability. Undiscounted cash outflows relating to financial liabilities as at March 31, 2018 were as follows:

		Undiscounted amount		**Less than 1 year**		**1 – 3 years**		**4 – 5 years**
Accounts payable and accrued liabilities	$	14,310	$	14,310	$	-	$	-
Income taxes payable		3,287		3,287		-		-
Term loan		15,000		810		6,480		7,710
Financial liabilities	**$**	**32,597**	**$**	**18,407**	**$**	**6,480**	**$**	**7,710**

(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.

During the three months ended March 31, 2018, the Company entered into the following crude oil financial derivative contracts to mitigate its future 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

The put options were purchased from a financial institution for an upfront cash premium of US$153,000 ($190,000). The options may be settled on a monthly basis during the option exercise period.

The Company has recognized the premium for the put options as a derivative financial asset. The derivatives are subsequently recorded at their estimated fair value based on the difference between the contracted price and the period-end forward price using quoted market prices.

The Company recognized a financial derivative asset of $125,000 as at March 31, 2018 (December 31, 2017 - $nil) and unrealized derivative losses of $74,000 (2017 - $nil) during the three months ended March 31, 2018 related to the put options.

(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. The Company had no contracts in place to manage foreign currency risk as at or during the three months ended March 31, 2018.

14. 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 by summing working capital and the principal (undiscounted) amount of long-term debt. 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	**March 31, 2018**	December 31, 2017
Working capital surplus		**$ (4,922)**	$ (6,808)
Principal long-term portion of term loan		**14,190**	15,000
Net debt		**$ 9,268**	$ 8,192
Shareholders' equity		**39,811**	38,204
Net debt plus equity		**$ 49,079**	$ 46,396
Trailing twelve-month funds flow from operations		**$ 5,318**	$ 3,110
Net debt to funds flow from operations	**< 3.0 times**	**1.7**	2.6
Net debt to net debt plus equity	**< 0.4 times**	**0.2**	0.2

15. 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 March 31, 2018, the Company's estimated contractual capital requirements over the next three years and thereafter were as follows:

	Total	**2018**	**2019**	**2020**	**Thereafter**
Operating agreements	$ 5,821	$ 4,704	$ 601	$ 337	$ 179
Exploration agreements	14,610	561	10,006	4,043	-
Office leases	1,239	331	320	306	282
Equipment leases	657	245	221	188	3
Minimum payments	**$ 22,327**	**$ 5,841**	**$ 11,148**	**$ 4,874**	**$ 464**

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 well recompletions prior to the end of 2021. As of March 31, 2018, six wells and 12 well recompletions were completed with respect to these obligations (see note 5).

The Company has provided US$299,000 ($386,000) in cash collateralized guarantees to Petrotrin to support its operating agreement work commitments which is classified as long-term restricted cash and cash equivalents concessions (December 31, 2017 – US$299,000 and $376,000).

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 March 31, 2018. 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 Export Development Canada.

16. Subsequent Event

On April 5, 2018, the Company granted 1,018,800 share options to officers and employees at an exercise price of $0.22 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.