



**Touchstone Exploration Inc.**

**Interim Consolidated Financial Statements (unaudited)**

**September 30, 2018**

**Interim Consolidated Statements of Financial Position**  
(Unaudited, thousands of Canadian dollars)

	Note	September 30, 2018	December 31, 2017
<b>Assets</b>			
6			
<b>Current assets</b>			
Cash		\$ 6,835	\$ 13,920
Accounts receivable	12	13,960	8,544
Crude oil inventory		233	168
Prepaid expenses		338	475
Assets held for sale	5	183	-
		<b>21,549</b>	<b>23,107</b>
Exploration assets	4	2,896	2,084
Property and equipment	5	73,849	62,851
Restricted cash	14	350	376
Other assets		1,451	1,869
Abandonment fund	7	1,214	1,049
		<b>\$ 101,309</b>	<b>\$ 91,336</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 15,288	\$ 12,972
Income taxes payable		3,883	3,066
Term loan and associated liabilities	6	273	261
Liabilities held for sale	5	80	-
		<b>19,524</b>	<b>16,299</b>
Provisions		-	68
Term loan and associated liabilities	6	14,182	14,632
Decommissioning obligations	7	12,580	11,853
Deferred income taxes		15,389	10,280
		<b>61,675</b>	<b>53,132</b>
<b>Shareholders' equity</b>			
Shareholders' capital	8	27,143	27,143
Contributed surplus		2,383	2,253
Accumulated other comprehensive income		8,221	6,621
Accumulated earnings		1,887	2,187
		<b>39,634</b>	<b>38,204</b>
		<b>\$ 101,309</b>	<b>\$ 91,336</b>

Commitments (note 14)

See accompanying notes to these unaudited interim consolidated financial statements.

**Interim Consolidated Statements of Comprehensive Income (Loss)**  
**For the three and nine months ended September 30, 2018 and 2017**  
(Unaudited, thousands of Canadian dollars, except per share amounts)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
<b>Revenues</b>					
Petroleum sales		\$ 12,890	\$ 7,885	\$ 35,782	\$ 22,712
Royalties		(3,319)	(1,929)	(9,805)	(6,297)
Petroleum revenue		9,571	5,956	25,977	16,415
Loss on financial derivatives	12	(13)	-	(198)	-
Other income	9	-	-	484	-
		<b>9,558</b>	<b>5,956</b>	<b>26,263</b>	<b>16,415</b>
<b>Expenses</b>					
Operating		3,567	2,722	9,349	8,043
General and administrative		1,654	1,567	5,255	4,638
Net finance	10	(104)	267	507	1,429
Foreign exchange loss (gain)		76	299	(241)	534
Share-based compensation	8	41	33	115	133
Depletion and depreciation	5	1,370	1,093	3,889	3,383
Impairment	4	225	122	538	638
Accretion on term loan	6	102	100	300	451
Accretion on decommissioning obligations	7	86	37	254	116
Loss on decommissioning obligations	7	-	-	11	-
		<b>7,017</b>	<b>6,240</b>	<b>19,977</b>	<b>19,365</b>
<b>Earnings (loss) before income taxes</b>		<b>2,541</b>	<b>(284)</b>	<b>6,286</b>	<b>(2,950)</b>
<b>Income taxes</b>					
Current tax expense		873	53	1,864	195
Deferred tax expense		1,401	866	4,722	1,455
		<b>2,274</b>	<b>919</b>	<b>6,586</b>	<b>1,650</b>
<b>Net earnings (loss)</b>		<b>267</b>	<b>(1,203)</b>	<b>(300)</b>	<b>(4,600)</b>
Currency translation adjustments		(926)	(1,796)	1,600	(2,967)
<b>Comprehensive (loss) income</b>		<b>\$ (659)</b>	<b>\$ (2,999)</b>	<b>\$ 1,300</b>	<b>\$ (7,567)</b>
<b>Net earnings (loss) per common share</b>					
Basic	11	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.05)
Diluted	11	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.05)

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
<b>Balance as at January 1, 2017</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	8	5,329	-	-	-	5,329
Share-based settlements	8	89	(84)	-	-	5
Share-based compensation expense	8	-	165	-	-	165
Share-based compensation capitalized	5	-	28	-	-	28
Accumulated deficit elimination	8	(148,270)	-	-	148,270	-
<b>Balance as at December 31, 2017</b>		\$ 27,143	\$ 2,253	\$ 6,621	\$ 2,187	\$ 38,204
Net loss		-	-	-	(300)	(300)
Other comprehensive income		-	-	1,600	-	1,600
Share-based compensation expense	8	-	115	-	-	115
Share-based compensation capitalized	5	-	15	-	-	15
<b>Balance as at September 30, 2018</b>		\$ 27,143	\$ 2,383	\$ 8,221	\$ 1,887	\$ 39,634

See accompanying notes to these unaudited interim consolidated financial statements.

**Interim Consolidated Statements of Cash Flows**  
**For the three and nine months ended September 30, 2018 and 2017**  
(Unaudited, thousands of Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
<b>Cash provided by (used in) the following activities:</b>					
<b>Operating activities</b>					
Net earnings (loss) for the period		\$ 267	\$ (1,203)	\$ (300)	\$ (4,600)
Items not involving cash from operations:					
Loss on financial derivatives	12	13	-	198	-
Unrealized foreign exchange loss (gain)		99	418	(208)	865
Share-based compensation	8	41	33	115	133
Depletion and depreciation	5	1,370	1,093	3,889	3,383
Impairment	4	225	122	538	638
Accretion on term loan	6	102	100	300	451
Accretion on decommissioning obligations	7	86	37	254	116
Loss on decommissioning obligations	7	-	-	11	-
Other		(344)	(79)	(304)	(223)
Deferred income tax expense		1,401	866	4,722	1,455
Decommissioning expenditures	7	-	-	(96)	-
Funds flow from operations		3,260	1,387	9,119	2,218
Change in non-cash working capital		(2,260)	(2,093)	(2,790)	(3,824)
Costs related to financial derivatives	12	-	-	(190)	-
		1,000	(706)	6,139	(1,606)
<b>Investing activities</b>					
Change in restricted cash		36	-	36	5,144
Exploration asset expenditures	4	(578)	(202)	(1,240)	(910)
Property and equipment expenditures	5	(4,543)	(1,889)	(12,684)	(7,375)
Abandonment fund expenditures	7	(45)	(34)	(127)	(99)
Change in non-cash working capital		198	(2,023)	689	936
		(4,932)	(4,148)	(13,326)	(2,304)
<b>Financing activities</b>					
Payment of loan production obligation	6	(129)	(79)	(358)	(227)
Term loan amendment fees	6	-	-	(156)	-
Finance lease receipts		172	19	321	35
Issuance of common shares	8	-	-	-	777
Change in non-cash working capital		254	5	36	32
		297	(55)	(157)	617
Change in cash		(3,635)	(4,909)	(7,344)	(3,293)
Cash, beginning of period		10,556	9,925	13,920	8,433
Impact of foreign exchange on foreign denominated cash balances		(86)	(102)	259	(226)
<b>Cash, end of period</b>		<b>\$ 6,835</b>	<b>\$ 4,914</b>	<b>\$ 6,835</b>	<b>\$ 4,914</b>
<b>Supplemental information:</b>					
Cash interest paid		300	299	898	723
Cash income taxes paid		567	452	1,141	625

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 and on the AIM market of the London Stock Exchange 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 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. 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 November 13, 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. 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 cost:* Financial instruments designated as amortized cost 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, 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.

Financial 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 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"). 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 was 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. 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.

**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

**(c) Standards issued but not yet adopted**

IFRS 16 *Leases* ("IFRS 16") 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 and 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 has elected to adopt IFRS 16 on January 1, 2019 using the modified retrospective approach. As of September 30, 2018, the Company has performed a detailed assessment of its lease contracts that will fall into the scope of this standard.

The Company is currently evaluating the financial impact of the standard on its financial statements in preparation for adoption. The Company anticipates that the standard will increase both assets and liabilities reported on the consolidated statement of financial position. Additionally, the Company expects impacts to the consolidated statement of comprehensive income (loss), likely with an increase in depreciation and net finance expenses and decreases in operating and general and administrative expenses. As part of this review, the Company is also assessing potential changes to its financial reporting policies and internal controls.

**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:

	<b>Nine months ended September 30, 2018</b>	Year ended December 31, 2017
<b>Balance, beginning of period</b>	<b>\$ 2,084</b>	\$ 1,858
Additions	<b>1,240</b>	1,240
Impairments	<b>(498)</b>	(871)
Effect of change in foreign exchange rates	<b>70</b>	(143)
<b>Balance, end of period</b>	<b>\$ 2,896</b>	\$ 2,084

During the three and nine months ended September 30, 2018, \$24,000 and \$55,000 of general and administrative expenses were capitalized to exploration assets, respectively (2017 - \$4,000 and \$35,000).

During the three and nine months ended September 30, 2018, the Company incurred \$262,000 and \$498,000 in lease expenses and letter of credit holding costs relating to its East Brighton property, respectively (2017 - \$122,000 and \$599,000). These costs were impaired given the property's estimated recoverable value was \$nil.



**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

**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
<b>Cost:</b>			
<b>Balance, January 1, 2017</b>	<b>\$ 158,920</b>	<b>\$ 2,348</b>	<b>\$ 161,268</b>
Additions	7,011	112	7,123
Dispositions	(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>
Additions	12,864	8	12,872
Transfer to held for sale	(187)	-	(187)
Effect of change in foreign exchange rates	5,311	-	5,311
<b>Balance, September 30, 2018</b>	<b>\$ 169,724</b>	<b>\$ 2,468</b>	<b>\$ 172,192</b>
<b>Accumulated depletion, depreciation and impairments:</b>			
<b>Balance, January 1, 2017</b>	<b>\$ 99,841</b>	<b>\$ 1,766</b>	<b>\$ 101,607</b>
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)
<b>Balance, December 31, 2017</b>	<b>\$ 89,399</b>	<b>\$ 1,946</b>	<b>\$ 91,345</b>
Depletion and depreciation	3,767	122	3,889
Effect of change in foreign exchange rates	3,109	-	3,109
<b>Balance, September 30, 2018</b>	<b>\$ 96,275</b>	<b>\$ 2,068</b>	<b>\$ 98,343</b>
<b>Net book value:</b>			
Balance, December 31, 2017	\$ 62,337	\$ 514	\$ 62,851
<b>Balance, September 30, 2018</b>	<b>\$ 73,449</b>	<b>\$ 400</b>	<b>\$ 73,849</b>

As at September 30, 2018, \$76,394,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2017 - \$85,287,000). During the three and nine months ended September 30, 2018, \$295,000 and \$846,000 in general and administrative expenses were capitalized to property and equipment, respectively (2017 - \$208,000 and \$611,000). During the three and nine months ended September 30, 2018, \$5,000 and \$15,000 in share-based compensation expenses were capitalized to property and equipment, respectively (2017 - \$5,000 and \$23,000).

At September 30, 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.

**(a) Property disposition**

On June 21, 2018 the Company entered an agreement to dispose of its 50% operating working interest in the Iacos property to the current third-party partner for minimum consideration of \$500,000 United States dollars ("US\$"). The consideration will be paid based on the Company's working interest net revenue it would have received had it retained such interest through December 2021. Should these cumulative payments not exceed the minimum consideration, the Company will receive the difference prior to the end of February 2021. The Company shall retain all cumulative

## **Notes to the Interim Consolidated Financial Statements (unaudited)**

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

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payments should such payments exceed the US\$500,000 minimum consideration through December 31, 2021. The agreement was effective April 1, 2018 and remains subject to local customary regulatory approvals.

At September 30, 2018, the Company classified the related assets net carrying value of \$183,000 as assets held for sale. In addition, \$80,000 of associated decommissioning obligations were classified as liabilities held for sale.

### **(b) Petrotrin Restructuring**

On August 28, 2018, Petrotrin announced its intention to discontinue refining operations and focus on upstream production and exploration activities. This restructuring is expected to be completed prior to the end of the year. The Company subleases various petroleum production and exploration rights from Petrotrin and the national oil company is currently the Company's sole purchaser of crude oil.

Although the Company currently has no indication, there can be no assurance that Petrotrin will not revoke or significantly alter the conditions of the Company's petroleum production and marketing arrangements, which could have a material adverse effect on the Company's future operations and viability.

The Company has been informed via written correspondence from the Chairman of Petrotrin that it will continue to meet its contractual operations and commitments throughout the transition process. Petrotrin has indicated that it will be meeting with all pertinent stakeholders following completion of the restructuring to discuss future changes and opportunities.

### **(c) Exploration and production licence**

The Company's Palo Seco exploration and production agreement with the MEEI expired on August 19, 2013. The Company is currently negotiating a renewal or extension of the licence and has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed. During the three and nine months ended September 30, 2018, production volumes produced under the expired licence represented 0.8% and 0.8% of total production, respectively (2017 – 1.1% and 1.1%).

### **(d) 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 and nine months ended September 30, 2018, production volumes produced under expired private lease agreements represented 2.3% and 2.4% of total production, respectively (2017 – 3.1% and 3.0%).

## **6. Term Loan and Associated Liabilities**

On November 23, 2016, the Company completed an arrangement for a \$15,000,000, five-year term credit facility from a Canadian investment fund. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly.

Effective June 15, 2018, the Company and the lender entered into a Second Amending Agreement

**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

to the Credit Agreement (the "Amendment"). The Amendment extended the term loan maturity date to November 23, 2022 and extended all principal payments by one year. The Company is required to repay \$810,000 per quarter commencing on January 1, 2020 through October 1, 2022, and the then outstanding principal balance is repayable on the maturity date. In addition, the Amendment removed the minimum \$5,000,000 quarterly cash reserves financial covenant. As consideration for the Amendment, the Company paid the lender a financing fee of \$150,000.

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. In addition to the Amendment, the Company and the lender extended the production payment agreement to mature on October 31, 2022 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 obligation 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 is comprised of two components: the term loan liability and the production payment liability.

At inception the term loan liability was measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan was revalued based on the Amendment, resulting in a revaluation gain of \$283,000 recognized during the nine months ended September 30, 2018 (2017 - \$nil). 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 liability is revalued at each reporting period based on internally estimated future production and forward crude oil pricing forecasts using a discount rate of 15%. As a result of changes in future production and forward crude pricing estimates and the Amendment, a revaluation gain of \$350,000 and a revaluation loss of \$59,000 were recognized during the three and nine months ended September 30, 2018, respectively (2017 - \$nil and \$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
<b>Balance, January 1, 2017</b>	<b>\$ 13,296</b>	<b>\$ 1,200</b>	<b>\$ 14,496</b>
Revaluation loss	-	166	166
Accretion	550	-	550
Payments / transfers to accounts payable	-	(319)	(319)
<b>Balance, December 31, 2017</b>	<b>\$ 13,846</b>	<b>\$ 1,047</b>	<b>\$ 14,893</b>
Revaluation (gain) loss	(283)	59	(224)
Accretion	300	-	300
Payments / transfers to accounts payable	(156)	(358)	(514)
<b>Balance, September 30, 2018</b>	<b>\$ 13,707</b>	<b>\$ 748</b>	<b>\$ 14,455</b>
Current	-	273	273
Non-current	13,707	475	14,182
<b>Term loan and associated liabilities</b>	<b>\$ 13,707</b>	<b>\$ 748</b>	<b>\$ 14,455</b>

## Notes to the Interim Consolidated Financial Statements (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

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 September 30, 2018 were as follows:

Covenant	Covenant threshold	Nine months ended September 30, 2018
Net funded debt to equity ratio <sup>(1)</sup>	< 0.50 times	<b>0.29 times</b>
Net funded debt to EBITDA ratio <sup>(2)</sup>	< 2.50 times	<b>0.61 times</b>

Notes:

(1) Net funded debt is defined as interest-bearing debt less cash balances. Equity is defined as book value of shareholders' equity less accumulated other comprehensive income (loss).

(2) 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.

### 7. 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 provision 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. Payments to settle the obligations occur over the operating lives of the underlying assets, estimated to be from two to 35 years, with the majority of the costs to be incurred subsequent to 2032. The obligations are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement.

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 licensed area. As at September 30, 2018, the Company classified \$1,214,000 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 \$12,580,000 at September 30, 2018 based on an inflation adjusted future liability of \$40,201,000 (December 31, 2017 - \$11,853,000 and \$39,193,000). At September 30, 2018 and December 31, 2017, decommissioning obligations were valued using a long-term risk-free rate of 6.1% and a long-term inflation rate of 3.25%. During the nine months ended September 30, 2018, the Company abandoned two wells resulting in a loss on decommissioning of \$11,000 (2017 - \$nil). The following table summarizes the Company's estimated decommissioning obligation provision at the end of the respective periods:

	Nine months ended September 30, 2018	Year ended December 31, 2017
<b>Balance, beginning of period</b>	<b>\$ 11,853</b>	<b>\$ 16,783</b>
Liabilities incurred	172	148
Liabilities settled	(85)	-
Accretion expense	254	154
Revision to estimates	48	(4,133)
Transfer to liabilities held for sale (note 5)	(80)	-
Effect of change in foreign exchange rates	418	(1,099)
<b>Balance, end of period</b>	<b>\$ 12,580</b>	<b>\$ 11,853</b>

**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

**8. 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)
<b>Balance, January 1, 2017</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 and September 30, 2018</b>	<b>129,021,428</b>	<b>\$ 27,143</b>

**(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
<b>Outstanding, January 1, 2017</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>
Granted	1,688,800	0.23
Expired	(25,000)	2.10
<b>Outstanding, September 30, 2018</b>	<b>8,534,640</b>	<b>\$ 0.44</b>
<b>Exercisable, September 30, 2018</b>	<b>5,314,713</b>	<b>0.58</b>

During the nine months ended September 30, 2018, the Company granted 1,688,800 share options to directors, officers and employees (year ended December 31, 2017 – 1,558,800). The weighted average fair value of options granted during the nine months ended September 30, 2018 was \$0.13 per option as estimated on the date of each grant using the Black-Scholes option pricing model (year ended December 31, 2017 – \$0.08 per option).

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

**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant. 15,000 incentive share options with an exercise price of \$0.10 were outstanding and exercisable at December 31, 2017 and September 30, 2018.

During the three and nine months ended September 30, 2018, the Company recorded share-based compensation expenses of \$41,000 and \$115,000, respectively (2017 – \$33,000 and \$133,000).

**9. Other Income**

During the nine months ended September 30, 2018, the Company sold a licensed copy of 3D seismic data to a third-party broker for proceeds of \$484,000 (2017 - \$nil).

**10. Net Finance Expenses**

The following table summarizes net finance expenses recorded during the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest income	\$ (57)	\$ (34)	\$ (172)	\$ (68)
Interest expense on term loan (note 6)	303	303	898	898
Term loan revaluation gain (note 6)	-	-	(283)	-
Production payment liability revaluation (gain) loss (note 6)	(350)	-	59	-
Interest expense (recovery) on taxes and other	-	(2)	5	599
<b>Net finance (income) expenses</b>	<b>\$ (104)</b>	<b>\$ 267</b>	<b>\$ 507</b>	<b>\$ 1,429</b>

**11. Net Earnings (Loss) per Common Share**

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net earnings (loss) (\$000's)	\$ 267	\$ (1,203)	\$ (300)	\$ (4,600)
Weighted number of average common shares outstanding:				
Basic	129,021,428	103,137,143	129,021,428	90,243,370
Diluted	130,728,340	103,137,143	129,021,428	90,243,370
Earnings (loss) per share:				
Basic	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.05)
Diluted	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.05)

There was no dilutive impact to the weighted average number of common shares for the nine months ended September 30, 2018 and for the three and nine months ended September 30, 2017, as all share options and incentive share options were excluded from the weighted average dilutive share calculations because their effect would be anti-dilutive.

**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

**12. 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 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 two months of petroleum sales, of which \$6,309,000 was included in accounts receivable as at September 30, 2018 (December 31, 2017 - \$2,196,000).

The Company's carrying values of accounts receivable represented the Company's maximum credit exposure. The aging of accounts receivable as at September 30, 2018 and December 31, 2017 were as follows:

	<b>September 30, 2018</b>	December 31, 2017
Not past due	\$ 8,151	\$ 3,388
Past due greater than 90 days	5,809	5,156
<b>Accounts receivable</b>	<b>\$ 13,960</b>	<b>\$ 8,544</b>

As at September 30, 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.

**(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 September 30, 2018 were as follows:

	<b>Undiscounted amount</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>4 – 5 years</b>
Accounts payable and accrued liabilities	\$ 15,288	\$ 15,288	\$ -	\$ -
Income taxes payable	3,883	3,883	-	-
Term loan principal	15,000	-	5,670	9,330
Term loan production payment liability	1,237	301	621	315
<b>Financial liabilities</b>	<b>\$ 35,408</b>	<b>\$ 19,472</b>	<b>\$ 6,291</b>	<b>\$ 9,645</b>

**(c) Commodity price risk**

The Company is exposed to commodity price movements as part of its operations. The Company maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. The Company's strategy focuses on the use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases.

In January 2018, the Company purchased crude oil put option contracts for 500 barrels per day at a strike price of Brent US\$55.00 per barrel from 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 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 recorded a financial derivative asset of \$nil as at September 30, 2018 (December 31, 2017 - \$nil) and recognized derivative losses of \$13,000 and \$198,000 during the three and nine months ended September 30, 2018 related to the put options (2017 - \$nil and \$nil).

**(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 Trinidad and Tobago dollar ("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 and nine months ended September 30, 2018.

**13. 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. The Company's long-term goal is to fund current period capital expenditures and reclamation expenditures using only funds from operations. Profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital.

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. 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



**Notes to the Interim Consolidated Financial Statements** (unaudited)

As at September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017

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	September 30, 2018	December 31, 2017
Working capital surplus		\$ (2,025)	\$ (6,808)
Principal long-term portion of term loan		15,000	15,000
Net debt		\$ 12,975	\$ 8,192
Shareholders' equity		39,634	38,204
Net debt plus equity		\$ 52,609	\$ 46,396
Trailing twelve-month funds flow from operations		\$ 10,011	\$ 3,110
<b>Net debt to funds flow from operations</b>	<b>&lt; 3.0 times</b>	<b>1.3</b>	<b>2.6</b>
<b>Net debt to net debt plus equity</b>	<b>&lt; 0.4 times</b>	<b>0.2</b>	<b>0.2</b>

**14. 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 September 30, 2018, the Company's estimated contractual capital requirements were as follows:

	Total	2018	2019	2020	Thereafter
Operating agreements	\$ 2,293	\$ 444	\$ 673	\$ 346	\$ 830
Exploration agreements	14,416	171	7,170	7,075	-
Office leases	1,021	113	320	306	282
Equipment leases	480	79	221	176	4
<b>Minimum payments</b>	<b>\$ 18,210</b>	<b>\$ 807</b>	<b>\$ 8,384</b>	<b>\$ 7,903</b>	<b>\$ 1,116</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 well recompletions prior to the end of 2021. As of September 30, 2018, ten wells and 14 well recompletions were completed with respect to these obligations.

The Company has provided US\$271,000 (\$350,000) in cash collateralized guarantees to Petrotrin to support its operating agreement work commitments which was classified as long-term restricted cash as at September 30, 2018 (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 September 30, 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.