



Touchstone Exploration Inc.

Consolidated Financial Statements

December 31, 2018

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 were 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, 2019

Independent Auditor's Report

To the Shareholders of Touchstone Exploration Inc.

Opinion

We have audited the consolidated financial statements of Touchstone Exploration Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

- Management's Discussion and Analysis

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Janet Huang.

Ernst + Young LLP

Chartered Professional Accountants
Calgary, Alberta
March 26, 2019

Consolidated Statements of Financial Position
(thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
Assets			
Current assets	13		
Cash		\$ 4,845	\$ 13,920
Accounts receivable	6	16,218	8,544
Crude oil inventory		204	168
Prepaid expenses		350	475
		21,617	23,107
Exploration assets	7	4,969	2,084
Property and equipment	8	85,968	62,851
Restricted cash	10	370	376
Other assets	11	1,816	1,869
Abandonment fund	14	1,317	1,049
		\$ 116,057	\$ 91,336
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	\$ 22,176	\$ 12,972
Income taxes payable	15	3,722	3,066
Term loan and associated liabilities	13	246	261
		26,144	16,299
Provisions		170	68
Term loan and associated liabilities	13	14,562	14,632
Decommissioning obligations	14	12,157	11,853
Deferred income taxes	15	20,447	10,280
		73,480	53,132
Shareholders' equity			
Shareholders' capital	16	27,143	27,143
Contributed surplus		2,430	2,253
Accumulated other comprehensive income		10,337	6,621
Accumulated earnings		2,667	2,187
		42,577	38,204
		\$ 116,057	\$ 91,336

Commitments and contingencies (Note 21)
Subsequent event (Note 24)

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 Income (Loss)
(thousands of Canadian dollars, except per share amounts)

	Note	Year ended December 31,	
		2018	2017
Revenues			
Petroleum sales		\$ 48,933	\$ 32,020
Royalties		(13,124)	(8,982)
Petroleum revenue		35,809	23,038
Loss on financial derivatives	19	(198)	-
Other income	17	484	-
		36,095	23,038
Expenses			
Operating	23	14,122	11,716
General and administrative	23	7,697	6,320
Net finance	18	1,141	1,856
Gain on asset dispositions	8	(306)	(378)
Foreign exchange (gain) loss	19	(413)	512
Share-based compensation	16	155	165
Depletion and depreciation	8	5,410	4,415
Impairment recovery	9	(4,335)	(7,851)
Accretion on term loan	13	402	550
Accretion on decommissioning obligations	14	345	154
Loss on decommissioning obligations	14	11	-
		24,229	17,459
Earnings before income taxes		11,866	5,579
Income taxes			
Current tax expense	15	2,437	440
Deferred tax expense	15	8,949	6,086
		11,386	6,526
Net earnings (loss)		480	(947)
Currency translation adjustments		3,716	(2,610)
Comprehensive income (loss)		\$ 4,196	\$ (3,557)
Net earnings (loss) per common share			
Basic and diluted	16	\$ 0.00	\$ (0.01)

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(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 for the year		-	-	-	(947)	(947)
Other comprehensive loss		-	-	(2,610)	-	(2,610)
Issued pursuant to private placements	16	5,329	-	-	-	5,329
Share-based settlements	16	89	(84)	-	-	5
Share-based compensation expense	16	-	165	-	-	165
Share-based compensation capitalized	8	-	28	-	-	28
Accumulated deficit elimination	16	(148,270)	-	-	148,270	-
Balance as at December 31, 2017		\$ 27,143	\$ 2,253	\$ 6,621	\$ 2,187	\$ 38,204
Net earnings for the year		-	-	-	480	480
Other comprehensive income		-	-	3,716	-	3,716
Share-based compensation expense	16	-	155	-	-	155
Share-based compensation capitalized	8	-	22	-	-	22
Balance as at December 31, 2018		\$ 27,143	\$ 2,430	\$ 10,337	\$ 2,667	\$ 42,577

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31,	
		2018	2017
Cash provided by (used in) the following activities:			
Operating activities			
Net earnings (loss) for the year		\$ 480	\$ (947)
Items not involving cash from operations:			
Non-cash loss on financial derivatives	19	198	-
Gain on asset dispositions	8	(306)	(378)
Unrealized foreign exchange (gain) loss	19	(404)	827
Share-based compensation	16	155	165
Depletion and depreciation	8	5,410	4,415
Impairment recoveries	9	(4,335)	(7,851)
Accretion on term loan	13	402	550
Accretion on decommissioning obligations	14	345	154
Loss on decommissioning obligations	14	11	-
Other	23	(12)	89
Deferred income tax expense	15	8,949	6,086
Decommissioning expenditures	14	(96)	-
Funds flow from operations		10,797	3,110
Change in non-cash operating working capital	23	(2,240)	(2,406)
Costs related to financial derivatives	19	(190)	-
		8,367	704
Investing activities			
Change in restricted cash	10	36	7,871
Exploration asset expenditures	7	(3,387)	(1,240)
Property and equipment expenditures	8	(19,064)	(8,138)
Abandonment fund expenditures	14	(176)	(411)
Change in non-cash investing working capital	23	4,664	1,817
		(17,927)	(101)
Financing activities			
Payment of term loan production obligation	13	(489)	(320)
Term loan amendment fees	13	(156)	-
Finance lease receipts	11	686	83
Issuance of common shares	16	-	5,334
Change in non-cash financing working capital	23	38	46
		79	5,143
Change in cash		(9,481)	5,746
Cash, beginning of year		13,920	8,433
Impact of foreign exchange on foreign denominated cash balances		406	(259)
Cash, end of year		\$ 4,845	\$ 13,920
The following are included in cash flow from operating activities:			
Interest paid in cash		1,200	1,025
Income taxes paid in cash		2,026	657

See accompanying notes to these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at December 31, 2018 and for the years ended December 31, 2018 and 2017

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

2. Basis of Preparation and Statement of Compliance

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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.

The financial statements have been prepared on the historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Summary of Significant Accounting Policies".

The Company's operations are 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.

The preparation of the 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 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 "Use of Estimates, Judgements and Assumptions".

These financial statements were authorized for issue by the Board of Directors on March 26, 2019.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation

The financial statements include the accounts of the Company and its following subsidiaries at December 31, 2018:

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 the financial statements.

Notes to the Consolidated Financial Statements

As at December 31, 2018 and for the years ended December 31, 2018 and 2017

(b) Joint arrangements

The Company may conduct its oil and gas activities through jointly controlled operations, and the financial statements reflect only the Company's proportionate interest in such activities. The Company does not have any joint arrangements that are currently individually material to the Company or that are structured through joint venture arrangements.

(c) Foreign currency translation

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 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 the consolidated statements of comprehensive income (loss) ("statements of comprehensive income").

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 dollars as follows:

- assets and liabilities for each statement of financial position presented are translated at the reporting date closing rate;
- 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
- all resulting exchange differences are recognized in accumulated other comprehensive income, a separate component of equity.

(d) Financial instruments

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. 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 immediately charged to the statements of comprehensive income. Financial instruments under this classification include financial derivatives.
- *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, accounts receivable, restricted cash, accounts payable and accrued liabilities, income taxes payable and term loan and associated liabilities.

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- *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. The Company does not have any financial instruments under this classification.

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.

(e) Fair value measurement

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.

The Company's financial derivatives are recorded and carried on the consolidated statements of financial position ("statements of financial position") at fair value with actual amounts received or paid on the settlement of the financial derivative instrument recorded in the statements of comprehensive income. 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. The fair value of term loan and associated liabilities is disclosed in Note 13 "Term Loan and Associated Liabilities". 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.

All 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:

- *Level 1* - quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- *Level 2* - pricing inputs are other than quoted prices in active markets used in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs which can be substantially observed or corroborated in the market place.
- *Level 3* - valuations in this level are those with inputs that are not based on observable market data.

At each reporting date, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the financial statements based on the lowest level input that is significant to the fair value measurement as a whole. Assessments of the significance

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As at December 31, 2018 and for the years ended December 31, 2018 and 2017

of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy.

(f) 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.

(g) Exploration assets

Expenditures incurred before the Company has obtained legal rights to explore an area are recognized in the statements of comprehensive income as exploration expenses.

Exploration asset 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, directly attributable employee salaries and benefits, and estimates of any decommissioning costs are capitalized and accumulated pending determination of technical feasibility and commercial viability. Technical feasibility and commercial viability of exploration assets are dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available, available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. If a decision is made by Management not to continue an exploration asset project, all associated costs are charged to the statements of comprehensive income at that time.

Non-producing assets classified as exploration assets are not depleted. When exploration assets are determined to be technically feasible and commercially viable, the relevant costs are transferred to property and equipment. The relevant assets are tested for impairment prior to any such transfer, by comparing the carrying amount to the greater of the relevant asset's fair value less cost of disposal or value in use.

(h) Property and equipment

Items of property and equipment, which include petroleum development and production assets and corporate assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment charges.

All costs directly associated with the acquisition and development of petroleum properties are capitalized. 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. Petroleum assets are accumulated in cost centres at the cash-generating unit ("CGU") level. CGUs are depleted using the unit-of-production method based upon estimated gross proved plus probable reserves, determined annually by independent professional engineers and calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). 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 Heritage Petroleum Company Limited ("Heritage") (formerly the Petroleum Company of Trinidad and Tobago Limited or Petrotrin), the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment

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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.

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

(i) Impairment of non-financial assets

Property and equipment

Property and equipment are grouped into CGUs for the purposes of testing impairment. A CGU is a grouping of assets that generate cash flows independently of other assets held by the Company. Geography, product type, and internal management are key factors considered when grouping petroleum assets into CGUs.

CGUs are reviewed at each reporting date for indicators of potential impairment and, in the case of previously impaired CGUs, reversal of impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of the CGU's fair value less costs of disposal and its value in use. Any excess carrying value over the recoverable amount is recognized in the consolidated statements of income as impairment expense.

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. 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.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the CGU's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated depletion, if no impairment charge had been recognized.

Exploration assets

Exploration assets are assessed for impairment at the CGU level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired exploration assets, reversals of impairment. An impairment charge on exploration assets is recognized if the carrying value of the assets exceeds the recoverable amount. Similarly, a previously recorded impairment charge may be reversed if the recoverable amount of a particular CGU is greater than the carrying amount.

(j) 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 development or 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 sale to be highly probable, Management must be committed to a plan to sell the asset, and an

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As at December 31, 2018 and for the years ended December 31, 2018 and 2017

active program to locate a buyer 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. Certain events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year.

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 recoverable amount, with any impairment charge or reversal of impairment recognized in the statements of comprehensive income. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the statements of financial position. Assets held for sale are not depleted, depreciated or amortized.

(k) Dispositions

Gains or losses 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 the statements of comprehensive income.

(l) Restricted cash

The Company's restricted cash balances 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 expected to occur greater than one year from the reporting date.

(m) Lease arrangements

When it is determined that an arrangement contains a lease, the Company classifies the lease as either a financing lease or an 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 as 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 the statements of comprehensive income over the lease term.

(n) Term loan and associated liabilities

The Company's November 2016 term loan arrangement is comprised of two financial liability 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 on the statements of comprehensive income.

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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 to the counterparty.

(o) 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.

A provision for an onerous contract is recognized when the expected economic benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting the obligations in the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost during the remaining term of the contract. Before a provision is established, the Company first recognizes any impairment charge on any assets associated with the onerous contract.

(p) 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. Decommissioning obligations are measured at the present value of Management's best estimate of expenditures required to settle the liability as at the date of the statements of financial position. On a periodic basis, Management reviews these estimates, and any changes are applied retrospectively. The change in the fair value of the decommissioning obligation is recognized as an increase or decrease in the liability, with a corresponding increase or decrease to the carrying amount of the related asset. The capitalized costs in property and equipment are depleted based upon the unit-of-production method consistent with the underlying assets. The long-term liability is increased in each reporting period with the passage of time, and the associated accretion charge is recognized in the statements of comprehensive income. 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 Heritage 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 Heritage, 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 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.

(q) Revenue from petroleum sales

The Company principally generates revenues from the sale of crude oil. Revenue associated with the sale of crude oil is measured based on the consideration specified in contracts with customers. Revenue is recognized when control is transferred from the Company to its customers. The transfer of control of crude oil coincides with title passing to the customer and the customer taking physical possession.

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(r) Share-based compensation plans

The Company's share-based compensation plans only include equity-settled awards. Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date, as measured using the Black-Scholes option-pricing model and is recognized over the period the awards vest with a corresponding increase in contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of 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.

(s) Income taxes

Income tax expense comprises current and deferred income tax. Current and deferred income tax expense is recognized in the statements of comprehensive income 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 reporting 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 reporting date.

Deferred income tax assets and liabilities are presented as non-current. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off the recognized amounts and the intent is to either settle on a net basis or to realize the asset and settle the liability simultaneously. 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.

4. Changes to Accounting Policies

(a) Newly adopted accounting policies

Adoption of IFRS 9 Financial Instruments ("IFRS 9")

Effective January 1, 2018, the Company adopted IFRS 9, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). 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.

The adoption of IFRS 9 resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There was no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of the financial assets.

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The following table sets forth the change in classification categories for the Company's financial assets and liabilities as a result of the implementation of IFRS 9.

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	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

Adoption of IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

Effective January 1, 2018, the Company adopted IFRS 15 using the modified retrospective approach. The adoption of IFRS 15 did not impact the timing or measurement of revenue, and no adjustment to retained earnings was required.

The Company's petroleum revenues relates to the sale of crude oil solely to Heritage at specified pricing formulas. The Company's sales batteries are tied into Heritage sales pipelines. The Company considers its performance obligations to be satisfied and control to be transferred when crude oil is delivered to the sales pipeline as all risks and rewards of ownership have been transferred, and the Company has the present right to payment.

(b) Future accounting policies

IFRS 16 Leases ("IFRS 16")

IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and requires the recognition of a right-of-use ("ROU") asset and lease obligation on the statement of financial position for most leases where the entity is acting as the lessees. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17.

The Company has elected to adopt IFRS 16 on January 1, 2019 using the modified retrospective approach, which does not require restatement of prior period financial information as the cumulative effective of applying the standard to prior periods is recorded as an adjustment to opening retained earnings. On adoption, the Company has elected to utilize the following practical expedients permitted in the standard:

- The Company will recognize leases with terms ending within 12 months as at January 1, 2019 as short-term leases. Such leases will not be recognized on the consolidated statement of financial position, and payments for these leases will be disclosed in the notes to the financial statements.
- Certain lease arrangements that transfer goods and services under the same contract that have been identified for recognition will not be separated between their lease and non-lease components and will be recognized as a single lease component.
- Certain leases having similar characteristics will be measured as a portfolio by applying a single discount rate.

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On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on January 1, 2019 with no expected impact on opening retained earnings.

The Company has identified ROU lease assets and liabilities primarily related to head office space, field services equipment, motor vehicles and office equipment. The impact on the consolidated statement of financial position as at January 1, 2019 is estimated as follows:

	January 1, 2019
ROU asset	\$ 1,628
Increase in total assets	\$ 1,628
Short-term portion of lease liability	\$ 610
Long-term portion of lease liability	1,018
Increase in total liabilities and shareholder's equity	\$ 1,628

The impact on the consolidated statement of comprehensive income is expected to:

- decrease operating costs, property and equipment expenditures and general and administrative expenses;
- increase net finance expenses due to interest recognized on the lease obligations; and
- increase depreciation expense related to recognized ROU assets.

Cash flows associated with lease repayments will be allocated to operating and financing activities based on their principal and interest repayments, respectively.

The Company does not expect that the adoption of IFRS 16 will affect its current finance lease where the Company is the lessor.

5. Use of Estimates, Judgements and Assumptions

The timely 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 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. 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.

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The fair value of financial derivatives is 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 and resources

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, 2018 and 2017, which could differ significantly from other points in time throughout the year or in future periods. Reserves have been audited by the Company's independent qualified reserves evaluator in accordance with 51-101.

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 the recoverable amounts of property and equipment for impairment calculations.

(c) Determination of cash-generating units

Determination of what constitutes a CGU is subject to the judgement of Management. The recoverability of exploration asset and 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) Recoverability of asset carrying values

Management applies judgement in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The estimates the Company applies in determining the recoverable amount of assets generally includes estimates of future commodity prices, future foreign exchange rates, quantity of reserves, expected production volumes, future royalties, operating costs and development costs, income taxes and discount rates.

In estimating the recoverable amount of exploration asset CGUs, the fair value of land is 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 factors in future development plans and lease expiries into the relevant CGU assessment. Exploration assets remain capitalized as long as sufficient progress is being made in assessing whether the petroleum products are technically feasible and commercially viable. This assessment requires significant Management judgement, as exploration assets are subject to continuous internal review to confirm the continued intent to establish the technical feasibility and commercial viability of a project.

The recoverable amounts of the Company's property and equipment CGUs are estimated based on value in use calculations using discounted after-tax cash flows derived from the Company's proved developed producing reserves during the first two years and proved plus probable oil reserves thereafter as estimated by the Company's independent reserves evaluator. The reserve evaluation is based on an estimated reserve life up to a maximum of 50 years.

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Key input estimates used in the determination of cash flows from crude oil reserves include the following:

- *Production and reserves* - Management engaged an external reserves evaluator 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.
- *Crude oil prices* - forward pricing estimates of crude oil are used in the discounted cash flow model. These prices are adjusted for consideration stipulated in contracts with customers. Commodity prices have experienced increased volatility in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, expected future demand, economic and geopolitical factors.
- *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.

(e) 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.

(f) 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 options is measured using a Black-Scholes option pricing model. The measurement inputs to this model, including expected volatility, weighted average expected life of the instruments, expected dividends, risk-free interest rate (based on Government of Canada bonds) and expected forfeitures, rely on Management judgements. Forfeitures are estimated through the vesting period based on future expectations and are adjusted upon actual vesting and forfeitures.

(g) 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 comprehensive income.

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6. Financial Assets and 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. As at December 31, 2018, the Company is exposed to credit risk with respect to its accounts receivable and other assets, which includes finance lease receivable and deferred consideration from a property disposition.

The credit risk associated with the Company's finance lease receivable is considered to be low as the asset is secured by the underlying fixed assets, with ownership transferring to the counterparty subsequent to the final payment.

The credit risk associated with the Company's deferred consideration is also considered low as the Company is selling the counterparty's crude oil produced from the disposed assets through its facilities and currently has the right to net the monthly payment from the gross proceeds received.

The Company's crude oil production is sold, as determined by market-based prices adjusted for quality differentials, to Heritage. Typically, the Company's maximum credit exposure is petroleum sales for two months, of which \$7,043,000 was included in accounts receivable as at December 31, 2018, which represented approximately 43 percent of the total balance (2017 - \$2,196,000 and 26 percent, respectively). \$8,178,000 in value added tax due from the Trinidad government was included in accounts receivable at December 31, 2018, which represented approximately 50 percent of the accounts receivable balance (2017 - \$5,619,000 and 66 percent, respectively).

As at December 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 for value added taxes, and the Company has historically not experienced any collection issues.

The aging of accounts receivable as at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Current (less than 30 days)	\$ 4,780	\$ 3,046
31 – 60 days	3,123	111
61 – 90 days	1,277	231
Past due (greater than 90 days)	7,038	5,156
Accounts receivable	\$ 16,218	\$ 8,544

7. 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 for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ 2,084	\$ 1,858
Additions	3,387	1,240
Impairment (note 9)	(718)	(871)
Effect of change in foreign exchange rates	216	(143)
Balance, end of year	\$ 4,969	\$ 2,084

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During the year ended December 31, 2018, \$124,000 of general and administrative expenses were capitalized to exploration assets (2017 - \$57,000).

8. Property and Equipment

The following table is a continuity schedule of the Company's property and equipment for the years ended December 31, 2018 and 2017:

	Petroleum assets	Corporate assets	Total
Cost			
Balance, January 1, 2017	\$ 158,920	\$ 2,348	\$ 161,268
Additions	7,011	112	7,123
Dispositions (note 11)	(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	19,849	17	19,866
Dispositions	(187)	-	(187)
Effect of change in foreign exchange rates	12,734	-	12,734
Balance, December 31, 2018	\$ 184,132	\$ 2,477	\$ 186,609
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 (note 9)	(8,557)	-	(8,557)
Dispositions (note 11)	(1,912)	-	(1,912)
Decommissioning obligation change in estimate (note 14)	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	5,249	161	5,410
Impairment recoveries (note 9)	(5,005)	-	(5,005)
Decommissioning obligation change in estimate (note 14)	1,574	-	1,574
Effect of change in foreign exchange rates	7,317	-	7,317
Balance, December 31, 2018	\$ 98,534	\$ 2,107	\$ 100,641
Carrying amounts:			
Balance, December 31, 2017	\$ 62,337	\$ 514	\$ 62,851
Balance, December 31, 2018	\$ 85,598	\$ 370	\$ 85,968

As at December 31, 2018, \$93,610,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (2017 - \$85,287,000). During the year ended December 31, 2018, \$1,291,000 and \$22,000 in general and administrative expenses and share-based compensation expenses were capitalized to property and equipment, respectively (2017 - \$1,021,000 and \$28,000).

(a) Property disposition

In December 2018, the Company completed the disposition of its Icacos crude oil property and related assets. The Company sold its 50 percent operating working interest in the property to the third-party partner for minimum consideration of US\$500,000, US\$96,000 which was collected in 2018. As a result of the disposition, the Company recorded a gain on asset disposition of \$306,000.

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The remaining consideration will be paid based on the Company's working interest net petroleum sales 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 payments should such payments exceed the US\$500,000 minimum consideration through December 31, 2021.

\$58,000 and \$358,000 of the deferred consideration was included in accounts receivable and other assets at December 31, 2018, respectively.

(b) 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 year ended December 31, 2018, production volumes produced under the expired licence represented 0.7 percent of total production (2017 – 1.0 percent).

(c) 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 petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have 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 based on the antiquated land title processes. During the year ended December 31, 2018, production volumes produced under expired private lease agreements represented 2.4 percent of total production (2017 – 3.0 percent).

9. Impairments

(a) Exploration asset impairments

Exploration asset impairments for the years ended December 31, 2018 and 2017 by CGU were as follows:

CGU	Year ended December 31,	
	2018	2017
Cory Moruga	\$ 116	\$ -
East Brighton	548	667
Canadian exploration assets	-	39
Exploration asset impairments	\$ 664	\$ 706

During the year ended December 31, 2018, the Company incurred \$548,000 (2017 - \$667,000) in lease expenses relating to its East Brighton property. These costs were impaired given the property's estimated recoverable value was \$nil. The Company incurred a further \$116,000 impairment charge relating to its Cory Moruga exploration concession. The decommissioning liability associated with the property was increased based on changes in estimates, and the corresponding abandonment asset was impaired given the property's estimated recoverable value was \$nil.

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An additional \$39,000 in Canadian exploration property lease expenses were incurred and impaired during the year ended December 31, 2017, as the Company had no further plans to develop the properties.

(b) Property and equipment impairments

Property and equipment impairments for the years ended December 31, 2018 and 2017 consisted of the following charges (recoveries) by CGU:

CGU	Year ended December 31,	
	2018	2017
Coora	\$ 365	\$ (7,190)
WD-4	(4,505)	(1,370)
WD-8	(934)	-
South Palo Seco	-	3
Property and equipment inventory	75	-
Property and equipment impairment recoveries	\$ (4,999)	\$ (8,557)

2018 Impairments

At December 31, 2018, the Company evaluated its property and equipment for indicators of any potential impairment or related impairment reversals. As a result of these assessments, indicators of impairment were identified on the Coora CGU, and indicators of impairment reversals were identified on the Company's WD-4 and WD-8 CGUs. The Company's 2018 drilling capital expenditures on each field and the related effect on their respective net present values of proved plus probable reserves as at December 31, 2018 were compared, resulting in indicators of impairment and impairment reversal. Impairment tests were conducted on the properties, resulting in an impairment charge of \$365,000 related to the Coora CGU and impairment recoveries of \$4,505,000 and \$934,000 related to the WD-4 and WD-8 CGUs, respectively. In addition, the Company recorded \$75,000 in impairment charges related to oilfield inventory that was not assigned to a specific CGU during the year ended December 31, 2018.

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 capital expenditures and corresponding drilling locations and cash flows from the reserve were deemed to be the primary triggers indicating impairment reversals. 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.

Impairment Assumptions

The estimated recoverable amounts as at December 31, 2018 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 reserves evaluator as at December 31, 2018 (Level 3

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inputs within the fair value hierarchy). The Company used the same approach for its tests as at December 31, 2017. The calculation of the estimated recoverable amounts used an after-tax discount rate of 20% (2017 – 20%), and the following forward commodity price and inflation rate forecasts:

Forecast Year	NYMEX WTI at Cushing, Oklahoma (US\$/bbl)	Brent Blend FOB North Sea (US\$/bbl)	Inflation Rates (%/year) ⁽²⁾
2019	56.25	63.25	0.0
2020	63.00	68.50	2.0
2021	67.00	71.25	2.0
2022	70.00	73.00	2.0
2023	72.50	75.50	2.0
2024	75.00	78.00	2.0
2025	77.50	80.50	2.0
2026	80.41	83.41	2.0
2027	82.02	85.02	2.0
2028	83.66	86.66	2.0
Thereafter	+2.0% / year	+2.0% / year	2.0

Note:

(1) Source: GLJ Petroleum Consultants price forecast, effective January 1, 2019.

The following table demonstrates the sensitivity of the estimated recoverable amounts by CGU based on reasonably possible changes in key assumptions inherent in the estimate.

CGU	Increase in discount rate of 1%	Decrease in discount rate of 1%	Increase in crude oil price of 10%	Decrease in crude oil price of 10%
Coora	\$ 1,596	\$ (1,747)	\$ (7,000)	\$ 6,018
WD-4	1,576	(1,726)	(7,207)	6,284
WD-8	1,501	(1,638)	(6,683)	5,799
Impairment increase (decrease) (net of tax)	\$ 4,673	\$ (5,111)	\$ (20,890)	\$ 18,101

10. Restricted Cash

As at December 31, 2018, the Company has provided US\$271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments (2017 – US\$299,000). The balance was classified as long-term restricted cash on the statements of financial position as the bonds expire at the expiration of the relevant licence agreement. A reconciliation of the long-term restricted cash balance is set forth below:

	US\$	\$
Balance, January 1, 2017	\$ 6,301	\$ 8,461
Letter of credit reduction	(6,023)	(7,898)
Interest	21	27
Effect of change in foreign exchange rates	-	(214)
Balance, December 31, 2017	\$ 299	\$ 376
Letter of credit reduction	(28)	(36)
Effect of change in foreign exchange rates	-	30
Balance, December 31, 2018	\$ 271	\$ 370

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11. Other Assets

Effective October 1, 2017, the Company entered into a five-year, US\$1,836,000 contractual agreement to lease its coil tubing unit, four service rigs and ancillary equipment to a third party. The lease bears a fixed interest rate of 8 percent per annum, compounded and payable monthly. 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. During the year ended December 31, 2017, 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, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
Net investment in finance lease		
Gross investment in finance lease receivable	\$ 2,297	\$ 2,795
Unearned finance income	(324)	(487)
Present value of minimum lease payments receivable	\$ 1,973	\$ 2,308
Current (included in accounts receivable)	545	491
Non-current (included in other assets)	1,428	1,817
Finance lease receivable	\$ 1,973	\$ 2,308

In addition to the long-term portion of the finance lease receivable, the Company had prepaid deposits of \$30,000 and accounts receivable of \$358,000 associated with a property disposition (see Note 8 "Property and Equipment") included in other assets at December 31, 2018 that were considered long-term in nature (2017 – \$52,000 and \$nil).

12. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. 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's liquidity is dependent on the Company's expected business growth and changes in its business environment. The Company manages this risk by continuously monitoring forecast and actual cash flows from operating, financing and investing activities and opportunities to extend its existing debt facility or to issue additional equity. Management believes that future cash flows generated from these activities will be adequate to settle the Company's future liabilities. Given that the Company has minimal work obligations and guarantees, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. Estimated undiscounted cash outflows relating to financial liabilities as at December 31, 2018 were as follows:

	Undiscounted amount	Less than 1 year	1 – 3 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 22,176	\$ 22,176	\$ -	\$ -
Income taxes payable	3,722	3,722	-	-
Term loan principal	15,000	-	6,480	8,520
Term loan production payments	1,365	272	718	375
Term loan interest payments	3,491	1,200	1,816	475
Financial liabilities	\$ 45,754	\$ 27,370	\$ 9,014	\$ 9,370

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As at December 31, 2018 and for the years ended December 31, 2018 and 2017

Refer to Note 13 "Term Loan and Associated Liabilities" and Note 20 "Capital Management" for further details regarding the Company's debt structure and capital management objectives.

13. 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 percent per annum, compounded and payable quarterly. Effective June 15, 2018, the Company and the lender entered into a Second Amending Agreement 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 percent 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 percent. The term loan was revalued based on the Amendment, resulting in a revaluation gain of \$283,000 recognized during the year ended December 31, 2018 (2017 - \$nil). 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 percent. As a result of these estimated changes and the Amendment, a revaluation loss of \$441,000 was recognized during the year ended December 31, 2018 (2017 - \$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. The following is a continuity schedule of the term loan and associated liabilities balances at December 31, 2018 and 2017:

	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 (gain) loss	(283)	441	158
Accretion	402	-	402
Payments / transfers to accounts payable	(156)	(489)	(645)
Balance, December 31, 2018	\$ 13,809	\$ 999	\$ 14,808
Current	-	246	246
Non-current	13,809	753	14,562
Term loan and associated liabilities	\$ 13,809	\$ 999	\$ 14,808

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As at December 31, 2018 and for the years ended December 31, 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 December 31, 2018 were as follows:

Covenant	Covenant threshold	Year ended December 31, 2018
Net funded debt to equity ratio ⁽¹⁾	< 0.50 times	0.42 times
Net funded debt to EBITDA ratio ⁽²⁾	< 2.50 times	0.70 times

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.

14. Decommissioning Obligations and Abandonment Fund

The Company's decommissioning obligations relate to future site restoration and well 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 three to 22 years, with the majority of the costs to be incurred subsequent to 2031. 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 licenced area. As at December 31, 2018, the Company classified \$1,317,000 of accrued or paid fund contributions as long-term abandonment fund assets (2017 - \$1,049,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning obligations to be \$12,157,000 at December 31, 2018 based on an inflation adjusted future liability of \$43,101,000 (2017 - \$11,853,000 and \$39,193,000, respectively). The following table summarizes the Company's estimated decommissioning obligation provision at the end of the respective periods:

	Year ended December 31,	
	2018	2017
Balance, beginning of year	\$ 11,853	\$ 16,783
Liabilities incurred	274	148
Liabilities settled	(85)	-
Accretion expense	345	154
Revision to estimates	(1,115)	(4,133)
Dispositions (note 8)	(80)	-
Effect of change in foreign exchange rates	965	(1,099)
Balance, end of year	\$ 12,157	\$ 11,853

In 2018, the Company incurred decommissioning liabilities of \$274,000 primarily based on development drilling and new wellbore recompletions (2017 - \$148,000). A further increase in Heritage related decommissioning obligations was driven by 2018 production, which increased the Company's proportionate interest in future well abandonments.

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At December 31, 2018, decommissioning obligations were revalued using an adjusted long-term risk-free rate of 7.9 percent and an adjusted long-term inflation rate of 3.7 percent, which represented increases of 1.8 percent and 0.5 percent from previous estimates, respectively. The revisions in estimates resulted in a net decrease to the estimated liability of \$1,115,000 (2017 – decrease of \$4,133,000).

During the year ended December 31, 2018, the Company abandoned two wells resulting in a loss on decommissioning of \$11,000 (2017 - \$nil).

15. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2018 and 2017 were a combined rate of 55 percent of taxable income. The following is a reconciliation of income taxes calculated by applying the applicable statutory rates to net earnings before income taxes:

	Year ended December 31,	
	2018	2017
Net earnings before income taxes	\$ 11,866	\$ 5,579
Trinidad statutory rate	55.00%	55.00%
Expected income tax expense at statutory rate	\$ 6,526	\$ 3,068
Effect on income tax resulting from:		
Supplemental petroleum tax	2,223	284
Deductible supplemental petroleum tax	(1,223)	(156)
Benefit of tax assets not recognized	1,575	201
Tax rate differential	1,676	1,569
Prior period adjustments and other	609	1,560
Income tax expense	\$ 11,386	\$ 6,526

The net deferred income tax liability solely relates to the Company's Trinidad operations. The components of the liability for the years ended December 31, 2018 and 2017 were as follows:

	Balance, December 31, 2017	Recognized in equity	Recognized in net earnings (loss)	Balance, December 31, 2018
Property and equipment	\$ (27,390)	\$ (3,246)	\$ (10,189)	\$ (40,825)
Decommissioning obligation	6,456	765	736	7,957
PPT loss carry forwards	9,696	1,149	(84)	10,761
Other	958	114	588	1,660
Net deferred income tax liability	\$ (10,280)	\$ (1,218)	\$ (8,949)	\$ (20,447)

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

	December 31, 2018	December 31, 2017
Property and equipment and exploration assets	\$ (12,495)	\$ (9,958)
Loss carry forwards	117,140	104,986
Decommissioning obligations	10,941	10,897
Other	11,672	14,102
Unrecognized deductible temporary differences	\$ 127,258	\$ 120,027

Notes to the Consolidated Financial Statements

As at December 31, 2018 and for the years ended December 31, 2018 and 2017

The following is a summary of the Company's estimated income tax losses as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Trinidad PPT losses	\$ 35,890	\$ 29,431
Trinidad corporate tax losses	2,093	2,050
Canada non-capital losses	99,883	92,029

Trinidadian PPT losses and corporate tax losses may be carried forward indefinitely to reduce the taxes in future years. The benefit of \$17,257,000 of Trinidad PPT and corporate tax losses were not recognized as at December 31, 2018 (2017 - \$12,957,000). The benefit of the Canadian non-capital losses was not recognized as at December 31, 2018 and 2017.

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 at December 31, 2018, \$3,085,000 (2017 - \$2,853,000) 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 remain unchanged. 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.

16. 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	83,137,143	\$ 169,995
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 2018	129,021,428	\$ 27,143

Notes to the Consolidated Financial Statements

As at December 31, 2018 and for the years ended December 31, 2018 and 2017

(b) 2017 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 \$0.12 (7.25 pence) for gross proceeds of \$2,446,000 (£1,450,000). 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 \$5,052,000 (£2,965,000) were raised by way of a placing of 25,784,285 new common shares at a price of \$0.20 (11.5 pence) per common share. Fees incurred from the private placement were \$500,000, resulting in net proceeds of \$4,552,000.

(c) Share option plans

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 percent 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
Granted	1,688,800	0.23
Expired	(25,000)	2.10
Outstanding, December 31, 2018	8,534,640	\$ 0.44
Exercisable, December 31, 2018	5,345,546	0.58

Share options outstanding and the weighted average remaining life of the share options as at December 31, 2018 were as follows:

Exercise price	Share options outstanding	Weighted average remaining life	Share options exercisable	Weighted average remaining life
\$0.14 to \$0.15	1,466,300	3.3 years	488,769	3.3 years
\$0.21 to \$0.23	2,494,600	3.2 years	953,037	2.5 years
\$0.25 to \$0.33	2,082,200	2.3 years	1,412,200	1.3 years
\$0.59 to \$0.97	2,344,040	0.5 years	2,344,040	0.5 years
\$2.10	147,500	1.0 years	147,500	1.0 years
\$0.14 to \$2.10	8,534,640	2.2 years	5,345,546	1.3 years

Notes to the Consolidated Financial Statements

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The weighted average fair value of share options granted during the year ended December 31, 2018 was \$0.13 per option as estimated on the date of each grant using the Black-Scholes option pricing model (2017 – \$0.08 per option). 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,	
	2018	2017
Risk-free interest rate	1.9%	1.0%
Expected life (years)	3.0	3.0
Expected volatility	89.1%	86.7%
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 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 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 2018	15,000	\$ 0.10

The 15,000 incentive share options outstanding and exercisable on December 31, 2018 had an exercise price of \$0.10 and a weighted average remaining life of 1.0 year. During the year ended December 31, 2018, the Company recorded share-based compensation expenses of \$155,000 in relation to share option plans (2017 – \$165,000).

(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 million 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 \$148.3 million of the Company's accumulated deficit balance was eliminated by reducing the stated capital of the common shares.

(e) Weighted average common shares

The weighted average common shares used in calculating net loss per common share was calculated as follows.

	Year ended December 31,	
	2018	2017
Weighted average common shares, basic	129,021,428	94,203,562
Dilutive impact of share-based compensation	1,198,578	-
Weighted average common shares, diluted	130,220,006	94,203,562

Notes to the Consolidated Financial Statements

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There was no dilutive impact to the weighted average number of common shares for the year ended December 31, 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.

17. Other Income

During the year ended December 31, 2018, the Company sold a licenced copy of 3D seismic data to a third-party broker for proceeds of \$484,000 (2017 - \$nil).

18. Net Finance Expenses

The following table summarizes net finance expenses recorded during the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
Interest income	\$ (222)	\$ (112)
Interest expense on term loan (note 13)	1,200	1,200
Term loan revaluation gain (note 13)	(283)	-
Production payment liability revaluation loss (note 13)	441	166
Interest expense on income taxes and other	5	602
Net finance expenses	\$ 1,141	\$ 1,856

19. Financial Derivatives and Market Risk Management

Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board of Directors to establish risk management guidelines to be used by Management. The risk exposure inherent in the movements of the price of crude oil and fluctuations in foreign exchange rates are all proactively reviewed by the Company and may be managed through the use of derivative contracts as considered appropriate.

(a) Commodity price risk

The nature of crude oil operations exposes the Company to risks associated with commodity prices. 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 periodic 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 Company initially recognized the premium for the put options as a derivative financial asset, with the derivatives 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 monthly options expired without being exercised, resulting in a derivative loss of \$198,000 recognized during year ended December 31, 2018 (2017 - \$nil).

For the year ended December 31, 2018, with all other variables held constant, a 10 percent change in the realized pricing received from crude oil would have resulted in an approximate \$1,561,000 increase or decrease in net earnings (2017 - \$1,028,000).

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As at December 31, 2018 and for the years ended December 31, 2018 and 2017

(b) Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. 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 pegged to the US\$, the underlying risk is based on movements between the Canadian dollar and the US\$.

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 petroleum sales 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.

Specifically, the Company is subject to foreign currency exchange exposure as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices, and the majority of the Company's operating costs are denominated in TT\$, which is informally pegged to the US\$. 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 also has foreign exchange exposure on costs dominated in United Kingdom pounds sterling required to maintain its AIM listing.

In 2018, average Canadian dollar exchange rates relative to the both the US\$ and the TT\$ were similar to the average corresponding rates in 2017. However, as at December 31, 2018 compared to December 31, 2017, the Canadian dollar was 8 percent weaker relative to both the US\$ and TT\$. During the year ended December 31, 2018, the Company recorded \$413,000 in foreign exchange gains (2017 - \$512,000). The majority of the translation differences were unrealized in nature and 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 years ended December 31, 2018 and 2017. For the year ended December 31, 2018, with all other variables held constant, a 5 percent change in the Canadian dollar to TT\$ exchange rate would have resulted in an approximate \$494,000 increase or decrease in net earnings (2017 - \$910,000).

(c) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect net earnings, cash flows and valuations. As at December 31, 2018 and 2017, the Company was not exposed to interest rate risk as its term loan interest rate remained fixed in nature.

20. 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 decommissioning expenditures and capital expenditures necessary for the replacement of production declines using only funds flow from operations. Profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. The Company typically uses equity and term debt to raise 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 measure calculated as current assets minus current liabilities as they appear on the statements of financial position. Net debt is used by Management as a key measure to assess the Company's

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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. The Company's internal capital management calculations for the years ended December 31, 2018 and 2017 are summarized below.

	Target measure	December 31, 2018	December 31, 2017
Working capital deficit (surplus)		\$ 4,527	\$ (6,808)
Principal long-term portion of term loan		15,000	15,000
Net debt		\$ 19,527	\$ 8,192
Shareholders' equity		42,577	38,204
Net debt plus equity		\$ 62,104	\$ 46,396
Annual funds flow from operations		\$ 10,797	\$ 3,110
Net debt to funds flow from operations	< 3.0 times	1.8	2.6
Net debt to net debt plus equity	< 0.4 times	0.3	0.2

21. Commitments and Contingencies

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under exploration and production agreements with the MEEI and various lease commitments for office space and equipment. As at December 31, 2018, the Company's estimated contractual capital requirements were as follows:

	Total	2019	2020	2021	Thereafter
Operating agreements	\$ 4,473	\$ 1,187	\$ 387	\$ 402	\$ 2,497
Exploration agreements	14,465	7,951	6,514	-	-
Office leases	893	315	300	278	-
Equipment leases	488	267	212	8	1
Minimum payments	\$ 20,319	\$ 9,720	\$ 7,413	\$ 688	\$ 2,498

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 December 31, 2018, 10 wells and 15 well recompletions were completed with respect to these obligations. The Company has provided US\$271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments (see Note 10 "Restricted Cash").

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, 2018.

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.

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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22. Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2018, \$50,000 in legal fees charged by Norton Rose Fulbright Canada LLP were included in general and administrative expenses, of which \$10,000 were included in accounts payable and accrued liabilities as at December 31, 2018 (2017 - \$709,000 and \$188,000, respectively).

The Company has determined that the key management personnel of the Company is comprised of its directors and three executive officers. Key management personnel compensation paid or payable during the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
Salaries, incentives and short-term benefits included in general and administrative expenses	\$ 1,374	\$ 1,256
Director fees included in general and administrative expenses	273	147
Share-based compensation (note 16)	137	146
Key management compensation	\$ 1,784	\$ 1,549

23. Supplemental Disclosures

(a) Presentation in the consolidated statements of comprehensive income

The Company's statements of comprehensive income 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 statements of comprehensive income:

	Year ended December 31,	
	2018	2017
Operating	\$ 1,911	\$ 2,591
General and administrative	3,892	3,343
Employee compensation expenses	\$ 5,803	\$ 5,934

(b) Presentation in the consolidated statements of cash flows

The following tables provide a breakdown of certain line items contained within the consolidated statements of cash flows:

Net change in non-cash working capital	Year ended December 31,	
	2018	2017
Source (use) of cash:		
Accounts receivable	\$ (7,674)	\$ 265
Crude oil inventory	(36)	(43)
Prepaid expenses	125	(107)
Accounts payable and accrued liabilities	9,204	(151)
Income taxes payable	656	(439)
Transfer from other assets	94	270
Transfer from provisions	93	(405)
Other	-	67
Net change in non-cash working capital	\$ 2,462	\$ (543)

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Net change in non-cash working capital	Year ended December 31,	
	2018	2017
Related to operating activities	\$ (2,240)	\$ (2,406)
Related to investing activities	4,664	1,817
Related to financing activities	38	46
Net change in non-cash working capital	\$ 2,462	\$ (543)

Other non-cash items	Year ended December 31,	
	2018	2017
Amortization of onerous lease	\$ (189)	\$ (191)
Non-cash lease inducement	201	197
Finance income from capital lease (note 11)	(182)	(83)
Term loan revaluation gain (note 13)	(283)	-
Production payment liability revaluation loss (note 13)	441	166
Other non-cash items	\$ (12)	\$ 89

24. Subsequent Event

On February 26, 2019, the Company completed a private placement directed toward United Kingdom institutional investors, whereby gross proceeds of \$6,615,000 (£3,800,000) were raised by way of a placing of 31,666,667 new common shares at a price of \$0.21 (12 pence) per common share.