



**Touchstone Exploration Inc.**

**Consolidated Financial Statements**

**December 31, 2021**

## Management's Report

### To the Shareholders of Touchstone Exploration Inc.:

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.

The Board of Directors are 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 of three independent and financially literate directors. The Audit Committee meets regularly with Management and with the independent auditors to discuss the internal controls over 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 thereon. The Audit Committee also considers the independence of the external auditors and reviews their fees. 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.

The consolidated financial statements have been audited on behalf of the shareholders by KPMG LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards.

(signed) "Paul R. Baay"  
Paul R. Baay  
President, Chief Executive Officer and Director

(signed) "Scott Budau"  
Scott Budau  
Chief Financial Officer

Calgary, Alberta  
March 25, 2022

## **Independent Auditor's Report**

### **To the Shareholders of Touchstone Exploration Inc.:**

#### ***Opinion***

We have audited the consolidated financial statements of Touchstone Exploration Inc. (the "Company"), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of earnings (loss) and comprehensive income (loss) for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### ***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 "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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.

#### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### **Assessment of the recoverable amount of the Coora, WD-4 and WD-8 cash generating units**

#### ***Description of the matter***

We draw attention to note 3, note 4, note 7 and note 8 to the financial statements. Cash generating units ("CGU") are reviewed at each reporting date for indicators of potential impairment and, in the case of previously impaired CGUs, reversal of impairment. Significant judgement is required in assessing the

existence of indicators of impairment and reversal of impairment based on various internal and external factors. If such indicators exist, an impairment test is performed by comparing the CGUs carrying value to its recoverable amount, defined as the greater of the CGUs fair value less costs of disposal and its value in use. The Company identified indicators of impairment reversal at December 31, 2021 for the Coora, WD-4 and WD-8 CGUs and performed impairment tests to estimate the recoverable amount of each of these CGUs. The Company has recorded an aggregate impairment reversal of \$13,786,000 related to these CGUs for the year ended December 31, 2021.

The estimated recoverable amount of each CGU involve significant estimates including:

- The estimate of proved plus probable oil and natural gas reserves and the related future cash flows
- The discount rates.

The estimate of proved plus probable oil and natural gas reserves and the related future cash flows includes significant assumptions related to:

- Forecasted oil and natural gas prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Company engages independent third-party reserve evaluators annually to estimate the proved plus probable oil and natural gas reserves and the related future cash flows.

#### ***Why the matter is a key audit matter***

We identified the assessment of the recoverable amount of the Coora, WD-4 and WD-8 CGUs as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved plus probable oil and natural gas reserves and the related future cash flows and the discount rates.

#### ***How the matter was addressed in the audit***

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved plus probable oil and natural gas reserves and the related future cash flows at December 31, 2021:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Company
- We compared forecasted oil and natural gas prices to those published by other independent third-party reserve evaluators
- We compared the 2021 actual production volumes, operating costs, royalty costs, and development costs of the Company to those estimates used in the prior year's estimate of proved oil and natural gas reserves and the related future cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production volumes, operating costs, royalty costs, and future development costs assumptions by comparing to 2021 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Company's discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of each CGU by comparing the Company's estimate to market metrics and other external data.

### **Other Matter – Comparative Information**

The financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 25, 2021.

### **Other Information**

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the 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.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or

regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is David Yung.

(signed) "KPMG LLP"  
Chartered Professional Accountants

Calgary, Canada  
March 25, 2022

**Touchstone Exploration Inc.**  
**Consolidated Statements of Financial Position**  
*Stated in thousands of United States dollars*

As at	Note	December 31, 2021	December 31, 2020
<b>Assets</b>			
Current assets			
Cash		17,936	24,281
Accounts receivable	5	7,546	4,685
Crude oil inventory		143	92
Prepaid expenses		1,055	254
Assets held for sale	7	1,176	-
		27,856	29,312
Exploration and evaluation assets	6	50,760	30,680
Property, plant and equipment	7	61,275	43,016
Restricted cash	12	1,178	294
Other assets	9	673	24
Abandonment fund	14	1,278	1,226
<b>Total assets</b>		<b>143,020</b>	<b>104,552</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	10	16,000	16,379
Income taxes payable	15	236	-
Term loan	12	3,000	-
Liabilities associated with assets held for sale	7	1,695	-
		20,931	16,379
Lease liabilities	11	2,265	335
Term loan	12	26,896	7,176
Other liabilities	13	908	1,357
Decommissioning liabilities	14	10,012	11,919
Deferred income taxes	15	14,450	7,021
<b>Total liabilities</b>		<b>75,462</b>	<b>44,187</b>
<b>Shareholders' equity</b>			
Shareholders' capital	16	101,757	101,385
Contributed surplus		3,466	2,476
Other comprehensive loss		(13,219)	(13,331)
Deficit		(24,446)	(30,165)
<b>Total shareholders' equity</b>		<b>67,558</b>	<b>60,365</b>
<b>Total liabilities and shareholders' equity</b>		<b>143,020</b>	<b>104,552</b>

Commitments and contingencies (note 20)

See accompanying notes to these consolidated financial statements.

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

(signed) "John D. Wright"  
John D. Wright  
Chair of the Board of Directors and Director

(signed) "Stanley T. Smith"  
Stanley T. Smith  
Chair of the Audit Committee and Director



**Touchstone Exploration Inc.****Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)***Stated in thousands of United States dollars (except per share amounts)*

		Year ended December 31,	
	Note	2021	2020
<b>Revenue</b>			
Petroleum sales		29,568	19,592
Less: royalties		(9,251)	(5,488)
Petroleum revenue, net of royalties		20,317	14,104
Other revenue		40	121
<b>Total revenue</b>		<b>20,357</b>	<b>14,225</b>
<b>Expenses</b>			
Operating	22	7,286	6,698
General and administration	22	6,301	5,574
Net finance	17	1,437	3,735
Net gain on asset dispositions		(21)	-
Foreign exchange loss	18	185	23
Equity-based compensation	16	888	302
Depletion and depreciation	7	3,415	3,504
Impairment (reversal)	8	(13,674)	11,418
<b>Total expenses</b>		<b>5,817</b>	<b>31,254</b>
<b>Earnings (loss) before income taxes</b>		<b>14,540</b>	<b>(17,029)</b>
<b>Provision for income taxes</b>			
Current expense	15	1,358	274
Deferred expense (recovery)	15	7,463	(6,273)
<b>Income tax expense (recovery)</b>		<b>8,821</b>	<b>(5,999)</b>
<b>Net earnings (loss)</b>		<b>5,719</b>	<b>(11,030)</b>
Currency translation adjustments		112	1,267
<b>Comprehensive income (loss)</b>		<b>5,831</b>	<b>(9,763)</b>
<b>Net earnings (loss) per common share</b>			
Basic and diluted	16	0.03	(0.06)

See accompanying notes to these consolidated financial statements.

**Touchstone Exploration Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
*Stated in thousands of United States dollars*

	Note	Year ended December 31,	
		2021	2020
<b>Shareholders' capital</b>			
Balance, beginning of year		101,385	61,507
Private placements, net of fees	16	-	39,236
Equity-based settlements	16	372	642
<b>Balance, end of year</b>		<b>101,757</b>	<b>101,385</b>
<b>Contributed surplus</b>			
Balance, beginning of year		2,476	2,341
Equity-based settlements	16	(132)	(213)
Equity-based compensation expense	16	888	302
Equity-based compensation capitalized	6,7	234	46
<b>Balance, end of year</b>		<b>3,466</b>	<b>2,476</b>
<b>Other comprehensive loss</b>			
Balance, beginning of year		(13,331)	(14,598)
Comprehensive income		112	1,267
<b>Balance, end of year</b>		<b>(13,219)</b>	<b>(13,331)</b>
<b>Deficit</b>			
Balance, beginning of year		(30,165)	(19,135)
Net earnings (loss)		5,719	(11,030)
<b>Balance, end of year</b>		<b>(24,446)</b>	<b>(30,165)</b>

See accompanying notes to these consolidated financial statements.

**Touchstone Exploration Inc.**  
**Consolidated Statements of Cash Flows**  
*Stated in thousands of United States dollars*

		<b>Year ended December 31,</b>	
	Note	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>			
Net earnings (loss)		5,719	(11,030)
Items not involving cash from operations:			
Net gain on asset dispositions		(21)	-
Unrealized foreign exchange loss	18	(288)	(50)
Equity-based compensation	16	888	302
Depletion and depreciation	7	3,415	3,504
Impairment (reversal)	8	(13,674)	11,418
Other	22	614	2,392
Deferred income tax expense (recovery)	15	7,463	(6,273)
Decommissioning expenditures	14	(9)	-
<b>Funds flow from operations</b>		<b>4,107</b>	<b>263</b>
Net change in non-cash operating working capital	22	(2,561)	2,033
<b>Cash from operating activities</b>		<b>1,546</b>	<b>2,296</b>
<b>Investing activities</b>			
Changes in restricted cash		-	271
Exploration and evaluation expenditures	6	(20,106)	(17,861)
Property, plant and equipment expenditures	7	(7,757)	(709)
Abandonment fund expenditures	14	(112)	(103)
Proceeds from asset dispositions	7	229	163
Net change in non-cash investing working capital	22	(1,645)	2,641
<b>Cash used in investing activities</b>		<b>(29,391)</b>	<b>(15,598)</b>
<b>Financing activities</b>			
Changes in restricted cash	12	(884)	(294)
Advance (payment) of term loan	12	22,396	(7,633)
Production liability payments	13	(392)	(262)
Net finance lease payments	9,11	(261)	(107)
Issuance of common shares, net of fees	16	240	39,665
Net change in non-cash financing working capital	22	48	(50)
<b>Cash from financing activities</b>		<b>21,147</b>	<b>31,319</b>
Change in cash		(6,698)	18,017
Cash, beginning of year		24,281	6,182
Impact of foreign exchange on foreign denominated cash balances		353	82
<b>Cash, end of year</b>		<b>17,936</b>	<b>24,281</b>
Supplementary information for cash flow from operating activities:			
Interest paid in cash	12	709	1,407
Income taxes paid in cash	15	1,122	1,654

See accompanying notes to these consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

### 1. Nature of Business

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

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

### 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 denominated in United States dollars ("\$" or "US\$"). Certain reclassification adjustments have been made to these financial statements to conform to the current presentation. The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Significant Accounting Policies".

The timely preparation of 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 4 "Use of Estimates, Judgements and Assumptions".

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 performance.

These financial statements were approved by the Company's Board of Directors (the "Board") on March 25, 2022.

### 3. Significant Accounting Policies

The accounting policies set forth below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Company and its subsidiaries.

#### Basis of consolidation

The financial statements include the accounts of Touchstone Exploration Inc. and its following subsidiaries:

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%
Touchstone Renewables Ltd.	Trinidad	100%

All inter-entity balances and transactions have been eliminated upon consolidation between Touchstone Exploration Inc. and its subsidiaries in these financial statements.

### **Joint arrangements**

The Company may conduct its crude oil and natural 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.

### **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 Company has determined that the functional currency of the parent company is the Canadian dollar ("C\$"); the functional currency of the Company's Barbadian entity is the US\$; and the functional currency of each of its 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 income (loss) and 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 United States dollars as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the reporting date closing rate;
- revenue and expenses and certain cash flow items for each period are translated at average monthly exchange rates (unless this is not a representative 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 other comprehensive income (loss), a separate component of shareholders' equity.

### **Business combinations**

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration of acquisition given up is less than the fair value of the net assets received, the difference is recognized immediately in the statements of comprehensive income. If the consideration of acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the consolidated statements of financial position ("statements of financial position"). Acquisition costs incurred are expensed.

## **Financial instruments**

### *Classification and measurement of 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 instruments' 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 recognized on the statements of comprehensive income. Financial instruments under this classification include financial derivatives and production liability (included in other liabilities on the statements of financial position).
- *Amortized cost:* Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable, lease liabilities and term loan.
- *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 (loss), net of income 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 administration expenses.

## **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 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 commodity 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. Fair value less costs of disposal is also calculated to determine the recoverable amount of non-financial assets when they are tested for impairment.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using the following 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 marketplace.
- *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 of a particular input to the fair value measurement require judgement and may affect the placement within the fair value hierarchy.

#### **Restricted cash**

The Company's restricted cash balance represents minimum cash reserves required in accordance with its term loan agreement. Balances are classified as non-current assets if the loan agreement expires greater than one year from the applicable reporting date.

#### **Crude oil inventory**

Crude oil is valued at the lower of cost and net realizable value. The cost of crude oil inventory is calculated using the weighted average cost method which 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.

#### **Exploration and evaluation 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 and evaluation ("E&E") assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, exploration drilling, completion and production testing costs, directly attributable overhead and equity-based compensation expenses, and estimates of any decommissioning costs are capitalized and accumulated pending determination of technical feasibility and commercial viability. Technical feasibility and commercial viability of E&E 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. Assets classified as exploration may have sales of petroleum products associated with production from test wells, which are recognized in the statements of comprehensive income.

Non-producing assets classified as E&E assets are not depleted. When E&E assets are determined to be technically feasible and commercially viable, the relevant costs are transferred to property, plant and equipment ("PP&E"). 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. If a decision is made by Management not to continue an E&E project, the unrecoverable costs are recognized on the statements of comprehensive income.

### **Property, plant and equipment**

Items of PP&E which currently include crude oil development and production assets, right-of-use ("ROU") assets and corporate assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses.

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 E&E assets, property acquisitions, facilities, directly attributable overhead and equity-based compensation expenses, as well as land acquisition, decommissioning liabilities, geological and geophysical, and drilling, completion and production testing costs.

Petroleum assets are accumulated in cost centres at the cash-generating unit ("CGU") level. 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 depleted using the unit-of-production method based upon estimated proved plus probable oil and natural gas 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"), the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment testing and depletion purposes, the Company assumes that all relevant agreements will be renewed under similar terms based on the Company's previous experience with the renewal process in Trinidad.

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.

### **Impairment of non-financial assets**

#### *Property, plant and equipment*

PP&E assets are grouped into CGUs for the purposes of testing impairment. 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 estimated recoverable amount is recognized in the statements of comprehensive income as impairment expense.

Fair value less costs to sell is estimated using the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less any 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 an after-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Value in use is computed by reference to the present value of the related future cash flows expected to be derived from estimated proved plus probable oil and natural gas reserves.



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

#### *Exploration and evaluation assets*

E&E 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 E&E assets, reversals of impairment. An impairment loss on E&E assets is recognized if the carrying value of the assets exceed the estimated recoverable amount. Similarly, a previously recorded impairment loss may be reversed if the estimated recoverable amount of a particular CGU is greater than the carrying amount. E&E asset impairment losses or reversals are recognized in the statements of comprehensive income as impairment expense.

#### **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 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 past one year.

Immediately before E&E and PP&E assets are classified as held for sale, they are assessed for indicators of impairment and are measured at the lower of their carrying amount and estimated recoverable amount, with any impairment loss 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.

#### **Dispositions**

Gains or losses on disposal of assets are determined as the difference between the net proceeds from disposal and the carrying amount of the assets held for sale and are recognized in the statements of comprehensive income.

Exchanges of assets are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured, in which the assets are measured at the carrying value of the assets disposed.

#### **Lease arrangements**

The Company assesses whether an arrangement is a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### *As lessee*

When the Company is a party to a lease arrangement as the lessee, leases are recognized as a ROU asset and a corresponding lease liability on the statements of financial position on the date that the leased asset becomes available for use.

ROU assets and lease liabilities are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. The future payments are discounted using the interest rate implicit in the lease or, when that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the lease liability and finance expenses. Finance expenses are recognized on the statements of comprehensive income over the lease term.

Associated ROU assets are initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease payments made at or before the commencement date. ROU assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. ROU assets may be adjusted for certain remeasurements of the lease liability and impairment losses.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the statements of comprehensive income on a straight-line basis over the lease term.

#### *As lessor*

Where the Company acts as the lessor in a lease arrangement, the Company assesses at inception whether the lease is a finance lease or an operating lease. Leases where the Company transfers substantially all of the risk and rewards incidental to ownership of the underlying asset are classified as finance leases. Under a finance lease, the Company records the current portion of the finance lease in accounts receivable and the non-current 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. The Company records lease payments received under operating leases as other income on a straight-line basis over the lease term.

#### **Term loan**

The Company's term loan facilities are initially measured at fair value, net of all transaction fees, and are 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 net finance expenses on the statements of comprehensive income.

#### **Production liability**

The production liability granted in connection with the Company's former term loan is included in other liabilities on the statements of financial position. The liability is measured at fair value at each financial reporting date using internal forecasts of future crude oil and natural gas production and forward commodity strip pricing. The liability is reduced by actual amounts paid to the counterparty.

#### **Provisions and contingent liabilities**

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 loss on any assets associated with the onerous contract.

A contingent liability is disclosed when the Company has a possible obligation arising from a past event whose existence will be confirmed by future events not wholly under its control, or when the Company has a present obligation that arises from past events that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

### **Decommissioning liabilities**

Provisions for abandonment and reclamation obligations associated with the Company's E&E and PP&E assets are recognized as decommissioning liabilities. Decommissioning liabilities are measured at the present value of Management's best estimate of expenditures required to settle the liability at the end of the related assets' useful life as at the reporting date of the statements of financial position. On a periodic basis, Management reviews these estimates, and any changes are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. Capitalized costs included in PP&E balances 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 in net finance expenses. Actual costs incurred upon settlement of the obligations are recognized against the provision to the extent the provision was established.

With respect to decommissioning liabilities associated with the Company's production and exploration arrangements with Heritage, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a specific well 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 Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") and private production and exploration agreements.

### **Decommissioning abandonment fund**

Pursuant to production and exploration licences with both Heritage and the MEEI, the Company is obligated to remit payments into abandonment funds based on production. The abandonment fund obligations are determined based on cumulative petroleum sales. As these funds are effectively a reimbursement right, there is no associated reduction to the decommissioning liability. Accrued obligations are recorded as a non-current asset as the funds must be used for the future abandonment of wells and facilities in the associated licenced area.

### **Revenue recognition**

The Company principally generates revenue 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. Petroleum sales are recognized when control is transferred from the Company to its customers, and the Company has the present right to payment. The transfer of control of crude oil coincides with title passing to the customer and the customer taking physical possession.

### **Equity-based compensation plans**

The Company's equity-based compensation plans 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 shareholders' capital.

### **Income taxes**

Provision for or recovery of income tax comprises current and deferred income tax and 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 recorded in equity.

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

Deferred tax is recognized using the balance sheet 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 assets and settle the liabilities simultaneously. Deferred tax is not recorded 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.

### **Per share information**

Basic per share information is computed by dividing net earnings (loss) attributable to shareholders by the weighted average number of common shares outstanding during the period. The treasury-stock method is used to determine the diluted per share amounts, whereby any proceeds from share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding for the period is then adjusted by the net change.

## **4. Use of Estimates, Judgements and Assumptions**

The timely preparation of financial statements in conformity with IFRS requires Management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. These estimates, judgments and assumptions are subject to change, and actual results could differ from those estimated, and those differences could be material. 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 discussed below.

### **Measurement uncertainty**

The novel coronavirus ("COVID-19") pandemic and subsequent measures intended to limit the outbreak have contributed to significant declines and volatility in global financial markets. Although health measures have eased and economies are in various stages of reopening, the timing of a full economic recovery remains uncertain, partially as a result of a possible rise in variants of the virus. The ensuing economic recovery continues to drive the global demand for crude oil and related pricing, which in turn has had a significant impact on the Company's petroleum sales. In addition, the recent Russia-Ukraine conflict has further added to the unpredictability of global markets and commodity pricing. The scale and duration of these developments remain unclear, and the full extent of their impact presents uncertainty and risk with respect to the Company and its performance.

Continuing volatile market conditions have increased the complexity of estimates, judgements and assumptions used to prepare these financial statements, particularly related to the recoverability of non-financial asset carrying values and the deferred income tax provision. Although Management has incorporated the anticipated impacts of these events in its estimates and assumptions in these financial statements to the extent permissible under IFRS, changes to any future estimates and assumptions could result in a material adjustment to the carrying amounts of assets and liabilities.

### **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.

### **Crude oil and natural gas reserves**

There are a number of inherent uncertainties associated with estimating proved plus probable oil and natural gas reserves. Reserve estimates are based on engineering and geological data, forecasted oil and natural gas estimates, forecasted production volumes, and the timing and amount of forecasted royalty, operating and future development costs, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing as of December 31, 2021 and 2020, which could differ significantly from future periods. The estimate of proved plus probable oil and natural gas reserves and the related cash flows are evaluated by independent third-party qualified reserves evaluators at least annually in accordance with NI 51-101.

### **Determination of cash-generating units**

Determination of what constitutes a CGU is subject to Management's judgement. The recoverability of E&E asset and petroleum asset carrying values included in PP&E 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 E&E assets to PP&E is based on Management's judgement of technical feasibility and commercial viability.

### **Recoverability of asset carrying values**

Significant judgement is required in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The key estimates the Company applies in determining the recoverable amount of assets include estimates of proved plus probable oil and natural gas reserves and the related future cash flows, forecasted production volumes, forecasted oil and natural gas prices, forecasted royalty, operating and future

development costs, income taxes, inflation and discount rates.

In estimating the recoverable amount of E&E asset CGUs, Management factors in future development plans, lease expiries, and required regulatory approvals into the relevant CGU assessment. Where applicable, the Company incorporates net present value calculations of reserves and resources associated with certain E&E assets as estimated by the Company's independent third-party reserves evaluator. E&E 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 E&E 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 PP&E CGUs are estimated based on value in use calculations using discounted after-tax cash flows derived from the Company's proved plus probable oil and natural gas reserves as estimated by the Company's independent third-party reserves evaluator. The reserve evaluation is based on an estimated reserve life up to a maximum of 50 years. Key input estimates used in the determination of related future cash flows from proved plus probable oil and natural gas reserves are set forth below.

- *Proved plus probable oil and natural gas reserves and forecasted production volumes:* Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forecasted oil and natural gas price estimates, forecasted operating costs, required forecasted future development costs or recovery rates may change the economic status of reserves and may ultimately result in revisions to reserves estimates. Discounted future cash flow models consider development plans approved by Management and reasonable assumptions that a market participant would apply in establishing a development plan for the assets.
- *Forecasted oil and natural gas prices:* Forecasted oil and natural gas pricing estimates are used in the discounted future cash flow models. These prices are adjusted for consideration stipulated in contracts with customers. Oil and natural gas 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 and the continuing effects of COVID-19.
- *Forecasted royalty rates, operating costs, general and administration costs and income tax expenses:* Estimates of these inputs are based on historical results and estimates regarding inflation over the forecast periods. Forecasted income tax calculations are based on the laws that have been enacted or substantively enacted for the appropriate cash flow streams.
- *Forecasted future development costs:* Future development costs are estimated based on expected future costs of wells and projects and estimates regarding inflation over the forecast periods. There also exists uncertainty regarding the estimated timing of capital projects, as the Company has significant development opportunities in several properties, and the ultimate pace of development is controlled to meet future capital expenditure and liquidity targets.
- *Discount rate:* The discount rates used to calculate the net present value of future cash flows are based on estimates of an approximate industry peer group weighted average cost of capital, which factor in debt and equity weightings of comparable corporations. Changes in the general economic environment could result in significant changes to this estimate.

#### **Depletion of petroleum assets**

Depletion of development petroleum assets is determined based on proved plus probable oil and natural gas reserves as well as forecasted future development costs estimated by the Company's independent third-party reserves evaluator.

### **Exploration and evaluation assets**

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of petroleum products is technically feasible and commercially viable. Determining whether sufficient progress has been made is a judgemental area, and it is possible to have E&E assets classified as such for several years while activities are being conducted or the Company is seeking regulatory and internal approvals for development plans. E&E assets are subject to ongoing Management review to confirm the intent to establish technical feasibility and commercial viability of a discovery. This assessment includes many changing factors, including project economics, expected capital expenditures and production costs, access to infrastructure, obtaining and the timing of receiving required regulatory approvals, and potential infrastructure construction and expansions.

### **Decommissioning liabilities**

The provision for decommissioning liabilities is based on numerous assumptions and judgements, including ultimate remediation plans, 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 liability, a corresponding adjustment is made to the associated E&E or PP&E balance.

### **Lease arrangements**

Management applies judgment in reviewing each of its contractual arrangements to determine whether they contain a lease. Leases that are recognized are subject to further Management judgment and estimation in various areas specific to the contractual arrangements, including lease terms and discount rates. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Lease obligations are estimated using a discount rate equal to the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company's incremental borrowing rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with comparable payment terms and security in a similar economic environment.

### **Provisions**

The determination of provisions involves Management's judgements about the probability of outcomes of future events and estimates on timing and amount of expected future cash flows.

### **Equity-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's judgements. Forfeitures are estimated through the vesting period based on future expectations and are adjusted upon actual vesting and forfeitures.

### **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

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interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and comprehensive income (loss).

**5. 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, 2021, the Company was exposed to credit risk with respect to its accounts receivable and long-term finance lease receivable balances. The credit risk associated with the Company's finance lease receivables are considered negligible as the assets are secured by the underlying equipment, with ownership transferring to the counterparties subsequent to receipt of the final lease payments (refer to note 9).

The Company's credit exposure on accounts receivable typically pertains to petroleum sales for monthly production volumes sold to Heritage and value added taxes ("VAT") due from the Trinidad government. As at December 31, 2021, \$1,594,000 of petroleum sales was included in accounts receivable, representing approximately 21 percent of the Company's consolidated accounts receivable balance (2020 - \$1,161,000 and 25 percent, respectively). In addition, \$5,519,000 of the Company's consolidated accounts receivable was comprised of VAT as of December 31, 2021, which represented approximately 73 percent of the total balance (2020 - \$3,031,000 and 65 percent, respectively).

As at December 31, 2021, the Company determined that the average expected credit loss on the Company's accounts receivables was \$nil (2020 - \$nil). The Company believes that the accounts receivable balances that are past due as of December 31, 2021 are ultimately collectible, as they solely represent VAT amounts due from the Trinidad government. Although the timing of settlement is uncertain, the Company has not historically experienced any collection issues. The aging of accounts receivable as at December 31, 2021 and 2020 is disclosed in the following table.

(\$000's)	December 31, 2021	December 31, 2020
Not past due	3,181	2,781
Past due (greater than 90 days)	4,365	1,904
<b>Accounts receivable</b>	<b>7,546</b>	<b>4,685</b>

**6. Exploration and Evaluation Assets**

(\$000's)	Year ended December 31,	
	2021	2020
Balance, beginning of year	30,680	13,579
Additions	20,343	17,909
Impairment (note 8)	(114)	(821)
Effect of change in foreign exchange rates	(149)	13
<b>Balance, end of year</b>	<b>50,760</b>	<b>30,680</b>

During the year ended December 31, 2021, \$1,007,000 of direct and attributable overhead charges were capitalized to E&E assets (2020 - \$666,000).



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**7. Property, Plant and Equipment**

(\$000's)	Petroleum assets	Right-of-use assets	Corporate assets	Total
<b>Cost</b>				
Balance, January 1, 2020	140,078	370	1,908	142,356
Additions	1,024	242	-	1,266
Decommissioning liability change in estimate (note 14)	496	-	-	496
Foreign exchange translation	(188)	19	36	(133)
<b>Balance, December 31, 2020</b>	<b>141,410</b>	<b>631</b>	<b>1,944</b>	<b>143,985</b>
Additions	7,755	2,324	450	10,529
Decommissioning liability change in estimate (note 14)	(490)	-	-	(490)
Transfer to other assets (note 9)	(1,271)	-	-	(1,271)
Reclassified as assets held for sale	(3,957)	-	-	(3,957)
Foreign exchange translation	(553)	(5)	2	(556)
<b>Balance, December 31, 2021</b>	<b>142,894</b>	<b>2,950</b>	<b>2,396</b>	<b>148,240</b>
<b>Accumulated depletion, depreciation and impairment</b>				
Balance, January 1, 2020	84,719	174	1,733	86,626
Depletion and depreciation	3,270	169	65	3,504
Impairment	10,623	-	-	10,623
Decommissioning liability change in estimate (note 14)	413	-	-	413
Foreign exchange translation	(241)	8	36	(197)
<b>Balance, December 31, 2020</b>	<b>98,784</b>	<b>351</b>	<b>1,834</b>	<b>100,969</b>
Depletion and depreciation	2,966	59	390	3,415
Impairment reversal (note 8)	(13,786)	-	-	(13,786)
Transfer to other assets (note 9)	(411)	-	-	(411)
Reclassified as assets held for sale	(2,835)	-	-	(2,835)
Foreign exchange translation	(389)	(1)	3	(387)
<b>Balance, December 31, 2021</b>	<b>84,329</b>	<b>409</b>	<b>2,227</b>	<b>86,965</b>
<b>Carrying amounts</b>				
Balance, December 31, 2020	42,626	280	110	43,016
<b>Balance, December 31, 2021</b>	<b>58,565</b>	<b>2,541</b>	<b>169</b>	<b>61,275</b>

As at December 31, 2021, \$62,637,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (2020 - \$59,064,000). During the year ended December 31, 2021, \$411,000 of direct and attributable overhead charges were capitalized to PP&E (2020 - \$257,000).

**Dispositions**

In December 2018, the Company completed the disposition of a nominal crude oil field and related PP&E assets. The Company sold its 50 percent operating working interest in the field to its previous third-party partner for consideration of \$500,000. \$204,000 of the remaining consideration was collected during the year ended December 31, 2021 (2020 - \$163,000).

In May 2021, the Company executed letters of intent with a third party to dispose of three non-core properties for aggregate consideration of \$350,000, subject to customary closing adjustments. Immediately prior to classifying the assets and associated liabilities as held for sale, the Company conducted a review of the assets' recoverable amounts based on the expected consideration to be received and transferred these assets at their carrying amount, with no impairment recognized. The transactions remain subject to standard regulatory approvals and the extension of the associated production licences.

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For the years ended December 31, 2021 and 2020

The following table specifies the carrying values that were classified as held for sale on the December 31, 2021 statement of financial position.

(\$000's)	December 31, 2021
PP&E	1,122
Abandonment fund (note 14)	54
<b>Assets held for sale</b>	<b>1,176</b>
Decommissioning obligations (note 14)	(1,695)
<b>Liabilities associated with assets held for sale</b>	<b>(1,695)</b>
<b>Net liabilities held for sale</b>	<b>(519)</b>

### 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 continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the year ended December 31, 2021, production volumes produced under expired private lease agreements represented 1.9 percent of annual Company production (2020 - 1.8 percent).

## 8. Impairment

### Exploration and evaluation assets

During the year ended December 31, 2021, the Company recognized E&E asset impairments of \$112,000 (2020 - \$795,000). The impairments were related to licence financial obligations for non-core exploration properties.

The December 31, 2021 E&E asset carrying value of \$50,760,000 was included in the Ortoire CGU. No indicators of impairment were identified by the Company as at December 31, 2021.

### Property, plant and equipment

PP&E impairment (reversal) for the years ended December 31, 2021 and 2020 by CGU are disclosed in the following table.

CGU (\$000's)	Year ended December 31,	
	2021	2020
Coora	(5,596)	4,268
WD-4	(4,060)	1,941
WD-8	(4,130)	4,298
PP&E inventory	-	116
<b>PP&amp;E impairment (reversal)</b>	<b>(13,786)</b>	<b>10,623</b>

#### 2021 Impairment reversals

At December 31, 2021, as a result of an increase in forecasted crude oil prices compared to December 31, 2020, as well as increases in field and drilling activities performed in 2021, the Company identified indicators of impairment reversals for its Coora, WD-4 and WD-8 CGUs. Based on the results of impairment tests conducted, the Company recognized an aggregate impairment reversal of \$13,786,000 related to these CGUs for the year ended December 31, 2021.

## Notes to the Consolidated Financial Statements

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The impairment tests at December 31, 2021 concluded that the recoverable amounts of the CGUs exceeded their carrying values as noted in the following table.

CGU (\$000's)	Recoverable amount	Carrying value	Impairment reversal
Coora	15,384	9,788	(5,596)
WD-4	18,359	14,299	(4,060)
WD-8	15,899	11,769	(4,130)

### 2020 Impairments

As a consequence of the onset of the COVID-19 pandemic, global crude oil oversupply and the resulting drastic decrease in forecasted crude oil prices compared to those at December 31, 2019, indicators of impairment were identified for all petroleum asset CGUs on March 31, 2020. Based on the results of impairment tests conducted, the Company recognized aggregate impairments of \$19,215,000 relating to its Coora, WD-4 and WD-8 CGUs.

As at December 31, 2020, the Company identified indicators of impairment and impairment reversals related to all petroleum asset CGUs based on updated changes in future development plans along with significant crude oil price volatility throughout 2020 and continuing economic uncertainty surrounding the impact of COVID-19. The Company performed impairment tests on all CGUs, resulting in an aggregate impairment reversal of \$8,708,000.

### Property, plant and equipment impairment key assumptions

Calculating the recoverable amounts of the Company's CGUs involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. The estimated recoverable amounts as of December 31, 2021, December 31, 2020 and March 31, 2020 were determined using value in use calculations incorporating discounted after-tax cash flows of proved plus probable oil reserves using forecasted oil prices and cost estimates as assessed by the Company's independent third-party reserves evaluator. Discounted future cash flows were determined by applying a 20 percent after-tax discount rate as at December 31, 2021 (2020 - 20 percent for each period).

The following table details the forecasted oil pricing and inflation rates used in estimating the recoverable amounts of the Company's petroleum asset CGUs as estimated by the Company's independent reserves evaluator effective January 1, 2022.

Forecast year	Brent spot crude oil (\$/bbl)	Inflation rates (percent per year)
2022	76.00	0.0
2023	72.51	3.0
2024	71.24	2.0
2025	72.66	2.0
2026	74.12	2.0
2027	75.59	2.0
2028	77.11	2.0
2029	78.66	2.0
2030	80.22	2.0
2031	81.33	2.0
Thereafter	+2.0% / year	2.0

Changes in any of the key judgments, such as a revision in reserves, changes in forecasted oil prices and inflation rates, operating costs, future development costs, or the discount rate, would impact the estimated recoverable amounts, and any impairment reversals or losses would affect

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comprehensive income (loss). The following table demonstrates the sensitivity of the pre-tax impairment amounts by CGU from possible changes in key assumptions inherent in the December 31, 2021 impairment tests.

CGU (\$000's)	Decrease in discount rate of 1%	Increase in discount rate of 1%	Increase in crude oil price of 10%	Decrease in crude oil price of 10%
Coora	619	(582)	4,218	(4,217)
WD-4	649	(611)	1,506	(4,692)
WD-8	684	(642)	4,161	(4,162)
<b>Increase (decrease) to impairment reversal</b>	<b>1,952</b>	<b>(1,835)</b>	<b>9,885</b>	<b>(13,071)</b>

### 9. Other Assets

The following table sets forth the components of other assets for the reporting periods indicated.

(\$000's)	December 31, 2021	December 31, 2020
Long-term prepaid deposits	26	24
Finance lease receivable	647	-
<b>Other assets</b>	<b>673</b>	<b>24</b>

Effective March 1, 2021, the Company entered into separate three-year arrangements to lease its oilfield service rigs and swabbing units to two third-party service providers for aggregate proceeds of approximately \$1,120,000. Principal payments commenced in March 2021, and the Company continues to hold title to the assets until all principal payments have been collected. The lease arrangements were classified as finance leases, as substantially all of the risks and rewards incidental to ownership of the underlying assets are held by the lessees. On the effective date, the \$856,000 carrying value of the leased assets were reclassified from PP&E to other assets on the statement of financial position with a \$4,000 loss on disposition recorded.

The Company entered into a five-year arrangement to lease its coil tubing unit, four service rigs and ancillary equipment to a third-party contractor on October 1, 2017. Effective September 1, 2020, the amended lease arrangement was terminated, with the equipment reverting to the Company.

The following table details the movements of the Company's finance lease receivable for the periods indicated.

(\$000's)	Year ended December 31,	
	2021	2020
Balance, beginning of year	-	376
Additions	856	-
Interest income	65	18
Payments received	(184)	(109)
Lease termination	-	(285)
Effect of change in foreign exchange rates	1	-
<b>Balance, end of year</b>	<b>738</b>	<b>-</b>
Current (included in accounts receivable)	91	-
Non-current (included in other assets)	647	-
<b>Finance lease receivable</b>	<b>738</b>	<b>-</b>

## 10. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company manages its liquidity risk by using cash and debt management programs, including continuously monitoring actual and forecasted cash flows from operating, investing and financing activities and opportunities to expand its existing credit facility or to issue additional equity. The Company's near-term development plan is strategically balanced between investing in legacy crude oil assets, bringing recent exploration discoveries onto production and proceeding with exploratory activities. The Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. The Company believes that future cash flows will be adequate to meet financial obligations as they come due.

Refer to Note 12 "Term Loan", Note 19 "Capital Management" and Note 20 "Commitments and Contingencies" for further details regarding the Company's debt structure and capital management objectives. The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at December 31, 2021.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	16,000	16,000	-	-
Income tax payable (note 15)	236	236	-	-
Lease liabilities (note 11)	3,224	616	2,168	440
Term loan principal (note 12)	30,000	3,000	12,000	15,000
Term loan interest (note 12)	7,261	2,316	3,375	1,570
Production liability (note 13)	1,880	429	1,451	-
<b>Total financial liabilities</b>	<b>58,601</b>	<b>22,597</b>	<b>18,994</b>	<b>17,010</b>

## 11. Lease Liabilities

The Company is a party to lease arrangements for a drilling rig, office space and office equipment. Lease agreements are negotiated on an individual basis and contain varying terms and conditions. The lease contracts are effective for periods of one to ten years, and discount rates used in calculating the present values of lease payments during the year ended December 31, 2021 were between 5 and 10 percent. The following table provides a continuity of the Company's lease liabilities for the years ended December 31, 2021 and 2020.

(\$000's)	Year ended December 31,	
	2021	2020
<b>Balance, beginning of year</b>	<b>383</b>	335
Additions	2,710	-
Lease modifications	-	235
Interest	81	21
Payments	(526)	(222)
Effect of change in foreign exchange rates	-	14
<b>Balance, end of year</b>	<b>2,648</b>	383
Current (included in accounts payable and accrued liabilities)	383	48
Non-current	2,265	335
<b>Lease liabilities</b>	<b>2,648</b>	383

In 2021, the Company entered into a minimum three-year drilling services contract with a third party to supply a North American based drilling rig to Trinidad. Pursuant to the arrangement, the Company is required to utilize the rig for a minimum of 120 days per annum over the initial three-year term. The drilling rig commenced operations in October 2021, with the Company recognizing a \$2,479,000 lease liability and associated ROU asset.

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Effective July 1, 2020, an arrangement relating to head office space was amended and extended by a further five-year period. The lease amendment was considered a lease modification, with the remeasured lease liability and associated ROU asset balances each increasing by \$240,000.

The following table details the undiscounted cash flows which include both principal and interest components of the Company's lease liabilities as at December 31, 2021 and 2020.

(\$000's)	December 31, 2021	December 31, 2020
Less than one year	616	66
1 to 3 years	2,168	127
4 years	440	254
<b>Undiscounted cash flows related to lease liabilities</b>	<b>3,224</b>	<b>447</b>

Payments recognized in the financial statements relating to short-term leases during the year ended December 31, 2021 were \$387,000 (2020 - \$187,000). These arrangements primarily consisted of leases of motor vehicles, which were recognized in operating expenses in the statements of comprehensive income. Variable lease payments of \$122,000 not included in the calculation of the Company's lease obligations during the year ended December 31, 2021 were recognized in general and administration expenses in the statements of comprehensive income (2020 - \$129,000).

### 12. Term Loan

The Company's indirect wholly owned Trinidadian subsidiary entered into a \$20 million, seven-year term credit facility arrangement from a Trinidad-based financial institution effective June 15, 2020. On closing, the Company withdrew \$15 million to satisfy the Company's obligations relating to prepaying the Company's Canadian dollar ("C\$") denominated \$20 million term loan (the "Retired Term Loan"). During the year ended December 31, 2020, the Company incurred \$180,000 in finance expenses and recorded a \$1,158,000 revaluation loss in connection with prepaying the Retired Term Loan.

On December 21, 2021, the parties entered into an amended and restated loan agreement (the "Term Loan") providing for a \$10 million increase in the principal balance to \$30 million. The Term Loan did not amend any other terms of the prior loan agreement. Effective December 30, 2021, the Company withdrew an additional \$15 million on the credit facility, resulting in the full principal balance of \$30 million outstanding.

The Term Loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The Term Loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. Twenty equal and consecutive quarterly principal payments of \$1.5 million commence on September 15, 2022. Prepayments are permitted with a one percent penalty and a 30-day notice period, and no penalty shall apply on principal repayments after three years. The Term Loan is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of the Trinidad subsidiary and its wholly owned Trinidad exploration and production subsidiary. The Term Loan contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be tested on an annual basis commencing with financial results for the year ended December 31, 2022.

At all times, the Company must maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments. Accordingly, the Company classified \$1,178,000 of cash as long-term restricted cash as at December 31, 2021 (2020 - \$294,000).

The amended and restated term loan arrangement was considered a debt modification. The expanded facility was measured at amortised cost, with the aggregate associated financing fees

## Notes to the Consolidated Financial Statements

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unwound using the effective interest rate method to the face value at maturity. A \$279,000 revaluation loss was recorded in connection of the debt modification during the year ended December 31, 2021. The following table details the movements of the Company's term loan balance for the periods indicated.

(\$000's)	Retired Term Loan liability	Term Loan liability	Total
Balance, January 1, 2020	13,966	-	13,966
Advance, net of transaction fees	-	14,617	14,617
Payments	(14,750)	(7,500)	(22,250)
Revaluation loss on prepayment	1,158	-	1,158
Accretion	173	59	232
Effect of change in foreign exchange rates	(547)	-	(547)
<b>Balance, December 31, 2020</b>	-	<b>7,176</b>	<b>7,176</b>
Advances, net of debt modification fees	-	<b>22,396</b>	<b>22,396</b>
Revaluation loss	-	<b>279</b>	<b>279</b>
Accretion	-	<b>45</b>	<b>45</b>
<b>Balance, December 31, 2021</b>	-	<b>29,896</b>	<b>29,896</b>
Current	-	<b>3,000</b>	<b>3,000</b>
Non-current	-	<b>26,896</b>	<b>26,896</b>
<b>Term loan</b>	-	<b>29,896</b>	<b>29,896</b>

### 13. Other Liabilities

In connection with the Retired Term Loan, the Company granted its former lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2023. Upon repayment of the Retired Term Loan, the Company and the lender entered into an amended production payment agreement to continue the obligation under its previous terms and conditions. The production liability is revalued at each reporting period based on internally estimated future production and forward crude oil and natural gas liquids pricing forecasts (considered level 3 inputs within the fair value hierarchy). The following table details the movements of the Company's production liability for the periods indicated.

(\$000's)	Year ended December 31,	
	2021	2020
Balance, beginning of year	1,519	989
Revaluation loss	83	759
Payments	(392)	(262)
Effect of change in foreign exchange rates	1	33
<b>Balance, end of year</b>	<b>1,211</b>	<b>1,519</b>
Current (included in accounts payable and accrued liabilities)	303	162
Non-current (included in other liabilities)	908	1,357
<b>Total production liability</b>	<b>1,211</b>	<b>1,519</b>

### 14. Decommissioning Liabilities and Abandonment Fund

The Company's decommissioning liabilities were calculated 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 forecasted to be from ten to eighteen years, with the majority of the costs estimated to be incurred subsequent to 2031. The liabilities are expected to be financed from the abandonment fund and the Company's internal resources available at the time of settlement.

Pursuant to Heritage and MEEI production and exploration licences and agreements, the Company is obligated to remit payments into abandonment funds based on production. The Company remits \$0.25 per barrel of crude oil sold, and the funds will be used for the future abandonment of wells in

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the related licenced area. As at December 31, 2021, the Company classified \$1,278,000 of accrued or paid fund contributions as non-current abandonment fund assets (2020 - \$1,226,000), with \$54,000 of abandonment fund assets classified as assets held for sale (refer to note 7).

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$10,012,000 as at December 31, 2021 based on an inflation adjusted future liability of \$15,943,000 (2020 - \$11,919,000 and \$18,982,000, respectively). The following table summarizes the Company's estimated decommissioning liability provision for the periods indicated.

(\$000's)	Year ended December 31,	
	2021	2020
<b>Balance, beginning of year</b>	<b>11,919</b>	11,547
Liabilities incurred	<b>101</b>	115
Liabilities settled	<b>(9)</b>	-
Accretion expense	<b>273</b>	297
Revisions to estimates	<b>(529)</b>	(25)
Reclassified as liabilities associated with assets held for sale (note 7)	<b>(1,695)</b>	-
Effect of change in foreign exchange rates	<b>(48)</b>	(15)
<b>Balance, end of year</b>	<b>10,012</b>	11,919

During the year ended December 31, 2021 the Company incurred decommissioning liabilities of \$101,000 based on drilling activities (2020 - \$115,000). A further increase in Heritage related decommissioning obligations was driven by 2021 production, which increased the Company's proportionate working interest in future well abandonments.

Decommissioning liabilities were estimated as at December 31, 2021 using a weighted average long-term risk-free rate of 5.3 percent and a long-term inflation rate of 1.6 percent (2020 - 4.9 percent and 1.8 percent, respectively). The revision in rates reduced the estimated decommissioning liability by an aggregate \$529,000 during the year ended December 31, 2021 (2020 - \$25,000).

### 15. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2021 and 2020 were a combined rate of 55 percent of taxable income. The following table is a reconciliation of income taxes calculated by applying the applicable Trinidad statutory petroleum tax rates to net earnings (loss) before income tax expense.

(\$000's unless otherwise stated)	Year ended December 31,	
	2021	2020
Net earnings (loss) before income taxes	<b>14,540</b>	(17,029)
Trinidad statutory income tax rate	<b>55.0%</b>	55.0%
Expected income tax expense (recovery) at statutory tax rate	<b>7,997</b>	(9,366)
Effect on income tax resulting from:		
Change in income tax assets not recognized	<b>(1,443)</b>	1,014
Income tax rate differential	<b>825</b>	2,543
Other	<b>1,442</b>	(190)
<b>Income tax expense (recovery)</b>	<b>8,821</b>	(5,999)



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The Company's net deferred income tax liability solely relates to Trinidad operations. The following table details the components of the liability for the years ended December 31, 2021 and 2020.

(\$000's)	December 31, 2020	Recognized in equity	Recognized in earnings (loss)	December 31, 2021
PP&E	(16,264)	71	(8,039)	(24,232)
Decommissioning liabilities	579	(2)	12	589
Term loan	(159)	-	157	(2)
Loss carry forwards	6,084	(25)	(2,214)	3,845
Other	2,739	(10)	2,621	5,350
<b>Net deferred income tax liability</b>	<b>(7,021)</b>	<b>34</b>	<b>(7,463)</b>	<b>(14,450)</b>

The components of the Company's unrecognized deductible temporary differences as at December 31, 2021 and 2020 are detailed in the following table.

(\$000's)	December 31, 2021	December 31, 2020
E&E assets and PP&E	(34,024)	(23,991)
Loss carry forwards	125,950	110,154
Decommissioning obligations	10,637	10,867
Other	11,526	12,702
<b>Unrecognized deductible temporary differences</b>	<b>114,089</b>	<b>109,732</b>

The Company's December 31, 2021 net deferred tax liability includes an aggregate \$9,784,000 of deferred tax assets, which are reviewed at each reporting date to assess whether it is probable that the related tax benefit will be realized in the future (2020 - \$9,402,000). As at December 31, 2021 and 2020, the Company estimated that future taxable income was sufficient to realize the deferred tax asset. The estimates used to determine future taxable income are subject to measurement uncertainty, and actual results could differ from estimates.

The following table sets forth the Company's estimated income tax losses as at December 31, 2021 and 2020.

(\$000's)	December 31, 2021	December 31, 2020
Trinidad PPT losses	36,608	34,146
Trinidad corporate tax losses	1,511	1,771
Canada non-capital losses	95,459	85,806

Trinidadian PPT losses and corporate tax losses may be carried forward indefinitely to reduce the taxes in future years. PPT losses can only be utilized to shelter a maximum of 75 percent of income subject to PPT per annum. A deferred tax asset has not been recognized with respect to PPT losses in the amount of \$29,791,000 and Trinidad corporate income tax losses of \$56,000 as it was not considered probable that the benefit of the respective losses would be realized at December 31, 2021 (2020 - \$21,978,000 and \$1,771,000, respectively). Similarly, the benefit of the Canadian non-capital losses was not recognized as at December 31, 2021 and 2020.

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The following table is a continuity schedule of the Company's current income tax payable for the years ended December 31, 2021 and 2020.

(\$000's)	Year ended December 31,	
	2021	2020
<b>Balance, beginning of year</b>	-	1,329
Current income tax expense	1,358	274
Income tax payments	(1,122)	(1,654)
Income tax refunds	-	4
Instalments reclassified to accounts receivable	-	49
Effect of change in foreign exchange rates	-	(2)
<b>Balance, end of year</b>	<b>236</b>	-

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.

## 16. Shareholders' Capital

### Issued and outstanding common shares

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

	Number of shares	Shareholders' capital (\$000's)
Balance, January 1, 2020	160,703,095	61,507
Issued pursuant to private placements, net of fees	46,791,866	39,236
Equity-based settlements	1,904,666	642
<b>Balance, December 31, 2020</b>	<b>209,399,627</b>	<b>101,385</b>
Equity-based settlements	1,332,100	372
<b>Balance, December 31, 2021</b>	<b>210,731,727</b>	<b>101,757</b>

### Private placements

On November 12, 2020, the Company completed a private placement directed toward United Kingdom and Canadian investors, whereby gross proceeds of \$30,385,000 were raised by way of issuing 24,291,866 common shares at a price of 95 pence sterling and C\$1.64 per common share. Fees incurred from the private placement were \$1,999,000, which included brokerage commissions and legal and corporate finance advisory fees, resulting in net proceeds of \$28,386,000.

The Company completed a private placement on February 26, 2020 directed toward United Kingdom investors, raising gross proceeds of \$11,654,000 by issuing 22,500,000 common shares at a price of 40 pence sterling (approximately C\$0.69) per common share. Share issuance costs of \$804,000 were incurred, resulting in net proceeds of \$10,850,000.

### Equity compensation plan

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board to directors, officers, employees and consultants of the Company. The exercise price of each share option may not be less than the volume weighted average trading price per common share on the TSX for the five consecutive trading days ending on the last trading day preceding the grant date. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board, vesting typically occurs one third on each

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of the next three anniversaries of the grant date as recipients render continuous service to the Company, and the share options typically expire five years from the grant date.

	Number of share options	Weighted average exercise price (C\$)
Issued and outstanding, January 1, 2020	8,740,600	0.26
Granted	2,892,000	0.64
Exercised	(1,904,666)	0.30
Expired	(147,500)	2.10
Cancelled	(28,000)	0.42
<b>Issued and outstanding, December 31, 2020</b>	<b>9,552,434</b>	<b>0.34</b>
Granted	3,013,000	1.70
Exercised	(1,332,100)	0.22
<b>Issued and outstanding, December 31, 2021</b>	<b>11,233,334</b>	<b>0.72</b>
<b>Exercisable, December 31, 2021</b>	<b>5,456,337</b>	<b>0.28</b>

The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10 percent of the issued and outstanding common shares. During the year ended December 31, 2021, the Company recorded equity-based compensation expenses of \$888,000 in relation to equity compensation plans (2020 - \$302,000).

The following table sets forth share options outstanding and the weighted average remaining life of the share options as at December 31, 2021.

Range of exercise price (C\$)	Number of share options outstanding	Weighted average remaining term (years)	Number of share options exercisable	Weighted average remaining term (years)
0.14 to 0.15	1,199,300	0.3	1,199,300	0.3
0.21 to 0.25	4,150,034	1.9	3,300,036	1.8
0.48	2,590,000	3.3	863,335	3.3
1.38 to 1.73	3,013,000	4.4	-	-
2.07 to 2.11	281,000	4.0	93,666	4.0
<b>0.14 to 2.11</b>	<b>11,233,334</b>	<b>2.8</b>	<b>5,456,337</b>	<b>1.7</b>

The weighted average fair value of share options granted during the year ended December 31, 2021 was C\$0.93 per option as estimated on the date of each grant using the Black-Scholes option pricing model (2020 - C\$0.35 per option). The weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted for the years ended December 31, 2021 and 2020 are set forth in the table below.

	Year ended December 31,	
	2021	2020
Grant date share price (C\$)	1.70	0.64
Exercise price (C\$)	1.70	0.64
Risk-free interest rate (percent)	0.5	0.5
Expected life of share options (years)	3.0	3.0
Volatility (percent)	87.3	88.9
Expected annual dividends (C\$)	-	-
Expected forfeiture rate (percent)	5.0	5.0

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**Weighted average common shares**

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

	Year ended December 31,	
	2021	2020
Weighted average common shares outstanding - basic	210,160,212	183,780,580
Dilutive impact of equity-based compensation	7,517,872	-
<b>Weighted average common shares outstanding - diluted</b>	<b>217,678,084</b>	<b>183,780,580</b>

There was no dilutive impact to the weighted average number of common shares for the year ended December 31, 2020, with 6.9 million share options were excluded from the diluted weighted average share calculation as they were anti-dilutive.

**17. Net Finance Expenses**

(\$000's)	Year ended December 31,	
	2021	2020
Interest income	(5)	(32)
Lease liability interest expense (note 11)	81	21
Term loan interest expense (note 12)	734	1,151
Term loan revaluation loss (note 12)	279	1,158
Accretion on term loan (note 12)	45	232
Term loan finance expense (note 12)	-	199
Production liability revaluation loss (note 13)	83	759
Accretion on decommissioning liabilities (note 14)	273	297
Other	(53)	(50)
<b>Net finance expenses</b>	<b>1,437</b>	<b>3,735</b>
Cash net finance expenses	823	1,343
Non-cash net finance expenses (note 22)	614	2,392
<b>Net finance expenses</b>	<b>1,437</b>	<b>3,735</b>

**18. Financial Instruments and Market Risk Management**

**Financial instruments**

As of December 31, 2021, the Company's financial instruments include cash, accounts receivable, restricted cash, finance lease receivable (included in other assets on the statements of financial position), accounts payable and accrued liabilities, income taxes payable, lease liabilities, term loan and production liability (included in other liabilities on the statements of financial position).

The Company's financial instruments that are carried at fair value on the statements of financial position include the production liability as disclosed in Note 13 "Other Liabilities". The fair value of the Company's term loan is disclosed in Note 12 "Term Loan".

The carrying values of the Company's accounts receivable, accounts payable and accrued liabilities and income taxes payable as of December 31, 2021 approximate their fair values due to the short-term nature of these instruments.

**Market risk management**

The Company is exposed to normal financial risks inherent in the international crude oil and natural gas industry including, but not limited to, commodity price risk, foreign exchange rate risk, credit risk (refer to note 5) and liquidity risk (refer to note 10). The risk exposures are proactively reviewed by the Company, and Management seeks to mitigate these risks through various business

processes and controls.

Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board to establish risk management guidelines to be used by the Company.

*Commodity price risk*

The Company's operational and financial results are largely dependent on the commodity prices received from petroleum production. Movement in commodity prices could have a significant positive or negative effect on the Company's comprehensive income (loss) and cash flows. To mitigate this risk, 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. The Company had no commodity-based risk management contracts in place as at or during years ended December 31, 2021 and 2020. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development and exploration capital programs.

For the year ended December 31, 2021, with all other variables held constant, a 10 percent increase or decrease in the realized pricing received from crude oil would have resulted in an approximate \$1,050,000 increase or decrease in comprehensive income (2020 - \$319,000 increase or \$592,000 decrease).

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

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

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 risk through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the years ended December 31, 2021 and 2020.

For the year ended December 31, 2021, with all other variables held constant, a 5 percent change in the C\$ to US\$ and TT\$ to US\$ exchange rates would have resulted in an approximate \$108,000 increase or decrease in comprehensive income (2020 - \$811,000). With other variables held constant, a 5 percent change in the foreign exchange rates applicable to TT\$ and C\$ denominated

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

payables and receivables would have a \$86,000 impact on the Company's comprehensive income for the year ended December 31, 2021 (2020 - \$45,000).

### *Interest rate risk*

Interest rate risk arises from changes in market interest rates that may affect comprehensive income (loss) and cash flows. As at December 31, 2021 and 2020, the Company did not hold any variable interest rate debt.

## 19. Capital Management

The Company's policy is to maintain a strong capital base to preserve investor, creditor, and market confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholders' equity, working capital and bank debt. The Company's long-term goal is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only funds flow from operations. Exploration activities and profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. The Company uses share equity and term debt as its primary sources of capital.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of two times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices. The Company also monitors its capital management through the net debt to total managed capital ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to total managed capital at a ratio of less than 0.4 to 1.

Net debt is calculated by summing the Company's working capital and the principal (undiscounted) non-current amount of senior secured debt. Total managed capital is calculated as the sum of net debt and total shareholders' equity. Net debt, total managed capital, net debt to funds flow from operations ratio and net debt to total managed capital ratio are considered non-IFRS capital management measures and therefore may not be comparable to similar measures presented by other companies.

The Company's internal capital management calculations for the years ended December 31, 2021 and 2020 are set forth in following table.

(\$000's)	Target measure	December 31, 2021	December 31, 2020
Current assets		(27,856)	(29,312)
Current liabilities		20,931	16,379
Working capital surplus		(6,925)	(12,933)
Principal non-current balance of term loan		27,000	7,500
Net debt (surplus)		20,075	(5,433)
Shareholders' equity		67,558	60,365
Total managed capital		87,633	54,932
Annual funds flow from operations		4,107	263
<b>Net debt to funds flow from operations ratio</b>	<b>at or &lt; 2.0 times</b>	<b>4.89</b>	n/a
<b>Net debt to total managed capital ratio</b>	<b>&lt; 0.4 times</b>	<b>0.23</b>	n/a

## 20. Commitments and Contingencies

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under the Cory Moruga and Ortoire block exploration and production licences with the MEEI, and various lease commitments for office space and motor vehicles. The following table sets forth the Company's estimated minimum contractual payments as at December 31, 2021.

(\$000's)	Total	Estimated payments due by year			
		2022	2023	2024	Thereafter
Operating agreements	24,811	5,494	278	5,630	13,409
Exploration agreements	5,719	407	746	791	3,775
Other commitments	874	432	102	102	238
<b>Minimum payments</b>	<b>31,404</b>	<b>6,333</b>	<b>1,126</b>	<b>6,523</b>	<b>17,422</b>

In June 2021, the Company and Heritage executed new ten-year Lease Operatorship Agreements for the Company's Coora, WD-4 and WD-8 blocks effective January 1, 2021. Pursuant to the agreements, the Company is required to fulfill minimum work obligations on an annual basis over each licence term. The Company fulfilled all 2021 minimum work commitments with respect to these obligations as of December 31, 2021.

As of December 31, 2021, the Company completed all of the minimum work commitments with respect to the Ortoire exploration and production licence. Subsequent to year-end, the Company was notified that the Trinidad government approved an extension to the exploration phase of the Ortoire licence to July 31, 2026. Upon execution, Touchstone will be required to drill three exploration wells prior to the end of the amended licence term which are excluded from the table above.

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

## 21. Related Parties

The Company's Corporate Secretary and a director is a senior partner of the Company's Canadian legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2021, \$81,000 in legal fees and disbursements charged by Norton Rose Fulbright Canada LLP were incurred, of which \$24,000 were included in accounts payable and accrued liabilities as at December 31, 2021 (2020 - \$214,000 and \$23,000, respectively).

The Company has determined that the key management personnel of the Company is comprised of its directors and executive officers. The following table sets forth key management personnel compensation paid or payable during the years ended December 31, 2021 and 2020.

(\$000's)	Year ended December 31,	
	2021	2020
Salaries and benefits included in general and administration expenses	1,265	1,366
Director fees included in general and administration expenses	364	225
Equity-based compensation (note 16)	722	248
<b>Key management compensation</b>	<b>2,351</b>	<b>1,839</b>

## 22. Supplemental Disclosures

### Presentation in the statements of comprehensive income

The Company's statements of comprehensive income are prepared primarily by nature of item, with the exception of employee compensation expense which is included in both operating and general and administration expense line items.

The following table details the amount of employee compensation expense included in operating and general and administration expense line items in the statements of comprehensive income for the periods indicated.

(\$000's)	Year ended December 31,	
	2021	2020
Operating	855	1,247
General and administration	3,417	3,357
<b>Employee compensation expenses</b>	<b>4,272</b>	<b>4,604</b>

### Presentation in the statements of cash flows

The following tables provide a breakdown of certain line items contained within the consolidated statements of cash flows for the periods indicated.

Net change in non-cash working capital (\$000's)	Year ended December 31,	
	2021	2020
Source (use) of cash:		
Accounts receivable	(2,861)	2,663
Inventory	(51)	(21)
Prepaid expenses	(801)	(8)
Accounts payable and accrued liabilities	(379)	2,451
Income taxes payable	236	(1,329)
Transfer from other assets	(113)	(15)
Transfer from (to) non-current other liabilities	(141)	63
Transfer to (from) non-current lease liabilities	(337)	324
Foreign exchange on working capital balances	289	496
<b>Net change in non-cash working capital</b>	<b>(4,158)</b>	<b>4,624</b>
Related to operating activities	(2,561)	2,033
Related to investing activities	(1,645)	2,641
Related to financing activities	48	(50)
<b>Net change in non-cash working capital</b>	<b>(4,158)</b>	<b>4,624</b>

Other non-cash items (\$000's)	Year ended December 31,	
	2021	2020
Term loan revaluation loss (note 12)	279	1,158
Accretion on term loan (note 12)	45	232
Production liability revaluation loss (note 13)	83	759
Accretion on decommissioning liabilities (note 14)	273	297
Non-cash finance lease interest (note 11)	(66)	-
Change in fair value of non-current accounts receivable (note 7)	-	(50)
Derecognition of lease liabilities (note 11)	-	(4)
<b>Other non-cash items</b>	<b>614</b>	<b>2,392</b>





## Corporate Information

### Directors

**John D. Wright**  
*Chair of the Board*

**Paul R. Baay**  
**Kenneth R. McKinnon**  
**Peter Nicol**  
**Beverley Smith**  
**Stanley T. Smith**  
**Thomas E. Valentine**  
**Harrie Vredenburg**

### Officers and Senior Executives

**Paul R. Baay**  
*President and Chief Executive Officer*

**Scott Budau**  
*Chief Financial Officer*

**James Shipka**  
*Chief Operating Officer*

**Brian Hollingshead**  
*Vice President Engineering and Business Development*

**Alex Sanchez**  
*Vice President Production and Environment*

**Cayle Sorge**  
*Vice President Finance*

### Head Office

**Touchstone Exploration Inc.**  
4100, 350 7th Avenue SW  
Calgary, Alberta, Canada  
T2P 3N9

### Registered Office

3700, 400 3rd Avenue SW  
Calgary, Alberta, Canada  
T2P 4H2

### Operating Offices

**Touchstone Exploration (Trinidad) Ltd.**  
#30 Forest Reserve Road  
Fyzabad, Trinidad, W.I.

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

### Stock Exchange Listing

Toronto Stock Exchange  
London Stock Exchange AIM  
Symbol: TXP

### Auditor

**KPMG LLP**  
Calgary, Alberta

### Reserves Evaluator

**GLJ Ltd.**  
Calgary, Alberta

### Legal Counsel

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

### Nunez and Co.

Port of Spain, Trinidad

### Transfer Agent and Registrar

**Odyssey Trust Company**  
Calgary, Alberta

### Link Group

London, United Kingdom

### UK Nominated Advisor and Joint Broker

**Shore Capital**  
London, United Kingdom

### UK Joint Broker

**Canaccord Genuity**  
London, United Kingdom

### UK Public Relations

**Camarco**  
London, United Kingdom