



Touchstone Exploration Inc.

Interim Condensed Consolidated Financial Statements (unaudited)

September 30, 2021

Touchstone Exploration Inc.
Condensed Consolidated Statements of Financial Position
Unaudited, stated in thousands of United States dollars

As at	Note	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash		\$ 5,004	\$ 24,281
Accounts receivable	3	7,132	4,685
Crude oil inventory		78	92
Prepaid expenses		660	254
Assets held for sale	5	1,223	-
		14,097	29,312
Exploration assets	4	47,777	30,680
Property and equipment	5	40,807	43,016
Restricted cash	8	294	294
Other assets	6	696	24
Abandonment fund	10	1,249	1,226
Total assets		\$ 104,920	\$ 104,552
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 15,624	\$ 16,379
Income taxes payable	11	1,012	-
Term loan	8	375	-
Liabilities associated with assets held for sale	10	1,743	-
		18,754	16,379
Lease liabilities		294	335
Term loan	8	6,852	7,176
Other liabilities	9	1,111	1,357
Decommissioning liabilities	10	10,105	11,919
Deferred income taxes	11	7,224	7,021
Total liabilities		44,340	44,187
Shareholders' equity			
Shareholders' capital	12	101,757	101,385
Contributed surplus		3,072	2,476
Other comprehensive loss		(13,289)	(13,331)
Deficit		(30,960)	(30,165)
Total shareholders' equity		60,580	60,365
Total liabilities and shareholders' equity		\$ 104,920	\$ 104,552

Commitments (note 16)
Subsequent event (note 17)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

Touchstone Exploration Inc.
Condensed Consolidated Statements of Loss and Comprehensive Loss
Unaudited, stated in thousands of United States dollars (except per share amounts)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Revenues					
Petroleum sales		\$ 7,650	\$ 4,725	\$ 21,356	\$ 15,178
Less: royalties		(2,375)	(1,346)	(6,528)	(4,260)
Petroleum revenue, net of royalties		5,275	3,379	14,828	10,918
Other revenue		4	28	35	91
Total revenues		5,279	3,407	14,863	11,009
Expenses					
Operating		1,869	1,680	5,479	5,142
General and administration		1,748	1,204	4,897	3,367
Net finance	13	233	257	807	2,763
Gain on asset dispositions		-	-	(21)	-
Foreign exchange (gain) loss	14	(48)	(84)	148	54
Equity-based compensation	12	305	85	571	210
Depletion and depreciation	5	726	780	2,348	2,682
Impairment	4,5	32	79	42	19,266
Total expenses		4,865	4,001	14,271	33,484
Earnings (loss) before income taxes		414	(594)	592	(22,475)
Provision for income taxes					
Current expense	11	377	55	1,150	339
Deferred expense (recovery)	11	88	54	237	(10,129)
Total income tax expense (recovery)		465	109	1,387	(9,790)
Net loss		(51)	(703)	(795)	(12,685)
Currency translation adjustments		(228)	141	42	213
Comprehensive loss		\$ (279)	\$ (562)	\$ (753)	\$ (12,472)
Net loss per common share					
Basic and diluted	12	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.07)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

Touchstone Exploration Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
Unaudited, stated in thousands of United States dollars

	Shareholders' capital	Contributed surplus	Other comprehensive loss	Deficit	Total Shareholders' equity
As at January 1, 2020	\$ 61,507	\$ 2,341	\$ (14,598)	\$ (19,135)	\$ 30,115
Comprehensive loss	-	-	213	(12,685)	(12,472)
Private placement, net of fees (note 12)	10,850	-	-	-	10,850
Equity-based settlements (note 12)	373	(124)	-	-	249
Equity-based compensation expense (note 12)	-	210	-	-	210
Capitalized equity-based compensation (notes 4 and 5)	-	27	-	-	27
As at September 30, 2020	\$ 72,730	\$ 2,454	\$ (14,385)	\$ (31,820)	\$ 28,979
As at January 1, 2021	\$ 101,385	\$ 2,476	\$ (13,331)	\$ (30,165)	\$ 60,365
Comprehensive loss	-	-	42	(795)	(753)
Equity-based settlements (note 12)	372	(132)	-	-	240
Equity-based compensation expense (note 12)	-	571	-	-	571
Capitalized equity-based compensation (notes 4 and 5)	-	157	-	-	157
As at September 30, 2021	\$ 101,757	\$ 3,072	\$ (13,289)	\$ (30,960)	\$ 60,580

See accompanying notes to these unaudited interim condensed consolidated financial statements.

Touchstone Exploration Inc.
Condensed Consolidated Statements of Cash Flows
Unaudited, stated in thousands of United States dollars

	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Operating activities					
Net loss		\$ (51)	\$ (703)	\$ (795)	\$ (12,685)
Items not involving cash from operations:					
Gain on asset dispositions		-	-	(21)	-
Unrealized foreign exchange (gain) loss	14	(88)	(67)	99	(57)
Equity-based compensation	12	305	85	571	210
Depletion and depreciation	5	726	780	2,348	2,682
Impairment	4,5	32	79	42	19,266
Other	13	70	(36)	344	1,712
Deferred income tax expense (recovery)	11	88	54	237	(10,129)
Decommissioning expenditures	10	(9)	-	(9)	-
Funds flow from operations		1,073	192	2,816	999
Net change in non-cash working capital		(689)	3,934	(2,658)	1,130
Cash from operating activities		384	4,126	158	2,129
Investing activities					
Exploration asset expenditures	4	(7,542)	(5,758)	(17,160)	(8,830)
Property and equipment expenditures	5	(2,315)	(211)	(2,567)	(523)
Abandonment fund expenditures	10	(28)	(15)	(83)	(76)
Proceeds from asset dispositions		22	9	229	54
Net change in non-cash working capital		3,230	2,585	133	(1,416)
Cash used in investing activities		(6,633)	(3,390)	(19,448)	(10,791)
Financing activities					
Changes in restricted cash	8	-	-	-	(589)
Net payment of term loan	8	-	-	-	(133)
Production liability payments	9	(102)	(63)	(284)	(204)
Net finance lease receipts (payments)	6	47	(29)	81	(74)
Issuance of common shares, net of fees	12	-	49	240	11,099
Net change in non-cash working capital		1	13	41	(47)
Cash (used in) from financing activities		(54)	(30)	78	10,052
Change in cash		(6,303)	706	(19,212)	1,390
Cash, beginning of period		11,214	6,891	24,281	6,182
Impact of foreign exchange on foreign denominated cash balances		93	76	(65)	101
Cash, end of period		\$ 5,004	\$ 7,673	\$ 5,004	\$ 7,673
Supplementary information for cash from operating activities:					
Interest paid in cash	8	147	294	441	1,113
Income taxes paid in cash	11	29	20	88	1,389

See accompanying notes to these unaudited interim condensed consolidated financial statements.

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 7th 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 unaudited interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020 (the "2020 annual financial statements"). Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars ("\$" or "US\$").

These financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Significant Accounting Policies" of the Company's 2020 annual financial statements. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year. All inter-entity transactions have been eliminated upon consolidation between the Company and its subsidiaries in these financial statements.

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.

The timely preparation of financial statements requires Management to make 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. A full list of the significant estimates and judgements made by Management in the preparation of these financial statements are included in Note 4 "Use of Estimates, Judgements and Assumptions" of the Company's 2020 annual financial statements. Changes to any of these estimates, judgements and assumptions could result in a material adjustment to the carrying values of assets and liabilities. 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.

These financial statements were approved by the Company's Board of Directors (the "Board") on November 10, 2021.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

3. 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 September 30, 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 6).

The Company's credit exposure on accounts receivable typically pertains to petroleum revenue for monthly production volumes sold to Heritage Petroleum Company Limited ("Heritage") and value added taxes ("VAT") due from the Trinidad government. As at September 30, 2021, \$2,059,000 of petroleum sales was included in accounts receivable, representing approximately 29 percent of the Company's consolidated accounts receivable balance (December 31, 2020 - \$1,161,000 and 25 percent, respectively). In addition, \$4,478,000 of the Company's consolidated accounts receivable was comprised of VAT as of September 30, 2021, which represented approximately 63 percent of the total balance (December 31, 2020 - \$3,031,000 and 65 percent, respectively).

As at September 30, 2021, the Company determined that the average expected credit loss on the Company's accounts receivables was \$nil (December 31, 2020 - \$nil). The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from the Trinidad government for VAT, and although the timing of settlement is uncertain, the Company has not historically experienced any collection issues. The aging of accounts receivable as at September 30, 2021 and December 31, 2020 is disclosed in the following table.

(\$000's)	September 30, 2021	December 31, 2020
Not past due	3,658	2,781
Past due (greater than 90 days)	3,474	1,904
Accounts receivable	7,132	4,685

4. Exploration Assets

(\$000's)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	30,680	13,579
Additions	17,322	17,909
Impairment	(45)	(821)
Effect of change in foreign exchange rates	(180)	13
Balance, end of period	47,777	30,680

During the three and nine months ended September 30, 2021, \$223,000 and \$673,000 of direct and attributable overhead charges were capitalized to exploration assets, respectively (2020 - \$66,000 and \$194,000).

Impairment

The September 30, 2021 exploration asset carrying value of \$47,777,000 was included in the Ortoire cash-generating unit ("CGU"). No indicators of impairment were identified by the Company as at September 30, 2021.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

5. Property and Equipment

(\$000's)	Petroleum assets	Right-of-use assets	Corporate assets	Total
Cost				
Balance, January 1, 2020	140,078	370	1,908	142,356
Additions	1,024	242	-	1,266
Decommissioning liability change in estimate (note 10)	496	-	-	496
Foreign exchange translation	(188)	19	36	(133)
Balance, December 31, 2020	141,410	631	1,944	143,985
Additions	2,590	-	16	2,606
Decommissioning liability change in estimate (note 10)	(254)	-	-	(254)
Transfer to other assets (note 6)	(1,271)	-	-	(1,271)
Reclassified as assets held for sale	(4,005)	-	-	(4,005)
Foreign exchange translation	(648)	-	-	(648)
Balance, September 30, 2021	137,822	631	1,960	140,413
Accumulated depletion, depreciation and impairment				
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 10)	413	-	-	413
Foreign exchange translation	(241)	8	36	(197)
Balance, December 31, 2020	98,784	351	1,834	100,969
Depletion and depreciation	2,284	41	28	2,353
Transfer to other assets (note 6)	(411)	-	-	(411)
Reclassified as assets held for sale	(2,835)	-	-	(2,835)
Foreign exchange translation	(472)	(1)	3	(470)
Balance, September 30, 2021	97,350	391	1,865	99,606
Carrying amounts				
Balance, December 31, 2020	42,626	280	110	43,016
Balance, September 30, 2021	40,472	240	95	40,807

For the three and nine months ended September 30, 2021, \$98,000 and \$260,000 of direct and attributable overhead charges were capitalized to property and equipment, respectively (2020 - \$88,000 and \$294,000).

Impairment

On September 30, 2021, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified.

As a consequence of the onset of the novel coronavirus ("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 property and equipment impairment losses of \$19,215,000 during the nine months ended September 30, 2020.

Dispositions

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. The carrying values of the associated petroleum assets, abandonment fund assets and decommissioning obligations (refer to note 10) were classified as held for sale on the statements of

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

financial position. 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.

6. Other Assets

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

(\$000's)	September 30, 2021	December 31, 2020
Long-term prepaid deposits	26	24
Finance lease receivable	670	-
Other assets	696	24

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 property and equipment to other assets on the consolidated statement of financial position. The following table details the movements of the Company's finance lease receivable for the periods indicated.

(\$000's)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	-	376
Additions	856	-
Interest income	47	18
Payments received	(126)	(109)
Lease termination	-	(285)
Effect of change in foreign exchange rates	(1)	-
Balance, end of period	776	-
Current (included in accounts receivable)	106	-
Non-current (included in other assets)	670	-
Finance lease receivable	776	-

7. 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 draw from its existing debt facility or to issue additional equity. The Company's near-term development plan is strategically balanced between investing in legacy crude oil assets 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 and debt capacity will be adequate to meet financial obligations as they come due.

Refer to Note 8 "Term Loan", Note 15 "Capital Management" and Note 16 "Commitments" for further details regarding the Company's debt structure and capital management objectives.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at September 30, 2021.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	15,624	15,624	-	-
Income tax payable (note 11)	1,012	1,012	-	-
Lease liabilities	393	64	135	194
Term loan principal (note 8)	7,500	375	3,000	4,125
Term loan interest (note 8)	1,963	588	903	472
Production liabilities (note 9)	2,171	367	1,804	-
Total financial liabilities	28,663	18,030	5,842	4,791

8. Term Loan

The Company's indirect wholly owned Trinidadian subsidiary entered into a \$20 million, seven-year term credit facility arrangement (the "Term Loan") 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 nine months ended September 30, 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 November 27, 2020, the Company and its lender executed an amending agreement to the Term Loan, allowing the Company to repay \$7.5 million of the \$15 million principal balance on December 15, 2020. On June 25, 2021, the parties executed a second amending agreement to the Term Loan, which extended the principal availability period from June 15, 2021 to December 31, 2021.

As of September 30, 2021, the Company had \$7.5 million drawn on the credit facility. On October 1, 2021, the Company withdrew an additional \$7.5 million of the credit facility, resulting in a principal balance of \$15 million outstanding. The Company has the option to access the remaining \$5 million available balance prior to December 31, 2021.

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 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 ending 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 \$294,000 of cash as long-term restricted cash on the September 30, 2021 consolidated statement of financial position (December 31, 2020 - \$294,000).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

The Term Loan liability is measured at amortised cost, with the aggregate associated financing fees unwound using the effective interest rate method to the face value at maturity. 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)
Balance, December 31, 2020	-	7,176	7,176
Accretion	-	51	51
Balance, September 30, 2021	-	7,227	7,227
Current	-	375	375
Non-current	-	6,852	6,852
Term loan	-	7,227	7,227

9. Other Liabilities

In connection with the inception of 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 petroleum 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)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	1,519	989
Revaluation loss	135	759
Payments	(284)	(262)
Effect of change in foreign exchange rates	1	33
Balance, end of period	1,371	1,519
Current (included in accounts payable and accrued liabilities)	260	162
Non-current (included in other liabilities)	1,111	1,357
Total production liability	1,371	1,519

10. 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 nine 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 discussed herein and the Company's internal resources available at the time of settlement.

Pursuant to Heritage and Trinidad and Tobago Ministry of Energy and Energy Industries ("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 the related licenced area. As

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

at September 30, 2021, the Company classified \$1,249,000 of accrued or paid fund contributions as non-current abandonment fund assets (December 31, 2020 - \$1,226,000), with \$53,000 of abandonment fund assets classified as assets held for sale (refer to note 5).

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$10,105,000 as at September 30, 2021 based on an inflation adjusted future liability of \$16,280,000 (December 31, 2020 - \$11,919,000 and \$18,982,000, respectively). Decommissioning liabilities were estimated as at September 30, 2021 using a weighted average long-term risk-free rate of 5.2 percent and a long-term inflation rate of 1.5 percent (December 31, 2020 - 4.9 percent and 1.8 percent, respectively). The following table summarizes the Company's estimated decommissioning liability provision for the periods indicated.

(\$000's)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	11,919	11,547
Liabilities incurred	53	115
Liabilities settled	(9)	-
Accretion expense	206	297
Revisions to estimates	(265)	(25)
Reclassified as liabilities associated with assets held for sale (note 5)	(1,743)	-
Effect of change in foreign exchange rates	(56)	(15)
Balance, end of period	10,105	11,919

11. Income Taxes

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)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net earnings (loss) before taxes	414	(594)	592	(22,475)
Trinidad statutory tax rate	55.0%	55.0%	55.0%	55.0%
Expected income tax expense (recovery) at statutory rate	228	(327)	326	(12,361)
Effect on income tax resulting from:				
Benefit of tax assets not recognized	(241)	281	113	991
Tax rate differential	(24)	315	757	1,484
Other	502	(160)	191	96
Total income tax expense (recovery)	465	109	1,387	(9,790)

The Company's net deferred income tax liability solely relates to Trinidad operations. The following table details the components of the liability for the nine months ended September 30, 2021.

(\$000's)	December 31, 2020	Recognized in equity	Recognized in earnings (loss)	September 30, 2021
Property and equipment	(16,264)	78	820	(15,366)
Decommissioning liabilities	579	(3)	(21)	555
Term loan	(159)	-	47	(112)
Loss carry forwards	6,084	(29)	(2,273)	3,782
Other	2,739	(12)	1,190	3,917
Net deferred income tax liability	(7,021)	34	(237)	(7,224)

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

12. 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
Balance, December 31, 2020	209,399,627	101,385
Equity-based settlements	1,332,100	372
Balance, September 30, 2021	210,731,727	101,757

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 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 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
Issued and outstanding, December 31, 2020	9,552,434	0.34
Granted	3,013,000	1.70
Exercised	(1,332,100)	0.22
Issued and outstanding, September 30, 2021	11,233,334	0.72
Exercisable, September 30, 2021	5,362,671	0.25

During the three and nine months ended September 30, 2021, the Company recorded equity-based compensation expenses of \$305,000 and \$571,000 in relation to equity compensation plans, respectively (2020 - \$85,000 and \$210,000).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

Weighted average common shares

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Weighted average common shares outstanding - basic	210,731,727	184,277,327	209,967,613	179,111,625
Dilutive impact of equity-based compensation	-	-	-	-
Weighted average common shares outstanding - diluted	210,731,727	184,277,327	209,967,613	179,111,625

There was no dilutive impact to the weighted average number of common shares for the three and nine months ended September 30, 2021, with 6.5 million and 7.6 million share options excluded from the diluted weighted average share calculation as they were anti-dilutive, respectively (2020 - 7.6 million and 6.1 million).

13. Net Finance Expenses

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest income	(2)	(6)	(5)	(31)
Lease liability interest expense	5	5	14	15
Term loan interest expense (note 8)	148	295	442	882
Term loan revaluation loss (note 8)	-	-	-	1,158
Accretion on term loan (note 8)	19	17	51	240
Finance expense (note 8)	-	-	-	180
Production liability revaluation loss (gain) (note 9)	5	(137)	135	158
Accretion on decommissioning liabilities (note 10)	66	87	206	210
Other	(8)	(4)	(36)	(49)
Net finance expenses	233	257	807	2,763
Cash net finance expenses	163	293	463	1,051
Non-cash net finance expenses	70	(36)	344	1,712
Net finance expenses	233	257	807	2,763

14. Financial Instruments and Market Risk Management

Financial instruments

As of September 30, 2021, the Company's financial instruments include cash, accounts receivable, restricted cash, finance lease receivable (included in other assets on the consolidated statements of financial position), accounts payable and accrued liabilities, income taxes payable, lease liabilities, term loan and production liabilities (included in other liabilities on the consolidated statements of financial position).

The Company's financial instruments that are carried at fair value on the consolidated statements of financial position include production liabilities (refer to note 9). The carrying values of the Company's accounts receivable, accounts payable and accrued liabilities and income taxes payable as of September 30, 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 oil and gas industry including, but not limited to, commodity price risk, foreign exchange rate risk, credit risk (refer to note 3) and liquidity risk (refer to note 7). 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 net earnings 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 the nine months ended September 30, 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.

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 Trinidad and Tobago dollar ("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 and production liabilities 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 nine months ended September 30, 2021 and 2020.

15. 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 a non-IFRS measure calculated by summing the Company's working capital and the principal (undiscounted) non-current amount of senior secured debt. Working capital is a non-IFRS measure calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position. Net debt is used by Management as a key measure to assess the Company's liquidity. Funds flow from operations is an additional IFRS measure included in the Company's consolidated statements of cash flows. Net debt and funds flow from operations are not standardized measures and therefore may not be comparable to similar measures presented by other companies.

The Company's internal capital management calculations for the nine months ended September 30, 2021 and year ended December 31, 2020 are set forth in following table.

(\$000's)	Target measure	September 30, 2021	December 31, 2020
Current assets		(14,097)	(29,312)
Current liabilities		18,754	16,379
Working capital deficit (surplus)		4,657	(12,933)
Principal non-current balance of term loan		7,125	7,500
Net debt (surplus)		11,782	(5,433)
Shareholders' equity		60,580	60,365
Total managed capital		72,362	54,932
Trailing twelve-month funds flow from operations ⁽¹⁾		2,080	263
Net debt to funds flow from operations	at or < 2.0 times	5.66	n/a
Net debt to total managed capital	< 0.4 times	0.16	n/a

Note:

(1) Trailing twelve-month funds flow from operations as at September 30, 2021 includes the sum of funds flow from operations for the nine months ended September 30, 2021 and funds flow used in operations for the three-month October 1 through December 31, 2020 interim period.

As of September 30, 2021, trailing funds flow from operations were \$2,080,000, which included \$736,000 in funds flow used from operations during the three-month interim period ended December 31, 2020. The Company recorded a use of funds flow in this period predominately from low realized crude oil pricing received in 2020 combined with decreased operational and capital development investment incurred in the period as part of the Company's response to COVID-19. The Company believes that its current available credit facility capacity of \$5 million (refer to note 17) combined with anticipated funds flow from operations based on current production and improved crude oil pricing will be sufficient to satisfy its 2021 and 2022 commitments (refer to note 16).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2021 and 2020

16. Commitments

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, commitments regarding a long-term drilling rig contract and various lease commitments for office space and motor vehicles. The following table sets forth the Company's estimated minimum contractual capital requirements as at September 30, 2021.

(\$000's)	Total	Estimated payments due by year			
		2021	2022	2023	Thereafter
Operating agreements	26,716	3,409	5,916	315	17,076
Exploration agreements	3,564	75	190	191	3,108
Drilling rig commitments	2,880	234	960	960	726
Other commitments	901	64	127	127	583
Minimum payments	34,061	3,782	7,193	1,593	21,493

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. Under the terms of the Company's operating arrangements with Heritage, the Company must fulfill minimum work obligations on an annual basis over the specific licence term. With respect to these obligations, as at September 30, 2021, the Company had three development wells and two heavy workover commitments to perform prior to the end of 2021.

The exploration phase of the Ortoire exploration and production licence expired on July 31, 2021, and the Company received approval from the MEEI to spud the final commitment well in August 2021. As at September 30, 2021, the Company fulfilled all minimum exploration work obligations with respect to the licence. The Company is currently seeking an extension to the exploration licence with the MEEI for areas that have not been proven commercial.

In March 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 in 2021. Pursuant to the contract, the Company is required to utilize the rig for a minimum of 120 days per annum over the initial three-year term and is obligated to pay for rig mobilization and demobilization costs. The drilling rig commenced operations on October 3, 2021.

17. Subsequent Event

On October 1, 2021, the Company withdrew an additional \$7.5 million on its term credit facility, resulting in a principal balance of \$15 million outstanding. Pursuant to the Term Loan, the Company has the option to access the remaining \$5 million available balance prior to December 31, 2021.



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

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Registered Office

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Operating Office

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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