



Touchstone Exploration Inc.

Interim Condensed Consolidated Financial Statements (unaudited)

September 30, 2022

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

As at	Note	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash		8,732	17,936
Accounts receivable	3	6,493	7,546
Crude oil inventory		90	143
Prepaid expenses		1,050	1,055
Assets held for sale	5	1,124	1,176
		17,489	27,856
Exploration and evaluation assets	4	59,093	50,760
Property, plant and equipment	5	60,679	61,275
Restricted cash	7	1,079	1,178
Other assets		540	673
Abandonment fund		1,374	1,278
Total assets		140,254	143,020
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6	12,188	16,000
Income taxes payable	9	2,164	236
Term loan	7	6,000	3,000
Liabilities associated with assets held for sale	8	1,674	1,695
		22,026	20,931
Lease liabilities		1,355	2,265
Term loan	7	22,453	26,896
Other liabilities		344	908
Decommissioning liabilities	8	11,650	10,012
Deferred income taxes	9	14,844	14,450
Total liabilities		72,672	75,462
Shareholders' equity			
Shareholders' capital	10	102,366	101,757
Contributed surplus		4,474	3,466
Other comprehensive loss		(13,536)	(13,219)
Deficit		(25,722)	(24,446)
Total shareholders' equity		67,582	67,558
Total liabilities and shareholders' equity		140,254	143,020

Commitments (note 15)
Subsequent event (note 16)

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2022	2021	2022	2021
Revenue					
Petroleum sales		9,933	7,650	33,025	21,356
Less: royalties		(3,411)	(2,375)	(11,516)	(6,528)
Petroleum revenue, net of royalties		6,522	5,275	21,509	14,828
Other revenue		10	4	30	35
Total revenue		6,532	5,279	21,539	14,863
Expenses					
Operating		2,126	1,869	6,547	5,479
General and administration		1,993	1,748	5,863	4,897
Net finance	11	692	233	2,252	807
Net gain on asset dispositions	5	-	-	(120)	(21)
Foreign exchange (gain) loss	12	(285)	(48)	(481)	148
Equity-based compensation	10	328	305	971	571
Depletion and depreciation	5	1,204	726	3,109	2,348
Impairment	4	10	32	181	42
Other	13	132	-	672	-
Total expenses		6,200	4,865	18,994	14,271
Earnings before income taxes		332	414	2,545	592
Provision for income taxes					
Current expense	9	1,381	377	3,556	1,150
Deferred (recovery) expense	9	(271)	88	265	237
Total income tax expense		1,110	465	3,821	1,387
Net loss		(778)	(51)	(1,276)	(795)
Currency translation adjustments		(450)	(228)	(317)	42
Comprehensive loss		(1,228)	(279)	(1,593)	(753)
Net loss per common share					
Basic and diluted	10	(0.00)	(0.00)	(0.01)	(0.00)

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

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

	Note	Nine months ended September 30,	
		2022	2021
Shareholders' capital			
Balance, beginning of period		101,757	101,385
Equity-based settlements	10	609	372
Balance, end of period		102,366	101,757
Contributed surplus			
Balance, beginning of period		3,466	2,476
Equity-based settlements	10	(215)	(132)
Equity-based compensation expense	10	971	571
Equity-based compensation capitalized		252	157
Balance, end of period		4,474	3,072
Other comprehensive loss			
Balance, beginning of period		(13,219)	(13,331)
Other comprehensive (loss) income		(317)	42
Balance, end of period		(13,536)	(13,289)
Deficit			
Balance, beginning of period		(24,446)	(30,165)
Net loss		(1,276)	(795)
Balance, end of period		(25,722)	(30,960)

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

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	2022	2021	2022	2021
Operating activities					
Net loss		(778)	(51)	(1,276)	(795)
Items not involving cash from operations:					
Net gain on asset dispositions	5	-	-	(120)	(21)
Unrealized foreign exchange (gain) loss	12	(237)	(88)	(516)	99
Equity-based compensation	10	328	305	971	571
Depletion and depreciation	5	1,204	726	3,109	2,348
Impairment	4	10	32	181	42
Other	11	112	70	363	344
Deferred income tax (recovery) expense	9	(271)	88	265	237
Decommissioning expenditures	8	(78)	(9)	(128)	(9)
Funds flow from operations		290	1,073	2,849	2,816
Change in non-cash working capital		2,802	(689)	4,092	(2,658)
Cash from operating activities		3,092	384	6,941	158
Investing activities					
Exploration and evaluation expenditures	4	(2,692)	(7,542)	(7,498)	(17,160)
Property, plant and equipment expenditures	5	(207)	(2,315)	(1,323)	(2,567)
Abandonment fund expenditures		(26)	(28)	(85)	(83)
Proceeds from asset dispositions	5	11	22	146	229
Change in non-cash working capital		824	3,230	(5,982)	133
Cash used in investing activities		(2,090)	(6,633)	(14,742)	(19,448)
Financing activities					
Changes in restricted cash	7	59	-	99	-
Payment of term loan	7	(1,500)	-	(1,500)	-
Production liability payments		(132)	(102)	(440)	(284)
Net finance lease (payments) receipts		(424)	47	(237)	81
Issuance of common shares	10	177	-	394	240
Change in non-cash working capital		(36)	1	22	41
Cash (used in) from financing activities		(1,856)	(54)	(1,662)	78
Change in cash		(854)	(6,303)	(9,463)	(19,212)
Cash, beginning of period		9,425	11,214	17,936	24,281
Impact of foreign exchange on foreign denominated cash balances		161	93	259	(65)
Cash, end of period		8,732	5,004	8,732	5,004
Supplementary information for cash flow from operating activities:					
Interest paid in cash	7	586	147	1,714	441
Income taxes paid in cash	9	1,081	29	1,637	88

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

1. Nature of Business

Touchstone Exploration Inc. and its subsidiaries (collectively, "Touchstone" or the "Company") are engaged in the business of 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

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, 2021 (the "2021 audited financial statements").

These financial statements have been prepared on a historical cost basis, except for the production liability. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the 2021 audited financial statements. Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars (" \$" or "US\$"). Canadian dollars ("C\$") and Trinidad and Tobago dollars ("TT\$") may also be referenced herein.

These financial statements were approved and authorized for issuance by Touchstone's Board of Directors (the "Board") on November 9, 2022.

Use of estimates, judgements and assumptions

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. Actual results may differ from estimates.

In preparing these financial statements, the judgments made by Management in applying the Company's accounting policies and the key sources of significant estimation uncertainty were the same as those applied to the 2021 audited financial statements.

3. Financial Assets and Credit Risk

The Company's credit exposure on accounts receivable typically pertains to petroleum sales for monthly crude oil production volumes sold to Trinidad government owned Heritage Petroleum Company Limited ("Heritage") and value added taxes ("VAT") due from the Trinidad government. As at September 30, 2022, \$2,059,000 of petroleum sales was included in accounts receivable, representing approximately 32 percent of Touchstone's consolidated accounts receivable balance (December 31, 2021 - \$1,594,000 and 21 percent, respectively). In addition, \$3,560,000 of the Company's consolidated accounts receivable was comprised of VAT as of September 30, 2022, which represented approximately 55 percent of the total balance (December 31, 2021 - \$5,519,000 and 73 percent, respectively).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

As at September 30, 2022, Touchstone determined that the average expected credit loss on its accounts receivables was \$nil (December 31, 2021 - \$nil). The Company believes that the accounts receivable balances that are past due as of September 30, 2022 are ultimately collectible, as they solely represent VAT amounts due from the Trinidad government. Although the timing of settlement is uncertain, Touchstone has not historically experienced any collection issues. The following table discloses the aging of the Company's accounts receivable for the periods indicated.

(\$000's)	September 30, 2022	December 31, 2021
Not past due	3,636	3,181
Past due (greater than 90 days)	2,857	4,365
Accounts receivable	6,493	7,546

4. Exploration and Evaluation Assets

(\$000's)	Nine months ended September 30, 2022	Year ended December 31, 2021
Balance, beginning of period	50,760	30,680
Additions	8,094	20,343
Impairment	(65)	(114)
Effect of change in foreign exchange rates	304	(149)
Balance, end of period	59,093	50,760

During the three and nine months ended September 30, 2022, \$254,000 and \$690,000 of direct and attributable overhead charges were capitalized to exploration and evaluation ("E&E") assets, respectively (2021 - \$223,000 and \$673,000).

Impairment

During the three and nine months ended September 30, 2022, the Company recognized E&E asset impairments of \$10,000 and \$181,000 related to non-core exploration properties, respectively (2021 - \$32,000 and \$42,000). The impairments predominately reflected writing down well decommissioning assets based on changes in long-term inflation estimates that increased the corresponding decommissioning liabilities. The September 30, 2022 E&E asset carrying value of \$59,093,000 was included in the Ortoire cash-generating unit, and no indicators of impairment were identified by Touchstone.

5. Property, Plant and Equipment

(\$000's)	Petroleum assets	Right-of-use assets	Corporate assets	Total
Cost				
Balance, January 1, 2021	141,410	631	1,944	143,985
Additions	7,755	2,324	450	10,529
Decommissioning liability change in estimate (note 8)	(490)	-	-	(490)
Transfer to other assets	(1,271)	-	-	(1,271)
Reclassified as assets held for sale	(3,957)	-	-	(3,957)
Foreign exchange translation	(553)	(5)	2	(556)
Balance, December 31, 2021	142,894	2,950	2,396	148,240
Additions	1,301	7	82	1,390
Decommissioning liability change in estimate (note 8)	985	-	-	985
Foreign exchange translation	959	(21)	(186)	752
Balance, September 30, 2022	146,139	2,936	2,292	151,367

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

(\$000's)	Petroleum assets	Right-of-use assets	Corporate assets	Total
Accumulated depletion, depreciation and impairment				
Balance, January 1, 2021	98,784	351	1,834	100,969
Depletion and depreciation	3,305	59	51	3,415
Impairment reversal	(13,786)	-	-	(13,786)
Transfer to other assets	(411)	-	-	(411)
Reclassified as assets held for sale	(2,835)	-	-	(2,835)
Foreign exchange translation	(389)	(1)	3	(387)
Balance, December 31, 2021	84,668	409	1,888	86,965
Depletion and depreciation	2,938	60	111	3,109
Foreign exchange translation	780	(6)	(160)	614
Balance, September 30, 2022	88,386	463	1,839	90,688
Carrying amounts				
Balance, December 31, 2021	58,226	2,541	508	61,275
Balance, September 30, 2022	57,753	2,473	453	60,679

During the three and nine months ended September 30, 2022, \$93,000 and \$293,000 of direct and attributable overhead charges were capitalized to property, plant and equipment, respectively (2021 - \$98,000 and \$260,000).

Impairment

On September 30, 2022, the Company evaluated its petroleum assets included in property, plant and equipment for indicators of any potential impairment or reversal. As a result of this assessment, no indicators were identified.

Dispositions

In 2021 Touchstone executed sales and purchase agreements with a third party to dispose of three non-core properties for aggregate consideration of \$350,000, subject to customary closing adjustments. Effective May 1, 2022, two of the property sales were completed, with a corresponding \$85,000 gain on asset disposition recorded during the nine months ended September 30, 2022. The outstanding property disposition remains subject to standard regulatory approvals. The following table specifies the carrying values that were classified as held for sale for the periods indicated.

(\$000's)	September 30, 2022	December 31, 2021
Property, plant and equipment	1,093	1,122
Abandonment fund	31	54
Assets held for sale	1,124	1,176
Decommissioning obligations (note 8)	(1,674)	(1,695)
Liabilities associated with assets held for sale	(1,674)	(1,695)
Net liabilities held for sale	(550)	(519)

6. 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. Touchstone 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 natural gas exploration discoveries onto production and proceeding with exploratory activities. Touchstone will continue to manage its

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

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 7 "Term Loan", Note 14 "Capital Management" and Note 15 "Commitments" 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 Touchstone's financial liabilities as at September 30, 2022.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	10,791	10,791	-	-
Income tax payable (note 9)	2,164	2,164	-	-
Lease liabilities	2,641	1,102	1,178	361
Term loan principal (note 7)	28,500	6,000	12,000	10,500
Term loan interest (note 7)	5,500	2,041	2,669	790
Production liability	1,213	694	519	-
Total financial liabilities	50,809	22,792	16,366	11,651

7. Term Loan

The Company's Trinidad-based \$30 million term loan facility is fully drawn, with the Company making its first quarterly principal payment of \$1.5 million on September 15, 2022. Nineteen equal and consecutive quarterly principal payments of \$1.5 million remain outstanding. The term loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly.

The term loan agreement contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be evaluated on an annual basis commencing with financial results for the year ended December 31, 2022. The following table details the movements of the Company's term loan balance for the periods indicated.

(\$000's)	Nine months ended September 30, 2022	Year ended December 31, 2021
Balance, beginning of period	29,896	7,176
Advances, net of debt modification fees	-	22,396
Payments	(1,500)	-
Revaluation loss	-	279
Accretion	57	45
Balance, end of period	28,453	29,896
Current	6,000	3,000
Non-current	22,453	26,896
Term loan	28,453	29,896

Pursuant to the term loan agreement, Touchstone must maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments at all times. Accordingly, the Company classified \$1,079,000 of cash as long-term restricted cash as at September 30, 2022 (December 31, 2021 - \$1,178,000).

8. Decommissioning Liabilities

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$11,650,000 as at September 30, 2022 based on an inflation adjusted future liability of \$18,265,000 (December 31, 2021 - \$10,012,000 and \$15,943,000,

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

respectively). Decommissioning liabilities were estimated as at September 30, 2022 using a weighted average long-term risk-free rate of 5.1 percent and a long-term inflation rate of 2.7 percent (December 31, 2021 - 5.3 percent and 1.6 percent, respectively). The following table summarizes Touchstone's estimated decommissioning liability provision for the periods indicated.

(\$000's)	Nine months ended September 30, 2022	Year ended December 31, 2021
Balance, beginning of period	10,012	11,919
Liabilities incurred	264	101
Liabilities settled	(128)	(9)
Accretion expense	168	273
Revisions to estimates	1,240	(529)
Reclassified as liabilities associated with assets held for sale (note 5)	-	(1,695)
Effect of change in foreign exchange rates	94	(48)
Balance, end of period	11,650	10,012

9. Income Taxes

The following table is a reconciliation of income taxes calculated by applying the applicable Trinidad statutory petroleum tax rates to net earnings before income tax expense.

(\$000's unless otherwise stated)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net earnings before taxes	332	414	2,545	592
Trinidad statutory tax rate	55.0%	55.0%	55.0%	55.0%
Expected income tax expense at statutory rate	183	228	1,400	326
Effect on income tax resulting from:				
Supplemental petroleum tax	522	-	1,094	-
Change in income tax assets not recognized	(633)	(241)	(530)	113
Income tax rate differential	(1,724)	(24)	(1,418)	757
Other	2,762	502	3,275	191
Income tax expense	1,110	465	3,821	1,387

The following table is a continuity schedule of the Company's current income tax payable for the periods indicated.

(\$000's)	Nine months ended September 30,	
	2022	2021
Balance, beginning of period	236	-
Current income tax expenses		
Petroleum profit tax / unemployment levy	983	1,062
Supplemental petroleum tax	2,443	-
Corporate income tax / other	130	88
Income tax payments	(1,637)	(88)
Instalments reclassified to accounts receivable	-	(49)
Effect of change in foreign exchange rates	9	(1)
Balance, end of period	2,164	1,012

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 Touchstone believes that the provision for income taxes is adequate.

10. 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, 2021	209,399,627	101,385
Equity-based settlements	1,332,100	372
Balance, December 31, 2021	210,731,727	101,757
Equity-based settlements	2,381,099	609
Balance, September 30, 2022	213,112,826	102,366

Equity compensation plan

Touchstone 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 Touchstone. 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 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, 2021	9,552,434	0.34
Granted	3,013,000	1.70
Exercised	(1,332,100)	0.22
Issued and outstanding, December 31, 2021	11,233,334	0.72
Granted	3,257,000	1.44
Exercised	(2,381,099)	0.21
Forfeited	(261,800)	1.47
Issued and outstanding, September 30, 2022	11,847,435	1.00
Exercisable, September 30, 2022	5,677,440	0.57

The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10 percent of the Company's issued and outstanding common shares. During the three and nine months ended September 30, 2022, Touchstone recorded equity-based compensation expenses of \$328,000 and \$971,000, respectively (2021 - \$305,000 and \$571,000).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

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,	
	2022	2021	2022	2021
Weighted average common shares outstanding - basic	212,646,840	210,731,727	211,897,908	209,967,613
Dilutive impact of equity-based compensation	-	-	-	-
Weighted average common shares outstanding - diluted	212,646,840	210,731,727	211,897,908	209,967,613

There was no dilutive impact to the weighted average number of common shares for the three and nine months ended September 30, 2022, as approximately 4.3 million and 5.1 million share options were excluded from the diluted weighted average share calculations as they were anti-dilutive, respectively (2021 - 6.5 million and 7.6 million).

11. Net Finance Expenses

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Lease liability interest expense	12	5	138	14
Term loan interest expense (note 7)	583	148	1,761	442
Accretion on term loan (note 7)	10	19	57	51
Production liability revaluation loss	20	5	139	135
Accretion on decommissioning liabilities (note 8)	48	66	168	206
Other	19	(10)	(11)	(41)
Net finance expenses	692	233	2,252	807
Cash net finance expenses	580	163	1,889	463
Non-cash net finance expenses	112	70	363	344
Net finance expenses	692	233	2,252	807

12. Financial Instruments and Market Risk Management

Financial instruments

As of September 30, 2022, the Company's financial instruments included 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 consolidated statements of financial position).

The Company's financial instruments that are carried at fair value on the consolidated statements of financial position include the production liability. The carrying values of Touchstone's accounts receivable, accounts payable and accrued liabilities and income taxes payable as of September 30, 2022 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 natural 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 6). The risk exposures are proactively reviewed by

Touchstone, 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 Touchstone.

Commodity price risk

Touchstone'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, Touchstone 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. Touchstone had no commodity-based risk management contracts in place as at or during the three and nine months ended September 30, 2022 and 2021. 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. Touchstone'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 paid 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. Touchstone does not hedge its foreign exchange risk.

As the Company primarily operates in Trinidad, fluctuations in the exchange rate between 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 Touchstone 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, Touchstone 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 C\$ and pounds sterling, head office costs and the production liability denominated and payable in C\$, 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 Touchstone's reporting results.

13. Other Expenses

For the three and nine months ended September 30, 2022, the Company recorded \$132,000 and \$672,000 in costs related to an oil spill that occurred as a result of vandalism in June 2022, respectively.

14. 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. Touchstone 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

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

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. Touchstone 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. Touchstone 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. Working capital, 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. Touchstone's internal capital management calculations for the nine months ended September 30, 2022 and year ended December 31, 2021 are set forth in the following table.

(\$000's)	Target measure	September 30, 2022	December 31, 2021
Current assets		(17,489)	(27,856)
Current liabilities		22,026	20,931
Working capital deficit (surplus)		4,537	(6,925)
Principal non-current balance of term loan		22,500	27,000
Net debt		27,037	20,075
Shareholders' equity		67,582	67,558
Total managed capital		94,619	87,633
Trailing twelve-month funds flow from operations ⁽¹⁾		4,140	4,107
Net debt to funds flow from operations ratio	at or < 2.0 times	6.53	4.89
Net debt to total managed capital ratio	< 0.4 times	0.29	0.23

Note:

(1) Trailing twelve-month funds flow from operations as at September 30, 2022 includes the sum of funds flow from operations for the nine months ended September 30, 2022 and funds flow from operations for the October 1 through December 31, 2021 interim period.

15. Commitments

Touchstone has minimum work obligations under various operating agreements with Heritage, exploration commitments under its Cory Moruga and Ortoire block exploration and production licences with the Trinidad and Tobago Ministry of Energy and Energy Industries, and various lease commitments for office space and motor vehicles. The following table sets forth the Company's estimated minimum contractual payments as at September 30, 2022.

(\$000's)	Total	Estimated payments due by year			
		2022	2023	2024	Thereafter
Operating agreements	24,407	4,921	285	5,610	13,591
Exploration agreements	25,698	155	7,046	7,381	11,116
Other commitments	848	113	423	94	218
Minimum payments	50,953	5,189	7,754	13,085	24,925

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2022 and 2021

Pursuant to its operating agreements with Heritage, the Company is required to fulfill minimum work obligations on an annual basis over each licence term. With respect to these obligations, Touchstone has four development wells and three heavy workover commitments to perform in 2022. The Company has notified Heritage its intent to defer the development drilling commitments to 2023.

As of December 31, 2021, the Company completed all of the exploration minimum work commitments with respect to the Ortoire exploration and production licence. In March 2022, Touchstone was notified that the Trinidad government approved an extension to the exploration phase of the Ortoire licence to July 31, 2026. The licence amendment has been approved by the Trinidad and Tobago government and is awaiting formal execution. Upon execution, the Company will be required to drill three exploration wells prior to the end of the amended licence term which are included in 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 Touchstone's results of operations or cash flows.

16. Subsequent Event

On October 10, 2022, the Company achieved first natural gas production from the Coho facility located on the Ortoire block, in which Touchstone has an 80 percent operating working interest. In conjunction with initial production, the Company sold the 2.7-kilometre, 6-inch gathering line tying in the Coho facility to the Baraka natural gas facility to The National Gas Company of Trinidad and Tobago Limited for net proceeds of \$1.2 million.



Corporate Information

Directors

John D. Wright
Chair of the Board

Jenny Alfandary
Paul R. Baay
Priya Marajh
Kenneth R. McKinnon
Peter Nicol
Beverley Smith
Stanley T. Smith
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

Banker

Republic Bank Limited
Port of Spain, Trinidad, W.I.

Auditor

KPMG LLP
Calgary, Alberta, Canada

Reserves Evaluator

GLJ Ltd.
Calgary, Alberta, Canada

Legal Counsel

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

Nunez and Co.

Port of Spain, Trinidad, W.I.

Transfer Agent and Registrar

Odyssey Trust Company
Calgary, Alberta, Canada

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