



**Touchstone Exploration Inc.**

**Interim Condensed Consolidated Financial Statements (unaudited)**

**June 30, 2022**

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

As at	Note	June 30, 2022	December 31, 2021
<b>Assets</b>			
Current assets			
Cash		9,425	17,936
Accounts receivable	3	9,192	7,546
Crude oil inventory		99	143
Prepaid expenses		880	1,055
Assets held for sale	5	1,121	1,176
		<b>20,717</b>	27,856
Exploration and evaluation assets	4	56,090	50,760
Property, plant and equipment	5	62,114	61,275
Restricted cash	7	1,138	1,178
Other assets		569	673
Abandonment fund		1,344	1,278
<b>Total assets</b>		<b>141,972</b>	143,020
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	6	10,844	16,000
Income taxes payable	9	1,858	236
Term loan	7	6,000	3,000
Liabilities associated with assets held for sale	8	1,669	1,695
		<b>20,371</b>	20,931
Lease liabilities		2,085	2,265
Term loan	7	23,943	26,896
Other liabilities		546	908
Decommissioning liabilities	8	11,741	10,012
Deferred income taxes	9	15,074	14,450
<b>Total liabilities</b>		<b>73,760</b>	75,462
<b>Shareholders' equity</b>			
Shareholders' capital	10	102,093	101,757
Contributed surplus		4,149	3,466
Other comprehensive loss		(13,086)	(13,219)
Deficit		(24,944)	(24,446)
<b>Total shareholders' equity</b>		<b>68,212</b>	67,558
<b>Total liabilities and shareholders' equity</b>		<b>141,972</b>	143,020

Commitments (note 15)

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 June 30,		Six months ended June 30,	
	Note	2022	2021	2022	2021
<b>Revenue</b>					
Petroleum sales		12,596	7,586	23,092	13,706
Less: royalties		(4,519)	(2,310)	(8,105)	(4,153)
Petroleum revenue, net of royalties		8,077	5,276	14,987	9,553
Other revenue		11	8	20	31
<b>Total revenue</b>		<b>8,088</b>	<b>5,284</b>	<b>15,007</b>	<b>9,584</b>
<b>Expenses</b>					
Operating		2,264	1,899	4,421	3,610
General and administration		1,897	1,614	3,870	3,149
Net finance	11	617	425	1,560	574
Net (gain) loss on asset dispositions	5	(85)	4	(120)	(21)
Foreign exchange (gain) loss	12	(140)	96	(196)	196
Equity-based compensation	10	399	156	643	266
Depletion and depreciation	5	975	819	1,905	1,622
Impairment	4	35	(19)	171	10
Other	13	540	-	540	-
<b>Total expenses</b>		<b>6,502</b>	<b>4,994</b>	<b>12,794</b>	<b>9,406</b>
<b>Earnings before income taxes</b>		<b>1,586</b>	<b>290</b>	<b>2,213</b>	<b>178</b>
<b>Provision for income taxes</b>					
Current expense	9	1,547	432	2,175	773
Deferred expense	9	301	142	536	149
<b>Total income tax expense</b>		<b>1,848</b>	<b>574</b>	<b>2,711</b>	<b>922</b>
<b>Net loss</b>		<b>(262)</b>	<b>(284)</b>	<b>(498)</b>	<b>(744)</b>
Currency translation adjustments		(267)	225	133	270
<b>Comprehensive loss</b>		<b>(529)</b>	<b>(59)</b>	<b>(365)</b>	<b>(474)</b>
<b>Net loss per common share</b>					
Basic and diluted	10	(0.00)	(0.00)	(0.00)	(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	Six months ended June 30,	
		2022	2021
<b>Shareholders' capital</b>			
Balance, beginning of period		101,757	101,385
Equity-based settlements	10	336	372
<b>Balance, end of period</b>		<b>102,093</b>	101,757
<b>Contributed surplus</b>			
Balance, beginning of period		3,466	2,476
Equity-based settlements	10	(119)	(132)
Equity-based compensation expense	10	643	266
Equity-based compensation capitalized		159	81
<b>Balance, end of period</b>		<b>4,149</b>	2,691
<b>Other comprehensive loss</b>			
Balance, beginning of period		(13,219)	(13,331)
Other comprehensive income		133	270
<b>Balance, end of period</b>		<b>(13,086)</b>	(13,061)
<b>Deficit</b>			
Balance, beginning of period		(24,446)	(30,165)
Net loss		(498)	(744)
<b>Balance, end of period</b>		<b>(24,944)</b>	(30,909)

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		Six months ended	
	Note	2022	June 30, 2021	2022	June 30, 2021
<b>Operating activities</b>					
Net loss		(262)	(284)	(498)	(744)
Items not involving cash from operations:					
Net (gain) loss on asset dispositions	5	(85)	4	(120)	(21)
Unrealized foreign exchange (gain) loss	12	(139)	113	(279)	187
Equity-based compensation	10	399	156	643	266
Depletion and depreciation	5	975	819	1,905	1,622
Impairment	4	35	(19)	171	10
Other	11	(41)	274	251	274
Deferred income tax expense	9	301	142	536	149
Decommissioning expenditures	8	(50)	-	(50)	-
<b>Funds flow from operations</b>		<b>1,133</b>	<b>1,205</b>	<b>2,559</b>	<b>1,743</b>
Change in non-cash working capital		2,383	(197)	1,290	(1,969)
<b>Cash from (used in) operating activities</b>		<b>3,516</b>	<b>1,008</b>	<b>3,849</b>	<b>(226)</b>
<b>Investing activities</b>					
Exploration and evaluation expenditures	4	(2,932)	(6,664)	(4,806)	(9,618)
Property, plant and equipment expenditures	5	(436)	(125)	(1,116)	(252)
Abandonment fund expenditures		(30)	(28)	(59)	(55)
Proceeds from asset dispositions	5	100	103	135	207
Change in non-cash working capital		(1,186)	1,389	(6,806)	(3,097)
<b>Cash used in investing activities</b>		<b>(4,484)</b>	<b>(5,325)</b>	<b>(12,652)</b>	<b>(12,815)</b>
<b>Financing activities</b>					
Changes in restricted cash	7	35	-	40	-
Production liability payments		(168)	(101)	(308)	(182)
Net finance lease receipts		91	36	187	34
Issuance of common shares	10	142	240	217	240
Change in non-cash working capital		25	18	58	40
<b>Cash from financing activities</b>		<b>125</b>	<b>193</b>	<b>194</b>	<b>132</b>
Change in cash		(843)	(4,124)	(8,609)	(12,909)
Cash, beginning of period		10,148	15,451	17,936	24,281
Impact of foreign exchange on foreign denominated cash balances		120	(113)	98	(158)
<b>Cash, end of period</b>		<b>9,425</b>	<b>11,214</b>	<b>9,425</b>	<b>11,214</b>
Supplementary information for cash flow from operating activities:					
Interest paid in cash	7	588	147	1,128	294
Income taxes paid in cash	9	520	37	556	59

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 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**

### **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 August 10, 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 June 30, 2022, \$2,736,000 of petroleum sales was included in accounts receivable, representing approximately 30 percent of Touchstone's consolidated accounts receivable balance (December 31, 2021 - \$1,594,000 and 21 percent, respectively). In addition, \$5,677,000 of the Company's consolidated accounts receivable was comprised of VAT as of June 30, 2022, which represented approximately 62 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 six months ended June 30, 2022 and 2021

As at June 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 June 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)	June 30, 2022	December 31, 2021
Not past due	4,390	3,181
Past due (greater than 90 days)	4,802	4,365
<b>Accounts receivable</b>	<b>9,192</b>	<b>7,546</b>

### 4. Exploration and Evaluation Assets

(\$000's)	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period	50,760	30,680
Additions	5,093	20,343
Impairment	(43)	(114)
Effect of change in foreign exchange rates	280	(149)
<b>Balance, end of period</b>	<b>56,090</b>	<b>50,760</b>

During the three and six months ended June 30, 2022, \$235,000 and \$436,000 of direct and attributable overhead charges were capitalized to exploration and evaluation ("E&E") assets, respectively (2021 - \$250,000 and \$450,000).

#### Impairment

During the three and six months ended June 30, 2022, the Company recognized E&E asset impairments of \$35,000 and \$171,000 related to non-core exploration properties, respectively (2021 - recovery of \$19,000 and \$10,000). The impairments predominately reflected writing down well decommissioning assets based on changes in long-term inflation estimates that increased the corresponding decommissioning liabilities.

The June 30, 2022 E&E asset carrying value of \$56,090,000 was included in the Ortoire cash-generating unit. No indicators of impairment were identified by Touchstone as at June 30, 2022.

### 5. Property, Plant and Equipment

(\$000's)	Petroleum assets	Right-of-use assets	Corporate assets	Total
<b>Cost</b>				
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)
<b>Balance, December 31, 2021</b>	<b>142,894</b>	<b>2,950</b>	<b>2,396</b>	<b>148,240</b>
Additions	1,098	7	59	1,164
Decommissioning liability change in estimate (note 8)	1,300	-	-	1,300
Foreign exchange translation	819	(3)	(28)	788
<b>Balance, June 30, 2022</b>	<b>146,111</b>	<b>2,954</b>	<b>2,427</b>	<b>151,492</b>

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

For the three and six months ended June 30, 2022 and 2021

(\$000's)	Petroleum assets	Right-of-use assets	Corporate assets	Total
<b>Accumulated depletion, depreciation and impairment</b>				
Balance, January 1, 2021	98,784	351	1,834	100,969
Depletion and depreciation	2,966	59	390	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)
<b>Balance, December 31, 2021</b>	<b>84,329</b>	<b>409</b>	<b>2,227</b>	<b>86,965</b>
Depletion and depreciation	1,790	40	75	1,905
Foreign exchange translation	535	-	(27)	508
<b>Balance, June 30, 2022</b>	<b>86,654</b>	<b>449</b>	<b>2,275</b>	<b>89,378</b>
<b>Carrying amounts</b>				
Balance, December 31, 2021	58,565	2,541	169	61,275
<b>Balance, June 30, 2022</b>	<b>59,457</b>	<b>2,505</b>	<b>152</b>	<b>62,114</b>

During the three and six months ended June 30, 2022, \$102,000 and \$200,000 of direct and attributable overhead charges were capitalized to property, plant and equipment, respectively (2021 - \$97,000 and \$162,000).

### Impairment

On June 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 three and six months ended June 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)	June 30, 2022	December 31, 2021
Property, plant and equipment	1,090	1,122
Abandonment fund	31	54
<b>Assets held for sale</b>	<b>1,121</b>	<b>1,176</b>
Decommissioning obligations (note 8)	(1,669)	(1,695)
<b>Liabilities associated with assets held for sale</b>	<b>(1,669)</b>	<b>(1,695)</b>
<b>Net liabilities held for sale</b>	<b>(548)</b>	<b>(519)</b>

## 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 six months ended June 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 June 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	10,844	10,844	-	-
Income tax payable (note 9)	1,858	1,858	-	-
Lease liabilities	3,171	859	1,904	408
Term loan principal (note 7)	30,000	6,000	12,000	12,000
Term loan interest (note 7)	6,084	2,159	2,905	1,020
Production liability	1,498	657	841	-
<b>Total financial liabilities</b>	<b>53,455</b>	<b>22,377</b>	<b>17,650</b>	<b>13,428</b>

### 7. Term Loan

The Company's Trinidad-based \$30 million term loan facility is fully drawn. 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. 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)	Six months ended June 30, 2022	Year ended December 31, 2021
<b>Balance, beginning of period</b>	<b>29,896</b>	7,176
Advances, net of debt modification fees	-	22,396
Revaluation loss	-	279
Accretion	47	45
<b>Balance, end of period</b>	<b>29,943</b>	29,896
Current	6,000	3,000
Non-current	23,943	26,896
<b>Term loan</b>	<b>29,943</b>	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 \$1,138,000 of cash as long-term restricted cash as at June 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 \$11,741,000 as at June 30, 2022 based on an inflation adjusted future liability of \$18,481,000 (December 31, 2021 - \$10,012,000 and \$15,943,000, respectively). Decommissioning liabilities were estimated as at June 30, 2022 using a weighted average long-term risk-free rate of 5.1 percent and a long-term inflation rate of 3.0 percent (December 31, 2021 - 5.3 percent and 1.6 percent, respectively).

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

For the three and six months ended June 30, 2022 and 2021

The following table summarizes Touchstone's estimated decommissioning liability provision for the periods indicated.

(\$000's)	Six months ended June 30, 2022	Year ended December 31, 2021
<b>Balance, beginning of period</b>	<b>10,012</b>	11,919
Liabilities incurred	7	101
Liabilities settled	(50)	(9)
Accretion expense	120	273
Revisions to estimates	1,588	(529)
Reclassified as liabilities associated with assets held for sale (note 5)	-	(1,695)
Effect of change in foreign exchange rates	64	(48)
<b>Balance, end of period</b>	<b>11,741</b>	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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net earnings before taxes	1,586	290	2,213	178
Trinidad statutory tax rate	55.0%	55.0%	55.0%	55.0%
Expected income tax expense at statutory rate	872	160	1,217	98
Effect on income tax resulting from:				
Supplemental petroleum tax	470	-	572	-
Change in income tax assets not recognized	69	326	103	354
Income tax rate differential	(167)	459	306	781
Other	604	(371)	513	(311)
<b>Income tax expense</b>	<b>1,848</b>	574	<b>2,711</b>	922

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

(\$000's)	Six months ended June 30,	
	2022	2021
<b>Balance, beginning of period</b>	<b>236</b>	-
Current income tax expenses		
Petroleum profit tax / unemployment levy	814	715
Supplemental petroleum tax	1,270	-
Corporate income tax / other	91	58
Income tax payments	(556)	(59)
Instalments reclassified to accounts receivable	-	(49)
Effect of change in foreign exchange rates	3	-
<b>Balance, end of period</b>	<b>1,858</b>	665

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.

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

For the three and six months ended June 30, 2022 and 2021

### 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
<b>Balance, December 31, 2021</b>	<b>210,731,727</b>	<b>101,757</b>
Equity-based settlements	1,543,600	336
<b>Balance, June 30, 2022</b>	<b>212,275,327</b>	<b>102,093</b>

#### 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
<b>Issued and outstanding, December 31, 2021</b>	<b>11,233,334</b>	<b>0.72</b>
Granted	3,022,000	1.43
Exercised	(1,543,600)	0.18
Forfeited	(261,800)	1.47
<b>Issued and outstanding, June 30, 2022</b>	<b>12,449,934</b>	<b>0.94</b>
<b>Exercisable, June 30, 2022</b>	<b>6,430,605</b>	<b>0.52</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 Company's issued and outstanding common shares. During the three and six months ended June 30, 2022, Touchstone recorded equity-based compensation expenses of \$399,000 and \$643,000, respectively (2021 - \$156,000 and \$266,000).

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

For the three and six months ended June 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Weighted average common shares outstanding - basic	212,204,183	209,756,847	211,517,236	209,579,224
Dilutive impact of equity-based compensation	-	-	-	-
<b>Weighted average common shares outstanding - diluted</b>	<b>212,204,183</b>	<b>209,756,847</b>	<b>211,517,236</b>	<b>209,579,224</b>

There was no dilutive impact to the weighted average number of common shares for the three and six months ended June 30, 2022, as approximately 4.9 million and 5.6 million share options were excluded from the diluted weighted average share calculations as they were anti-dilutive, respectively (2021 - 7.4 million and 7.9 million).

### 11. Net Finance Expenses

(\$000's)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Lease liability interest expense	63	4	126	9
Term loan interest expense (note 7)	589	148	1,178	294
Accretion on term loan (note 7)	3	17	47	32
Production liability revaluation (gain) loss	(80)	201	119	130
Accretion on decommissioning liabilities (note 8)	54	77	120	140
Other	(12)	(22)	(30)	(31)
<b>Net finance expenses</b>	<b>617</b>	<b>425</b>	<b>1,560</b>	<b>574</b>
Cash net finance expenses	658	151	1,309	300
Non-cash net finance expenses	(41)	274	251	274
<b>Net finance expenses</b>	<b>617</b>	<b>425</b>	<b>1,560</b>	<b>574</b>

### 12. Financial Instruments and Market Risk Management

#### Financial instruments

As of June 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 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 included in other liabilities on the consolidated statements of financial position. The carrying values of Touchstone's accounts receivable, accounts payable and accrued liabilities and income taxes payable as of June 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 six months ended June 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 had no contracts in place to manage foreign currency risk as at or during the three and six months ended June 30, 2022 and 2021.

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 six months ended June 30, 2022, the Company accrued \$540,000 in estimated costs related to an oil spill that occurred as a result of vandalism in June 2022.

## 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 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 six months ended June 30, 2022 and year ended December 31, 2021 are set forth in the following table.

(\$000's)	Target measure	June 30, 2022	December 31, 2021
Current assets		(20,717)	(27,856)
Current liabilities		20,371	20,931
Working capital surplus		(346)	(6,925)
Principal non-current balance of term loan		24,000	27,000
Net debt		23,654	20,075
Shareholders' equity		68,212	67,558
Total managed capital		91,866	87,633
Trailing twelve-month funds flow from operations <sup>(1)</sup>		4,923	4,107
<b>Net debt to funds flow from operations ratio</b>	<b>at or &lt; 2.0 times</b>	<b>4.80</b>	4.89
<b>Net debt to total managed capital ratio</b>	<b>&lt; 0.4 times</b>	<b>0.26</b>	0.23

Note:

(1) Trailing twelve-month funds flow from operations as at June 30, 2022 includes the sum of funds flow from operations for the six months ended June 30, 2022 and funds flow from operations for the July 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.

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

For the three and six months ended June 30, 2022 and 2021

The following table sets forth the Company's estimated minimum contractual payments as at June 30, 2022.

(\$000's)	Total	Estimated payments due by year			
		2022	2023	2024	Thereafter
Operating agreements	24,060	4,933	284	5,546	13,297
Exploration agreements	25,549	237	7,022	7,305	10,985
Other commitments	626	189	101	101	235
<b>Minimum payments</b>	<b>50,235</b>	<b>5,359</b>	<b>7,407</b>	<b>12,952</b>	<b>24,517</b>

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.

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. 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.



## 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

### 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