



Touchstone Exploration Inc.

Consolidated Financial Statements

December 31, 2019

Management's Report

The Management of Touchstone Exploration Inc. has prepared the accompanying consolidated financial statements of Touchstone Exploration Inc. in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial and operating information presented throughout the regulatory filings is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the consolidated financial statements include estimates that are based on Management's informed judgments. Management has established systems of internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

The Board of Directors are responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises responsibilities primarily through its Audit Committee, which is comprised of three independent and financially literate directors. The Audit Committee meets regularly with Management and with the independent auditors to discuss the internal controls over financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Audit Committee also considers the independence of the external auditors and reviews their fees. The Audit Committee has reported its findings to the Board of Directors, who have in turn approved the consolidated financial statements for issuance to the shareholders.

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

/s/ Paul R. Baay
President, Chief Executive Officer and Director

/s/ Scott Budau
Chief Financial Officer

Calgary, Alberta
March 25, 2020

Independent Auditor's Report

To the Shareholders of Touchstone Exploration Inc.

Opinion

We have audited the consolidated financial statements of Touchstone Exploration Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

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

- Management's Discussion and Analysis

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

Ernst + Young LLP

Chartered Professional Accountants
Calgary, Alberta
March 25, 2020

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

As at	Note	December 31, 2019	December 31, 2018	January 1, 2018
			(note 4)	(note 4)
Assets	14			
Current assets				
Cash		\$ 6,182	\$ 3,554	\$ 11,089
Restricted cash	10	271	-	-
Accounts receivable	6	7,348	11,893	6,803
Crude oil inventory		71	150	134
Prepaid expenses		246	257	378
		14,118	15,854	18,404
Exploration assets	7	13,579	3,644	1,659
Property and equipment	4,8	55,730	63,041	50,045
Restricted cash	10	-	271	299
Other assets	11	496	1,330	1,486
Abandonment fund	15	1,125	966	835
Total assets		\$ 85,048	\$ 85,106	\$ 72,728
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	12	\$ 13,708	\$ 16,262	\$ 10,330
Income taxes payable	16	1,329	2,730	2,441
Term loan and associated liabilities	14	220	180	208
		15,257	19,172	12,979
Provisions	4	-	125	53
Lease liabilities	4,13	105	-	-
Term loan and associated liabilities	14	14,735	10,683	11,657
Decommissioning liabilities	15	11,547	8,915	9,438
Deferred income taxes	16	13,289	14,994	8,185
Total liabilities		54,933	53,889	42,312
Shareholders' equity				
Shareholders' capital	17	61,507	56,987	56,987
Contributed surplus		2,341	2,172	2,035
Accumulated other comprehensive loss		(14,598)	(14,427)	(14,733)
Accumulated deficit		(19,135)	(13,515)	(13,873)
Total shareholders' equity		30,115	31,217	30,416
Total liabilities and shareholders' equity		\$ 85,048	\$ 85,106	\$ 72,728

Commitments and contingencies (note 21)
Subsequent events (note 24)

See accompanying notes to these consolidated financial statements.

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

/s/ John D. Wright
Chair of the Board of Directors and Director

/s/ Stanley T. Smith
Chair of the Audit Committee and Director

Touchstone Exploration Inc.**Consolidated Statements of Comprehensive Income (Loss)**

Stated in thousands of United States dollars (except per share amounts)

	Note	Year ended December 31,	
		2019	2018
			(note 4)
Revenues			
Petroleum sales		\$ 38,654	\$ 37,729
Royalties		(10,986)	(10,133)
Petroleum revenue		27,668	27,596
Loss on financial derivatives	19	(171)	(153)
Other income		72	375
Total revenue		27,569	27,818
Expenses			
Operating	23	9,936	10,858
General and administrative	23	5,935	5,929
Net finance	18	316	1,435
Gain on asset dispositions	8	-	(228)
Foreign exchange loss (gain)	19	147	(320)
Share-based compensation	17	169	118
Depletion and depreciation	8	5,171	4,116
Impairment	9	7,960	(3,209)
Loss on decommissioning liabilities	15	-	9
Total expenses		29,634	18,708
(Loss) earnings before income taxes		(2,065)	9,110
Provision for income taxes			
Current	16	5,368	1,855
Deferred	16	(1,813)	6,897
Total income taxes		3,555	8,752
Net (loss) earnings		(5,620)	358
Currency translation adjustments		(171)	306
Comprehensive (loss) income		\$ (5,791)	\$ 664
Net (loss) earnings per common share			
Basic and diluted	17	\$ (0.04)	\$ 0.00

See accompanying notes to these consolidated financial statements.

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

	Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Shareholders' equity
January 1, 2018 (note 4)	\$ 56,987	\$ 2,035	\$ (14,733)	\$ (13,873)	\$ 30,416
Comprehensive income	-	-	306	358	664
Share-based compensation expense (note 17)	-	118	-	-	118
Share-based compensation capitalized (notes 7 and 8)	-	19	-	-	19
December 31, 2018 (note 4)	\$ 56,987	\$ 2,172	\$ (14,427)	\$ (13,515)	\$ 31,217
Comprehensive loss	-	-	(171)	(5,620)	(5,791)
Private placement (note 17)	4,496	-	-	-	4,496
Share-based settlements (note 17)	24	(23)	-	-	1
Share-based compensation expense (note 17)	-	169	-	-	169
Share-based compensation capitalized (notes 7 and 8)	-	23	-	-	23
December 31, 2019	\$ 61,507	\$ 2,341	\$ (14,598)	\$ (19,135)	\$ 30,115

See accompanying notes to these consolidated financial statements.

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

	Note	Year ended December 31,	
		2019	2018
			(note 4)
Cash provided by (used in) the following activities:			
Operating activities			
Net (loss) earnings		\$ (5,620)	\$ 358
Items not involving cash from operations:			
Non-cash loss on financial derivatives	19	171	153
Gain on asset dispositions	8	-	(228)
Unrealized foreign exchange loss (gain)	19	144	(278)
Share-based compensation	17	169	118
Depletion and depreciation	8	5,171	4,116
Impairment	9	7,960	(3,209)
Other	23	658	687
Loss on decommissioning liabilities	15	-	9
Deferred income tax (recovery) expense	16	(1,813)	6,897
Decommissioning expenditures	15	-	(75)
Funds flow from operations		6,840	8,548
Change in non-cash operating working capital	23	(1,215)	(2,064)
Costs related to financial derivatives	19	(171)	(153)
Cash flow from operating activities		5,454	6,331
Investing activities			
Change in restricted cash	10	-	28
Exploration asset expenditures	7	(10,113)	(2,557)
Property and equipment expenditures	8	(1,388)	(14,606)
Abandonment fund expenditures	15	(153)	(135)
Proceeds from asset disposition	8	38	-
Change in non-cash investing working capital	23	1,422	3,198
Cash flow used in investing activities		(10,194)	(14,072)
Financing activities			
Payment of term loan production obligation	14	(404)	(377)
Term loan advances (fees)	14	3,590	(119)
Net finance lease (payments) receipts	11,13	(194)	396
Issuance of common shares	17	4,497	-
Change in non-cash financing working capital	23	14	28
Cash flow from (used in) financing activities		7,503	(72)
Increase (decrease) in cash		2,763	(7,813)
Cash, beginning of year		3,554	11,089
Impact of foreign exchange on foreign denominated cash balances		(135)	278
Cash, end of year		\$ 6,182	\$ 3,554
The following are included in cash flow from operating activities:			
Interest paid in cash		905	925
Income taxes paid in cash		7,336	1,552

See accompanying notes to these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

1. Reporting Entity

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 and on the AIM market of the London Stock Exchange under the symbol "TXP".

2. Basis of Preparation and Statement of Compliance

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated, amounts presented in these financial statements are rounded to thousands of United States dollars ("\$" or "US\$"), and tabular amounts are stated in thousands of United States dollars, as described further in Note 4 "Changes to Accounting Policies". Certain reclassification adjustments have been made to these financial statements to conform to the current presentation.

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

All inter-entity transactions have been eliminated upon consolidation between the Company and any 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 preparation of financial statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in Note 5 "Use of Estimates, Judgements and Assumptions".

These financial statements were authorized for issue by the Company's Board of Directors on March 25, 2020.

3. Summary of Significant Accounting Policies

Foreign currency translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Effective January 1, 2019, the Company changed its presentation currency from Canadian dollars ("C\$") to United States dollars, with retrospective application on comparative figures as described further in Note 4 "Changes to Accounting Policies". The Company did not change its functional currency, nor did it change the functional currencies of any of its subsidiaries. The functional currency of the parent company is the C\$; the functional currency of the Company's Barbadian entity is the US\$; and the functional currency of each of its Trinidadian subsidiaries is the Trinidad and Tobago dollar ("TT\$").

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

Foreign currency transactions are translated into the respective functional currency of the Company and its subsidiaries using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income (loss) ("statements of comprehensive income").

The results and financial position of all the Company's consolidated subsidiaries that have a functional currency different from the presentation currency are translated into the United States dollars as follows:

- assets and liabilities for each statement of financial position presented are translated at the reporting date closing rate;
- revenue and expenses and certain cash flow items for each period are translated at average monthly exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in accumulated other comprehensive income, a separate component of equity.

Financial instruments

Classification and measurement of financial instruments

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Measurement in subsequent periods depends on the financial instruments' classification, as described below.

- *Fair value through profit or loss:* Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to the statements of comprehensive income. Financial instruments under this classification include financial derivatives.
- *Amortized cost:* Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable, lease liabilities and term loan and associated liabilities.
- *Fair value through other comprehensive income:* Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not have any financial instruments under this classification.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. Expected credit losses exist if one or more loss events occur after initial recognition of the financial asset which has an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. The Company uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The

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carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in general and administrative expenses.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. To estimate the fair value of its financial instruments, the Company uses quoted market prices when available or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk.

The Company's financial derivatives are recorded and carried on the consolidated statements of financial position ("statements of financial position") at fair value with actual amounts received or paid on the settlement of the financial derivative instrument recorded in the statements of comprehensive income. Forward commodity derivative contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price, using quoted market prices. Fair value less costs of disposal is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value:

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

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

Restricted cash

The Company's restricted cash balances are held to collateralize bonds that provide credit support in respect of future work commitments associated with exploration and development licences. Balances are classified as non-current assets if the bonds expire greater than one year from the reporting date.

Crude oil inventory

Crude oil is valued at the lower of cost and net realizable value. The cost of crude oil inventory is calculated using the weighted average cost method which includes expenditures incurred in bringing the crude oil to its existing location and condition. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

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As at December 31, 2019 and for the years ended December 31, 2019 and 2018

Exploration assets

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

Exploration assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, exploration drilling, completion and production testing costs, directly attributable employee salaries and benefits, and estimates of any decommissioning costs are capitalized and accumulated pending determination of technical feasibility and commercial viability. Technical feasibility and commercial viability of exploration assets are dependent upon the assignment of a sufficient amount of economically recoverable reserves relative to the estimated potential resources available, available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. Assets classified as exploration may have sales of petroleum products associated with production from test wells, which are recognized in the statements of comprehensive income.

Non-producing assets classified as exploration assets are not depleted. When exploration assets are determined to be technically feasible and commercially viable, the relevant costs are transferred to property and equipment. The relevant assets are tested for impairment prior to any such transfer, by comparing the carrying amount to the greater of the relevant asset's fair value less cost of disposal or value in use. If a decision is made by Management not to continue an exploration asset project, all associated costs are charged to the statements of comprehensive income at that time.

Property and equipment

Items of property and equipment, which currently include crude oil development and production assets, oilfield service equipment and corporate assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment charges.

All costs directly associated with the acquisition and development of petroleum properties are capitalized. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include transfers of exploration assets, property acquisitions, facilities, directly attributable overhead and share-based compensation expenses, as well as land acquisition, decommissioning liabilities, geological and geophysical, and drilling, completion and production testing costs.

Petroleum assets are accumulated in cost centres at the cash-generating unit ("CGU") level. A CGU is a grouping of assets that generate cash flows independently of other assets held by the Company. Geography, product type, and internal management are key factors considered when grouping petroleum assets into CGUs. CGUs are depleted using the unit-of-production method based upon estimated gross proved plus probable reserves, determined annually by independent professional engineers and calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Estimated future development costs necessary to bring the reserves into production are included in the depletion calculation.

The Company operates under numerous production and exploration leases with varying expiry dates. Under its leases with Heritage Petroleum Company Limited ("Heritage") (formerly the Petroleum Company of Trinidad and Tobago Limited or Petrotrin), the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment testing and depletion purposes, the Company assumes that all relevant agreements will be renewed under similar terms based on the Company's previous experience with the renewal process in Trinidad.

Notes to the Consolidated Financial Statements

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

Impairment of non-financial assets

Property and equipment

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

Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. Available fair value indicators, such as recent market information and appropriately discounted cash flow valuation models, are typically used in determining fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from proven plus probable reserves.

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

Exploration assets

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

Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing development or use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the sale to be highly probable, Management must be committed to a plan to sell the asset, and an active program to locate a buyer must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, and the sale should be expected to be completed within one year from the date of classification. Certain events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year.

Immediately before non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

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

Dispositions

Gains or losses on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount of the assets held for sale and are recognized separately in the statements of comprehensive income.

Lease arrangements

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") as described further in Note 4 "Changes to Accounting Policies". The Company applied IFRS 16 using the modified retrospective approach; therefore, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy found in the audited consolidated financial statements for the year ended December 31, 2018. The accounting policy set forth below is applicable from January 1, 2019.

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

As lessee

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

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

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

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

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As lessor

Where the Company acts as the lessor in a lease arrangement, the Company assesses at inception whether the lease is a finance lease or an operating lease. Leases where the Company transfers substantially all of the risk and rewards incidental to ownership of the underlying asset are classified as financing leases. Under a finance lease, the Company records the current portion of the finance lease in accounts receivable and the non-current portion in other assets. Finance income related to the lease is recognized using an approach that equals a constant rate of return on the net investment of the lease. The net investment of the lease is the aggregate of the net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in the statements of comprehensive income over the lease term. The Company records lease payments received under operating leases as other income on a straight-line basis over the lease term.

Term loan and associated liabilities

The Company's term credit facility is comprised of two financial liability components: the term loan and the production payment obligation.

The term loan was initially measured at fair value, net of all transaction fees. The term loan is subsequently recognized as other financial liabilities measured at amortized cost using the effective interest rate method. The discount on the term loan is unwound using the effective interest rate method to the face value at maturity and is expensed to accretion on the statements of comprehensive income.

The production payment liability is measured at fair value at each financial reporting date using internal forecasts of future production and forward commodity strip pricing. The liability is reduced by future amounts paid to the counterparty.

Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Company has a present, legal or constructive obligation that can be estimated reliably and is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are measured using the best estimate of the expenditure required to settle the obligation.

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

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

Decommissioning liabilities and abandonment fund

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property and equipment incurred upon the acquisition, construction, development and use of the asset. Decommissioning liabilities are measured at the present value of Management's best estimate of expenditures required to settle the liability at the end of the related assets' useful life as at the date

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of the statements of financial position. On a periodic basis, Management reviews these estimates, and any changes are applied prospectively. The change in the fair value of the decommissioning liability is recognized as an increase or decrease in the liability, with a corresponding increase or decrease to the carrying amount of the related asset. Capitalized costs included property and equipment are depleted based upon the unit-of-production method consistent with the underlying assets. The liability is increased in each reporting period with the passage of time, and the associated accretion charge is recognized in the statements of comprehensive income. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

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

With respect to decommissioning liabilities associated with the Company's production leases with Heritage, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a well site in comparison to the well's cumulative historical production. The Company is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum operations conducted on its MEEI and private production and exploration agreements.

Joint arrangements

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

Revenue from petroleum sales

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

Share-based compensation plans

The Company's share-based compensation plans include equity-settled awards. Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date, as measured using the Black-Scholes option-pricing model and is recognized over the period the awards vest with a corresponding increase in contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of options that vest. When share options or incentive share options are exercised, the consideration received and the associated amounts previously recorded as contributed surplus are reclassified to shareholders' capital.

Income taxes

Provision for or recovery of income tax comprises current and deferred income tax and is recognized in the statements of comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case the related income tax is also recorded in equity.

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are presented as non-current. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off the recognized amounts, and the intent is to either settle on a net basis or to realize the asset and settle the liability simultaneously. Deferred tax is not recorded on the initial recognition of assets or liabilities in a transaction that is neither a business combination nor an event resulting in income or expense. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4. Changes to Accounting Policies

Change in presentation currency

The Company changed its presentation currency from Canadian dollars to United States dollars effective January 1, 2019, with retrospective application on comparative figures in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 21 *Foreign Currency* ("IAS 21"). The change in accounting policy was made to better reflect the Company's international business activities and to improve comparability of the Company's financial results with other internationally focused junior oil and gas exploration and production companies. The Company did not change its functional currency, nor did it change the functional currencies of any of its subsidiaries.

For comparative purposes, historical financial statements have been restated to reflect financial results had they been presented in US\$ since the Company's inception. The current and comparative results and financial position of the Company's consolidated subsidiaries that have a functional currency different from the presentation currency have been translated into the US\$ presentation currency in accordance with IAS 21 as follows:

- assets and liabilities for each statement of financial position presented were translated at the reporting date closing rate;
- shareholders' equity items for each statement of financial position presented were translated at the rates prevailing on the dates of the transactions;
- revenue and expenses and certain cash flow items for each period were translated at average monthly exchange rates (unless this was not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses were translated at the dates of the transactions);
- all resulting exchange differences were recognized in accumulated other comprehensive loss, a separate component of equity; and
- all foreign exchange rates used were extracted from the Company's underlying financial records.

As such, the change in presentation currency did not have an economic impact on the Company's underlying operations and transactions. The change in presentation currency simply converted the

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consolidated financial statement amounts to US\$ as described above. In addition to the comparative statement of financial position, the Company has presented a third statement of financial position as at January 1, 2018 as a result of the change in presentation currency.

The Company's shareholders previously approved a special resolution approving the reduction of the stated capital of the Company's common shares by an aggregate amount of up to C\$150 million, which was partially implemented on November 30, 2017 thereby reducing the Company's C\$ accumulated deficit to \$nil. The change in presentation currency created an accumulated deficit at that time, as the Company's historical accumulated deficit balance presented in US\$ exceeded the translated C\$ capital reduction on November 30, 2017.

Adoption of IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16. The standard supersedes IAS 17 *Leases* ("IAS 17"). Under IAS 17, the Company determined all of its leases where it acted as the lessee to be operating leases and as such there were no asset or liability values assigned to these leases on the December 31, 2018 statement of financial position.

IFRS 16 requires the recognition of a ROU asset and lease obligation on the statement of financial position for most leases where the entity is acting as a lessee. For lessees, IFRS 16 removed the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17. The Company is the lessee in the majority of its lease arrangements; however, the Company does have one lease arrangement where it acts as the lessor.

The Company elected to apply IFRS 16 using the modified retrospective approach which did not require the restatement of prior period financial information. Modified retrospective application recognized the cumulative effect of IFRS 16 as an adjustment to opening accumulated deficit at January 1, 2019 and applied the standard prospectively. Accordingly, comparative information before adoption was not restated and continues to be reported under IAS 17.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The Company used a weighted average incremental borrowing rate of 8 percent to measure the present value of future lease payments on January 1, 2019. The associated ROU assets (included in property and equipment) were measured at the amount equal to the lease liability on January 1, 2019 less any amount previously recognized for office lease inducements, with no impact on opening accumulated deficit.

On January 1, 2019, the Company elected to utilize the following practical expedients permitted in the standard:

- the Company recognized leases with terms ending within twelve months of initial adoption as short-term leases, with lease payments recorded in the financial statements as incurred;
- on January 1, 2019, the provision for office lease inducements previously recognized was applied to the value of the associated ROU asset; and
- certain leases having similar characteristics have been measured as a portfolio by applying a single discount rate.

The Company identified ROU lease assets and liabilities related to head office space, oilfield service equipment, motor vehicles and office equipment.

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The following table sets forth the impact of the adoption of IFRS 16 on the statement of financial position as at January 1, 2019.

	January 1, 2019
ROU assets (included in property and equipment)	\$ 1,194
Increase in total assets	\$ 1,194
Current portion of lease liabilities (included in accounts payable and accrued liabilities)	\$ 482
Provisions and accounts payable and accrued liabilities	(158)
Non-current portion of lease liabilities	870
Increase in total liabilities and shareholders' equity	\$ 1,194

Upon adoption of IFRS 16, lease liability amounts were included in the Company's term loan financial covenants through September 30, 2019 (see Note 14 "Term Loan and Associated Liabilities"). The adoption of IFRS 16 did not affect its finance lease where the Company is the lessor (see Note 11 "Other Assets").

Adoption of IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23")

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 *Income Taxes* are applied where there is uncertainty over income tax treatments. IFRIC 23 is effective for years beginning on or after January 1, 2019. The adoption of this amendment did not have a material impact on the Company's financial statements or previously reported results.

5. Use of Estimates, Judgements and Assumptions

The timely preparation of financial statements in conformity with IFRS requires Management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. These estimates, judgments and assumptions are subject to change, and actual results could differ from those estimated, and those differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis, and any revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates and judgements made by Management in the preparation of these financial statements are discussed below.

Fair value of financial instruments

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward commodity prices, foreign exchange rates and interest rates. Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Crude oil and natural gas reserves and resources

There are a number of inherent uncertainties associated with estimating crude oil and natural gas reserves and resources. Reserve and resource estimates are based on engineering data, estimated future commodity prices, expected future rates of production and the timing and amount of future expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2019 and 2018, which could differ significantly from other points in time throughout the year or future periods.

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Reserves have been evaluated at December 31, 2019 and 2018 by the Company's independent qualified reserves evaluator in accordance with NI 51-101.

Determination of cash-generating units

Determination of what constitutes a CGU is subject to Management judgement. The recoverability of exploration asset and development and production asset carrying values are assessed at the CGU level, and the asset composition of a CGU can directly impact the recoverability of the assets included therein. Furthermore, the transfer of exploration assets to property and equipment is based on Management's judgement of technical feasibility and commercial viability.

Recoverability of asset carrying values

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

In estimating the recoverable amount of exploration asset CGUs, the fair value of land is internally estimated by Management based upon recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU. Where applicable, the Company incorporates net present value calculations of economic prospective and contingent resources associated with certain evaluation assets as estimated by the Company's independent reserves evaluator. Furthermore, Management factors in future development plans and lease expiries into the relevant CGU assessment. Exploration assets remain capitalized as long as sufficient progress is being made in assessing whether the petroleum products are technically feasible and commercially viable. This assessment requires significant Management judgement, as exploration assets are subject to continuous internal review to confirm the continued intent to establish the technical feasibility and commercial viability of a project.

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

- *Production and reserves:* Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in revisions to reserves estimates. The discounted cash flow models considered development plans approved by Management and reasonable assumptions that a market participant would apply in establishing a development plan for the assets.
- *Petroleum prices:* Forward pricing estimates of crude oil and natural gas are used in the discounted cash flow models. These prices are adjusted for consideration stipulated in contracts with customers. Commodity prices have experienced increased volatility in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, expected future demand, economic and geopolitical factors.
- *Royalty rates, operating costs, general and administrative costs, income tax expenses and future development capital:* Estimates of these inputs were based on historical results and estimates regarding inflation over the forecast periods. Income tax rates were based on the

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published statutory income tax rates for the appropriate cash flow streams.

- *Discount rate:* The discount rate used to calculate the net present value of cash flows was based on estimates of an approximate industry peer group weighted average cost of capital, which factors in debt and equity weightings of comparable corporations. Changes in the general economic environment could result in significant changes to this estimate.

Depletion of petroleum assets

Depletion of development petroleum assets is determined based on total proved plus probable reserves as well as future development costs estimated by the Company's independent qualified reserves evaluator.

Exploration assets

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

Decommissioning liabilities

The provision for decommissioning liabilities is based on numerous assumptions and judgements, including ultimate remediation plans, settlement amounts, historical production volumes, inflation factors, risk-free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing decommissioning liability, a corresponding adjustment is made to the associated property and equipment or exploration asset balance.

Lease arrangements

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

Provisions

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

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Share-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is measured using a Black-Scholes option pricing model. The measurement inputs to this model, including expected volatility, weighted average expected life of the instruments, expected dividends, risk-free interest rate (based on Government of Canada bonds) and expected forfeitures, rely on Management judgements. Forfeitures are estimated through the vesting period based on future expectations and are adjusted upon actual vesting and forfeitures.

Income taxes

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and comprehensive income.

6. Financial Assets and Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. As at December 31, 2019, the Company was exposed to credit risk with respect to its accounts receivable and other assets, which includes finance lease receivable and deferred consideration from a property disposition. The credit risk associated with the Company's finance lease receivable is considered to be low as the asset is secured by the underlying fixed assets, with ownership transferring to the counterparty subsequent to the final lease payment. The credit risk associated with the Company's deferred consideration is also considered low as the Company is selling the counterparty's crude oil produced from the disposed assets through its facilities and currently has the right to net the quarterly payment from the gross proceeds received.

The Company's credit exposure on accounts receivable typically pertains to accrued sales revenue for monthly production volumes sold to Heritage and value added taxes due from the Trinidad government. As at December 31, 2019, \$2,074,000 of petroleum sales was included in accounts receivable, representing approximately 28 percent of the consolidated accounts receivable balance (2018 - \$5,165,000 and 43 percent, respectively). \$4,283,000 in value added tax was included in accounts receivable as at December 31, 2019, which represented approximately 58 percent of the accounts receivable balance (2018 - \$6,006,000 and 51 percent, respectively).

As at December 31, 2019, the Company determined that the average expected credit loss on the Company's accounts receivables was \$nil (2018 - \$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 value added taxes, and although the timing of settlement is slow, the Company has not historically experienced any material collection issues. The aging of accounts receivable as at December 31, 2019 and 2018 is disclosed in the following table.

Accounts receivable aging	December 31, 2019	December 31, 2018
Not past due	\$ 3,581	\$ 6,731
Past due (greater than 90 days)	3,767	5,162
Balance	\$ 7,348	\$ 11,893

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7. Exploration Assets

	Year ended December 31,	
	2019	2018
Balance, beginning of year	\$ 3,644	\$ 1,659
Additions	10,191	2,557
Impairments (note 9)	(309)	(548)
Effect of change in foreign exchange rates	53	(24)
Balance, end of year	\$ 13,579	\$ 3,644

During the year ended December 31, 2019, \$227,000 of direct and incremental overhead charges were capitalized to exploration assets (2018 - \$94,000).

8. Property and Equipment

	Petroleum assets	Corporate assets	Balance
Cost			
Balance, January 1, 2018	\$ 120,100	\$ 1,960	\$ 122,060
Additions	15,194	13	15,207
Dispositions	(142)	-	(142)
Effect of change in foreign exchange rates	(844)	(156)	(1,000)
Balance, December 31, 2018	\$ 134,308	\$ 1,817	\$ 136,125
Additions	2,324	-	2,324
Right-of-use assets (note 4)	1,114	80	1,194
Derecognition of right-of-use assets (note 13)	(830)	-	(830)
Decommissioning liability change in estimate	2,422	-	2,422
Effect of change in foreign exchange rates	1,031	90	1,121
Balance, December 31, 2019	\$ 140,369	\$ 1,987	\$ 142,356
Accumulated depletion, depreciation and impairments			
Balance, January 1, 2018	\$ 70,465	\$ 1,550	\$ 72,015
Depletion and depreciation	3,992	124	4,116
Impairment recoveries (note 9)	(3,724)	-	(3,724)
Decommissioning liability change in estimate	1,171	-	1,171
Effect of change in foreign exchange rates	(366)	(128)	(494)
Balance, December 31, 2018	\$ 71,538	\$ 1,546	\$ 73,084
Depletion and depreciation	5,036	135	5,171
Impairments (note 9)	7,594	-	7,594
Derecognition of right-of-use assets (note 13)	(175)	-	(175)
Decommissioning liability change in estimate	371	-	371
Effect of change in foreign exchange rates	505	76	581
Balance, December 31, 2019	\$ 84,869	\$ 1,757	\$ 86,626
Carrying amounts			
Balance, December 31, 2018	\$ 62,770	\$ 271	\$ 63,041
Balance, December 31, 2019	\$ 55,500	\$ 230	\$ 55,730

As at December 31, 2019, \$67,134,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2018 - \$68,644,000). During the year ended December 31, 2019, \$692,000 and \$23,000 in general and administrative expenses and share-based compensation expenses were capitalized to property and equipment, respectively (2018 - \$994,000 and \$19,000).

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Property disposition

In December 2018, the Company completed the disposition of its Icacos crude oil property and related assets. The Company sold its 50 percent operating working interest in the property to the third-party partner for minimum consideration of \$500,000. The Company recorded a gain on asset disposition of \$228,000 during the year ended December 31, 2018 in connection with the property disposition.

\$38,000 of the consideration was collected during the year ended December 31, 2019 (2018 - \$96,000). The remaining consideration will be paid based on the Company's working interest net petroleum sales it would have received had it retained such interest through December 2020. Should these cumulative payments not exceed the minimum consideration, the Company will receive the difference prior to the end of February 2021. \$82,000 and \$234,000 of the deferred consideration was included in accounts receivable and other assets at December 31, 2019, respectively (2018 - \$42,000 and \$263,000).

Exploration and production licence

The Company's Palo Seco exploration and production agreement with the MEEI expired on August 19, 2013. The Company is currently negotiating a renewal or extension of the licence and has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed or extended. During the year ended December 31, 2019, production volumes produced under the expired licence represented 0.6 percent of annual Company production (2018 - 0.7 percent).

Private lease agreements

The Company is operating under a number of private lease agreements which have expired and are currently being renewed. Based on legal opinions received, the Company is continuing to recognize petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the year ended December 31, 2019, production volumes produced under expired private lease agreements represented 1.8 percent of annual Company production (2018 – 2.4 percent).

9. Impairments

Exploration assets

The following table sets forth exploration asset impairments for the years ended December 31, 2019 and 2018 by CGU.

CGU	Year ended December 31,	
	2019	2018
Cory Moruga	\$ 14	\$ 88
East Brighton	352	422
Exploration asset impairments	\$ 366	\$ 510

During the years ended December 31, 2019 and 2018, the Company incurred lease expenses relating to its East Brighton property which were impaired given the property's estimated recoverable value was \$nil. During the year ended December 31, 2019, the Company recorded a \$14,000 impairment charge relating to its Cory Moruga exploration concession (2018 - \$88,000).

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The decommissioning liability associated with the property was increased based on changes in estimates, and the corresponding abandonment asset was impaired given the property's estimated recoverable value was \$nil.

Property and equipment

Property and equipment impairments (recoveries) for the years ended December 31, 2019 and 2018 by CGU are disclosed in the following table.

CGU	Year ended December 31,	
	2019	2018
Coora	\$ 2,966	\$ 271
WD-4	3,306	(3,351)
WD-8	1,322	(695)
Property and equipment inventory	-	56
Property and equipment impairments (recoveries)	\$ 7,594	\$ (3,719)

2019 Impairments

At December 31, 2019, the Company evaluated its property and equipment for indicators of any potential impairment or related impairment reversals. As a result of these assessments, indicators of impairment were identified on the Coora, WD-4 and WD-8 CGUs related to the forecasted effects of future income tax changes and uncertainty regarding future strip pricing. Impairment tests were conducted on the properties, resulting in a net impairment charge of \$7,594,000 recognized in the statement of income.

2018 Impairments

Based on the results of the Company's December 31, 2018 evaluation of potential impairment or related reversals, indicators of impairment were identified on the Company's Coora CGU, and indicators of impairment reversals were noted on the Company's WD-4 and WD-8 properties. Impairment tests were conducted on the properties, resulting in an impairment charge of \$271,000 related to the Coora CGU and impairment recoveries of \$3,351,000 and \$695,000 related to the WD-4 and WD-8 CGUs, respectively. In addition, the Company recorded \$56,000 in impairment charges related to oilfield inventory that was not assigned to a specific CGU during the year ended December 31, 2018.

Property and equipment impairment assumptions

The estimated recoverable amounts were based on value in use calculations incorporating the net present value of the after-tax cash flows derived from the Company's proved developed producing reserves in 2020 and 2021 and proved plus probable oil reserves thereafter as estimated by the Company's independent reserves evaluator as at December 31, 2019 (considered level 3 inputs within the fair value hierarchy). The Company used the same approach for its tests as at December 31, 2018. The estimated recoverable amounts used an after-tax discount rate of 20 percent (2018 – 20 percent).

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The following table details the forward pricing and forecasted inflation rate used in estimating the recoverable amounts of the Company's CGUs as estimated by the Company's independent reserves evaluator, GLJ Petroleum Consultants Ltd. effective January 1, 2020.

Forecast Year	WTI Crude Oil Cushing, Oklahoma (\$/bbl)	Brent Spot Crude Oil (\$/bbl)	Inflation Rates (percent per year)
2020	61.00	67.00	0.0
2021	63.00	68.00	2.0
2022	66.00	71.00	2.0
2023	68.00	73.00	2.0
2024	70.00	75.00	2.0
2025	72.00	76.00	2.0
2026	74.00	78.00	2.0
2027	75.81	79.81	2.0
2028	77.33	81.33	2.0
2029	78.88	82.88	2.0
Thereafter	+2.0% / year	+2.0% / year	2.0

Subsequent to December 31, 2019, crude oil spot prices have materially decreased (see Note 24 "Subsequent Events"). The following table demonstrates the sensitivity of the estimated recoverable amounts by CGU at December 31, 2019 from possible changes in key assumptions inherent in the estimate.

CGU	Increase in discount rate of 1%	Decrease in discount rate of 1%	Increase in crude oil price of 10%	Decrease in crude oil price of 10%
Coora	\$ 1,030	\$ (1,132)	\$ (4,525)	\$ 4,533
WD-4	993	(1,091)	(4,798)	4,832
WD-8	996	(1,092)	(3,999)	4,019
Impairment (reversal)	\$ 3,019	\$ (3,315)	\$ (13,322)	\$ 13,384

10. Restricted Cash

As at December 31, 2019, the Company provided \$271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments via bonds that expire on December 31, 2020 (2018 – \$271,000). A reconciliation of the non-current restricted cash balance is set forth in the table below.

Restricted cash	Year ended December 31,	
	2019	2018
Balance, beginning of year	\$ 271	\$ 299
Reduction of cash collateralized bonds	-	(28)
Reclassified to current assets	(271)	-
Balance, end of year	\$ -	\$ 271

11. Other Assets

Other asset composition	December 31, 2019	December 31, 2018
Prepaid deposits	\$ 23	\$ 20
Accounts receivable related to property disposition (note 8)	234	263
Finance lease receivable	239	1,047
Balance	\$ 496	\$ 1,330

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The Company entered into a five-year, \$1,836,000 contractual agreement to lease its coil tubing unit, four service rigs and ancillary equipment to a third party on October 1, 2017. Effective September 30, 2019, the parties amended the lease arrangement to exclude a service rig, reducing the principal balance by \$900,000. The amended lease continues to bear a fixed interest rate of 8 percent per annum, compounded and payable monthly. Principal is collected on a monthly basis, and the Company continues to hold title to the assets until all principal and associated interest payments have been collected.

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. The adoption of IFRS 16 did not affect the finance lease arrangement at January 1, 2019. The following table details the movements of the Company's finance lease receivable for the years ended December 31, 2019 and 2018.

	Year ended December 31,	
	2019	2018
Balance, beginning of year	\$ 1,447	\$ 1,836
Interest income	91	141
Payments	(262)	(530)
Lease modification	(900)	-
Balance, end of year	\$ 376	\$ 1,447
Current (included in accounts receivable)	137	400
Non-current	239	1,047
Finance lease receivable	\$ 376	\$ 1,447

The following table summarizes the Company's net investment in the finance lease receivable as at December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Gross investment in finance lease receivable	\$ 419	\$ 1,684
Unearned finance income	(43)	(237)
Present value of minimum lease payments receivable	\$ 376	\$ 1,447

12. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company's liquidity is dependent on the Company's expected business growth and changes in its business environment. The Company manages this risk by continuously monitoring actual and forecasted cash flows from operating, investing and financing activities and opportunities to extend/increase its existing debt facility or to issue additional equity. Management believes that future cash flows generated from these activities will be adequate to settle the Company's financial liabilities. Given that the Company has minimal developmental work obligations and guarantees at December 31, 2019, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. Refer to Note 14 "Term Loan and Associated Liabilities" and Note 20 "Capital Management" for further details regarding the Company's debt structure and capital management objectives.

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at December 31, 2019.

	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	4 to 5 years
Accounts payable and accrued liabilities	\$ 13,708	\$ 13,708	\$ -	\$ -
Income taxes payable	1,329	1,329	-	-
Term loan principal (note 14)	15,364	-	6,760	8,604
Estimated term loan production payments (note 14)	1,946	439	981	526
Term loan interest (note 14)	3,553	1,229	1,849	475
Lease liabilities (note 13)	351	245	105	1
Total financial liabilities	\$ 36,251	\$ 16,950	\$ 9,695	\$ 9,606

13. Lease Liabilities

The Company has lease liabilities for head office space, motor vehicles and office equipment. The lease contracts are effective for periods of two to five years. Discount rates used in calculating the present values of lease payments during the year ended December 31, 2019 were between 5 and 10 percent. Leases are negotiated on an individual basis and contain varying terms and conditions. The following table details the movement in the Company's lease liabilities for the year ended December 31, 2019.

Balance, January 1, 2019 (note 4)	\$ 1,352
Interest expense	69
Payments	(432)
Derecognition of liabilities	(670)
Effect of change in foreign exchange rates	16
Balance, December 31, 2019	\$ 335
Current (included in accounts payable and accrued liabilities)	\$ 230
Non-current	105
Lease liabilities	\$ 335

Effective August 1, 2019, an arrangement relating to oilfield service equipment was amended and consequently was no longer considered a lease under IFRS 16. Accordingly, the Company's lease liability of \$670,000 and the associated ROU asset of \$655,000 were derecognized, resulting in a \$15,000 non-cash gain recorded in net finance expenses. The following table details the undiscounted cash flows which include both principal and interest components of the Company's lease liabilities as at December 31, 2019.

	December 31, 2019
Less than one year	\$ 245
1 to 3 years	105
4 years	1
Undiscounted cash flows related to lease liabilities	\$ 351

Payments recognized in the financial statements relating to short-term leases for the year ended December 31, 2019 was \$134,000. These arrangements consisted of leases of motor vehicles and

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

office equipment, which were recognized in operating expenses and general and administrative expenses in the statements of comprehensive income, respectively. Variable lease payments not included in the calculation of the Company's lease obligations were \$133,000 for the year ended December 31, 2019 and were recognized in general and administrative expenses in the statements of comprehensive income.

14. Term Loan and Associated Liabilities

On November 23, 2016, the Company completed an arrangement for a C\$15 million, five-year term credit facility from a Canadian based investment fund (the "Credit Agreement"). The Credit Agreement bears a fixed interest rate of 8 percent per annum, compounded and payable quarterly. In connection with the Credit Agreement, the Company and the lender entered into a production payment agreement (the "Production Payment Agreement"), which granted the lender a payment equal to 1 percent of petroleum sales from Company land holdings in Trinidad, payable quarterly through October 31, 2021 regardless of any repayment or prepayment of the term credit facility. The Credit Agreement and the Company's production payment obligations under the Production Payment Agreement are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

Effective June 15, 2018, the parties amended the Credit Agreement to extend the term credit facility maturity date to November 23, 2022 and all principal payments by one year. The parties further amended the Credit Agreement effective March 29, 2019 (the "Third Amending Agreement"), which extended the term credit facility maturity date to November 23, 2023 and extended principal payments by one year. As consideration for the Third Amending Agreement, the Company paid the lender an amendment fee of \$112,000 (C\$150,000). Concurrent with the execution of the Third Amending Agreement, the Company and the lender amended the Production Payment Agreement to mature on October 31, 2023.

On October 31, 2019, the Company and its lender entered into a fourth amending agreement (the "Fourth Amending Agreement") to the Credit Agreement (the "Amended Credit Agreement"), which increased the principal amount of the term credit facility from C\$15 million to C\$20 million. The terms of the Amended Credit Agreement were materially unchanged from the Credit Agreement and its previous amendments. The Company is required to repay C\$1,100,000 per quarter of the principal outstanding under the term credit facility provided under the Amended Credit Agreement, commencing on January 1, 2021 through October 1, 2023, and the then outstanding principal balance is repayable on the November 23, 2023 maturity date. As consideration for the Fourth Amending Agreement, the Company paid the lender an amendment fee of \$76,000 (C\$100,000).

In connection with the Fourth Amending Agreement, the Company also amended the related Production Payment Agreement with the lender. The Company's amended future production payment obligations increased from 1 percent of petroleum sales to 1.33 percent of petroleum sales attributable to the Company's participating interest in all current Trinidad properties through October 31, 2023. The Company continues to have the ability to prepay the credit facility principal amount and has the option to negotiate a buyout of future production payment obligations with the lender if the outstanding principal amount of the credit facility is prepaid in full.

The debt instrument is comprised of two financial liability components: the term loan liability and the production payment liability.

The discounted term loan liability was revalued based on the Third and Fourth Amending Agreements, resulting in revaluation gain of \$656,000 recognized during the year ended December 31, 2019 (2018 - \$219,000). The discount on the term loan liability is unwound using the effective interest rate method to the face value at maturity, resulting in \$384,000 recognized to accretion during the year ended December 31, 2019 (2018 - \$301,000).

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The discounted fair value of the production payment liability is revalued at each reporting period based on internally estimated future production and forward crude oil pricing forecasts. As a result of these changes in estimates and the Third and Fourth Amending Agreements, a revaluation loss of \$622,000 was recognized during the year ended December 31, 2019 (2018 - \$341,000).

The following is a continuity schedule of the term loan and associated liabilities balances at the end of the respective reporting periods.

	Term loan liability	Production payment liability	Balance
Balance, January 1, 2018	\$ 11,031	\$ 834	\$ 11,865
Amendment fees	(119)	-	(119)
Revaluation (gain) loss	(219)	341	122
Accretion	301	-	301
Payments / transfers to accounts payable	-	(377)	(377)
Effect of change in foreign exchange rates	(864)	(65)	(929)
Balance, December 31, 2018	\$ 10,130	\$ 733	\$ 10,863
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation (gain) loss	(656)	622	(34)
Accretion	384	-	384
Payments / transfers to accounts payable	-	(404)	(404)
Effect of change in foreign exchange rates	518	38	556
Balance, December 31, 2019	\$ 13,966	\$ 989	\$ 14,955
Current	\$ -	\$ 220	\$ 220
Non-current	13,966	769	14,735
Term loan and associated liabilities	\$ 13,966	\$ 989	\$ 14,955

The Amended Credit Agreement contains industry standard representations and warranties, positive and negative covenants and events of default. The Fourth Amending Agreement amended the definition of Funded Debt in the Amended Credit Agreement, which is part of the definition of Net Funded Debt. Net Funded Debt forms part of the Net Funded Debt to Equity Ratio and the Net Funded Debt to EBITDA Ratio financial covenants in the Amended Credit Agreement. The definition of Funded Debt excludes lease obligations that were treated as operating leases under IFRS in effect as at December 31, 2018.

The financial covenants and the Company's estimated position as at December 31, 2019 are set forth below.

Covenant	Covenant threshold	Year ended December 31, 2019
Net funded debt to equity ratio ⁽¹⁾	< 0.50 times	0.20 times
Net funded debt to EBITDA ratio ⁽²⁾	< 2.50 times	0.77 times

Notes:

- (1) Net funded debt is defined in the Amended Credit Agreement as interest-bearing debt less cash. Equity is defined as book value of shareholders' equity less accumulated other comprehensive loss, less the effects of impairment expenses or recoveries.
- (2) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined in the Amended Credit Agreement as net earnings before interest, income taxes and all non-cash items.

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15. Decommissioning Liabilities and Abandonment Fund

The Company's decommissioning liabilities were estimated by Management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. Payments to settle the obligations occur over the operating lives of the underlying assets, estimated to be from one to twenty-nine years, with the majority of the costs estimated to be incurred subsequent to 2031. The liabilities are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement.

Pursuant to Heritage and MEEI production and exploration licences, 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 at December 31, 2019, the Company classified \$1,125,000 of accrued or paid fund contributions as non-current abandonment fund assets (2018 - \$966,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$11,547,000 as at December 31, 2019 based on an inflation adjusted future liability of \$27,153,000 (2018 - \$8,915,000 and \$31,606,000, respectively). The following table summarizes the Company's estimated decommissioning liability provision at the end of the respective periods.

	Year ended December 31,	
	2019	2018
Balance, beginning of period	\$ 8,915	\$ 9,438
Liabilities incurred	91	208
Liabilities settled	-	(66)
Accretion expense	372	262
Revisions to estimates	2,108	(828)
Dispositions	-	(62)
Effect of change in foreign exchange rates	61	(37)
Balance, end of period	\$ 11,547	\$ 8,915

In 2019, the Company incurred decommissioning liabilities of \$91,000 primarily based on exploration drilling (2018 - \$208,000). A further increase in Heritage related decommissioning obligations was driven by 2019 production, which increased the Company's proportionate working interest in future well abandonments.

At December 31, 2019, decommissioning liabilities were valued using a long-term risk-free rate of 5.5 percent and a long-term inflation rate of 3.3 percent (2018 - 7.9 percent and 3.7 percent, respectively). The revisions in estimates resulted in a net increase to the estimated liability of \$2,108,000 (2018 - net decrease of \$828,000).

During the year ended December 31, 2018, the Company abandoned two wells and various drilling pits for aggregate costs of \$75,000, resulting in a loss on decommissioning of \$9,000.

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16. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2019 and 2018 were a combined rate of 55 percent of taxable income. The following table is a reconciliation of income taxes calculated by applying the applicable statutory rates to net earnings before income tax expense.

	Year ended December 31,	
	2019	2018
Net (loss) earnings before income taxes	\$ (2,065)	\$ 9,110
Trinidad statutory rate	55.00%	55.00%
Expected income tax (recovery) expense at statutory rate	\$ (1,136)	\$ 5,011
Effect on income tax resulting from:		
Supplemental petroleum tax	4,782	1,707
Deductible supplemental petroleum tax	(3,079)	(939)
Benefit of tax assets not recognized	(1,176)	1,210
Tax rate differential	3,889	1,287
Prior period adjustments and other	275	476
Total provision for income taxes	\$ 3,555	\$ 8,752

The net deferred income tax liability solely relates to the Company's Trinidad operations. The following table details the components of the liability for the years ended December 31, 2019 and 2018.

	December 31, 2018	Recognized in equity	Recognized in earnings (loss)	December 31, 2019
Property and equipment	\$ (24,734)	\$ (168)	\$ 3,136	\$ (21,766)
Decommissioning liabilities	490	4	144	638
Loss carry forwards	7,599	52	(1,945)	5,706
Other	1,651	4	478	2,133
Net deferred income tax liability	\$ (14,994)	\$ (108)	\$ 1,813	\$ (13,289)

The components of the Company's unrecognized deductible temporary differences as at December 31, 2019 and 2018 are detailed in the following table.

	December 31, 2019	December 31, 2018
Property and equipment and exploration assets	\$ (16,479)	\$ (9,161)
Loss carry forwards	98,920	85,928
Decommissioning obligations	10,387	8,023
Other	9,005	8,563
Unrecognized deductible temporary differences	\$ 101,833	\$ 93,353

The following table provides a summary of the Company's estimated income tax losses as at December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Trinidad PPT losses	\$ 27,422	\$ 26,318
Trinidad corporate tax losses	1,803	1,535
Canada non-capital losses	80,573	73,274

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Trinidadian PPT losses and corporate tax losses may be carried forward indefinitely to reduce the taxes in future years. As of January 1, 2020, PPT losses can only be utilized to shelter a maximum of 75 percent of PPT per annum. A deferred tax asset has not been recognized with respect to PPT losses in the amount of \$16,011,000 and Trinidad corporate losses of \$1,803,000 as it was not considered probable that the benefit of the respective losses would be realized at December 31, 2019 (2018 - \$11,120,000 and \$1,535,000, respectively). Similarly, the benefit of the Canadian non-capital losses was not recognized as at December 31, 2019 and 2018.

The following table is a continuity schedule of the Company's current income tax payable for the years ended December 31, 2019 and 2018.

	Year ended December 31,	
	2019	2018
Balance, beginning of period	\$ 2,730	\$ 2,441
Current income tax expense	5,174	1,850
Revisions to estimates	194	5
Income tax interest expense	655	-
Income tax payments	(7,336)	(1,552)
Reversal of income tax interest	(102)	-
Effect of change in foreign exchange rates	14	(14)
Balance, end of period	\$ 1,329	\$ 2,730

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of tax matters under review, and the Company believes that the provision for income taxes is adequate.

17. 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.

Common shares and shareholders' capital	Number of shares	Shareholders' capital
Balance, January 1, 2018 and 2019	129,021,428	\$ 56,987
Issued pursuant to private placement, net of fees	31,666,667	4,496
Share-based settlements	15,000	24
Balance, December 31, 2019	160,703,095	\$ 61,507

Private placement

On February 26, 2019, the Company completed a private placement directed toward United Kingdom institutional investors, whereby gross proceeds of \$5,013,000 were raised by way of a placing of 31,666,667 new common shares at a price of approximately C\$0.21 per common share. Fees incurred from the private placement were \$517,000, which included brokerage commissions and legal, accounting and corporate finance advisory fees. Net proceeds of the private placement were \$4,496,000.

The Company completed a private placement on February 26, 2020 (see Note 24 "Subsequent Events").

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As at December 31, 2019 and for the years ended December 31, 2019 and 2018

Share option plans

Share options

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the closing price of the Company's common shares on the grant date. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the grant date as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant.

	Number of share options	Weighted average exercise price
Outstanding, January 1, 2018	6,870,840	C\$ 0.50
Granted	1,688,800	0.23
Forfeited	(25,000)	2.10
Outstanding, January 1, 2019	8,534,640	C\$ 0.44
Granted	2,550,000	0.23
Expired	(2,344,040)	0.87
Outstanding, December 31, 2019	8,740,600	C\$ 0.26
Exercisable, December 31, 2019	4,545,138	0.30

The following table sets forth share options outstanding and the weighted average remaining life of the share options as at December 31, 2019.

Range of exercise price (C\$)	Number of share options outstanding	Weighted average remaining term (years)	Number of share options exercisable	Weighted average remaining term (years)
0.14 to 0.15	1,466,300	2.3	977,538	2.3
0.21 to 0.22	1,111,300	3.2	401,267	3.2
0.23 to 0.25	4,603,300	3.3	1,606,633	1.7
0.33	1,412,200	0.3	1,412,200	0.3
2.10	147,500	0.0	147,500	0.0
0.14 to 2.10	8,740,600	2.6	4,545,138	1.5

The weighted average fair value of share options granted during the year ended December 31, 2019 was C\$0.13 per option as estimated on the date of each grant using the Black-Scholes option pricing model (2018 - C\$0.13 per option). The weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted for the years ended December 31, 2019 and 2018 are set forth in the table below.

	Year ended December 31,	
	2019	2018
Grant date share price (C\$)	0.23	0.23
Exercise price (C\$)	0.23	0.23
Risk-free interest rate (percent)	1.6	1.9
Expected life of share options (years)	3.0	3.0
Expected volatility (percent)	86.9	89.1
Expected annual dividends (C\$)	-	-
Forfeiture rate (percent)	5.0	5.0

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Incentive share options

The Company has an incentive share compensation option plan which provides for the grant of incentive share options to purchase common shares of the Company at a C\$0.05 exercise price. A maximum of one million common shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant.

	Number of share options	Weighted average exercise price
Outstanding, January 1, 2018 and 2019	15,000	C\$ 0.10
Exercised	(15,000)	0.10
Outstanding, December 31, 2019	-	-

The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10 percent of the issued and outstanding common shares.

During the year ended December 31, 2019, the Company recorded share-based compensation expenses of \$169,000 in relation to share option plans (2018 – \$118,000).

Weighted average common shares

The weighted average common shares used in calculating net (loss) earnings per common share was determined as follows.

	Year ended December 31,	
	2019	2018
Weighted average common shares, basic	155,830,428	129,021,428
Dilutive impact of share-based compensation	-	1,198,578
Weighted average common shares, diluted	155,830,428	130,220,006

There was no dilutive impact to the weighted average number of common shares for the year ended December 31, 2019, as 1.8 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

18. Net Finance Expenses

	Year ended December 31,	
	2019	2018
Interest income (note 11)	\$ (96)	\$ (177)
Term loan interest expense (note 14)	954	923
Term loan revaluation gain (note 14)	(656)	(219)
Production payment liability revaluation loss (note 14)	622	341
Accretion on term loan (note 14)	384	301
Accretion on decommissioning liabilities (note 15)	372	262
Lease liability interest expense (note 13)	69	-
Reversal of accrued income tax interest	(1,286)	-
Other	(47)	4
Net finance expenses	\$ 316	\$ 1,435

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	Year ended December 31,	
	2019	2018
Cash net finance expenses	\$ (342)	\$ 750
Non-cash net finance expenses	658	685
Net finance expenses	\$ 316	\$ 1,435

In 2019, the Trinidad and Tobago government introduced a tax amnesty relating to certain taxes, including petroleum taxes and VAT, wherein historical interest was waived on outstanding balances paid during the June through September 2019 period. As a result, \$1,286,000 in previously accrued interest was reversed based on principal payments made during the year ended December 31, 2019 (2018 - \$nil).

19. Financial Instruments and Market Risk Management

Financial instruments

At December 31, 2019, the Company's financial instruments include cash, restricted cash, accounts receivable, financial derivatives, accounts payable and accrued liabilities, income taxes payable, lease liabilities and term loan and associated liabilities.

The Company's financial instruments that are carried at fair value on the statements of financial position include financial derivatives. The carrying values of the Company's accounts payable and accrued liabilities and income taxes payable as at December 31, 2019 approximate their fair values due to the short-term nature of these instruments. The fair value of the Company term loan and related production payment obligation is discussed in Note 14 "Term Loan and Associated Liabilities".

Market risk management

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

Commodity price risk

The Company's operational and financial condition 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 alleviate 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.

In April 2019, the Company purchased put option contracts from a financial institution for 800 barrels per day at a strike price of Brent \$56.10 per barrel from June 1, 2019 to December 31, 2019. The put options were purchased from a financial institution for an upfront cash premium of \$171,000. The monthly settled options expired out of the money throughout 2019, resulting in a derivative loss of \$171,000 recorded during the year ended December 31, 2019 (2018 - \$153,000).

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For the year ended December 31, 2019, with all other variables held constant, a 10 percent change in the realized pricing received from crude oil would have resulted in an approximate \$1,089,000 increase or decrease in net earnings (2018 - \$1,198,000).

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 TT\$ and the US\$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT\$. This is currently mitigated by the fact that the TT\$ is informally pegged to the US\$. In addition, the Company has Canadian dollar denominated debt, related interest and production payment obligations of which future cash repayments are directly impacted by the exchange rate in effect on each payment date. The Company also has foreign exchange exposure on head office costs denominated in Canadian dollars and costs denominated in pounds sterling required to maintain its AIM listing. Any material movements in the C\$ to US\$ exchange rate may 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 through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the years ended December 31, 2019 and 2018. For the year ended December 31, 2019, with all other variables held constant, a 5 percent change in the US\$ to C\$ and US\$ to TT\$ exchange rates would have resulted in an approximate \$232,000 increase or decrease in net earnings (2018 - \$70,000).

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect net earnings and cash flows. As at December 31, 2019 and 2018, the Company did not hold any variable interest rate debt.

20. Capital Management

The basis for the Company's capital structure is dependent on the Company's expected business growth and any changes in the business and commodity price environment. The Company's long-term goal is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only funds flow from operations. Profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. The Company typically uses equity and term debt to raise capital.

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 2.0 times. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Net debt is a Non-IFRS measure calculated by summing the Company's working capital and the principal (undiscounted) amount of senior secured debt. Working capital is a Non-IFRS measure calculated as current assets minus current liabilities as they appear on the statements of financial position. Net debt is used by Management as a key

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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 ("statements of cash flows"). Net debt and funds flow from operations are not standardized measures and therefore may not be comparable with the calculation of similar entities by other entities. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. The Company's internal capital management calculations for the years ended December 31, 2019 and 2018 are set forth in the table below.

	Target measure	December 31, 2019	December 31, 2018
Current assets		\$ (14,118)	\$ (15,854)
Current liabilities		15,257	19,172
Working capital deficit		\$ 1,139	\$ 3,318
Principal non-current portion of term loan		15,364	11,004
Net debt		\$ 16,503	\$ 14,322
Shareholders' equity		30,115	31,217
Net debt plus equity		\$ 46,618	\$ 45,539
Annual funds flow from operations		\$ 6,840	\$ 8,548
Net debt to funds flow from operations	at or < 2.0 times	2.41	1.68
Net debt to net debt plus equity	< 0.4 times	0.35	0.31

The Company completed a private placement on February 26, 2020 with the net proceeds expected to be used to fund its remaining Ortoire exploration asset drilling commitments (see Note 24 "Subsequent Events").

21. Commitments and Contingencies

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under exploration and production agreements with the MEEI and various lease commitments for office space and equipment. The following table outlines the Company's estimated minimum contractual capital requirements as at December 31, 2019.

	Total	Payments due by period			
		2020	2021	2022	Thereafter
Operating agreements	\$ 3,028	\$ 247	\$ 964	\$ 270	\$ 1,547
Exploration agreements	7,270	7,270	-	-	-
Head office commitment	578	300	278	-	-
Equipment commitments	189	183	6	-	-
Total minimum commitments	\$ 11,065	\$ 8,000	\$ 1,248	\$ 270	\$ 1,547

Under the terms of its operating agreements, the Company must fulfill minimum work obligations on an annual basis over the specific licence term. In aggregate, the Company is obligated to drill 12 wells and perform 18 well recompletions prior to the end of 2021. As of December 31, 2019, 10 wells were drilled, and 15 well recompletions were completed with respect to these obligations. The Company has provided \$271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments (see Note 10 "Restricted Cash").

Under the terms of its exploration licences, the Company must drill five wells prior to the end of December 31, 2020; two of which have been drilled as of December 31, 2019.

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

The Company has provided a general security agreement to Export Development Canada in connection with a performance security guarantee that supports a \$500,000 bid bond issued to the MEEI in relation to a Trinidad solar project proposal. Subsequent to December 31, 2019, the Company was notified it was not a successful bidder, and the bid bond will expire once the MEEI has formally notified the issuing bank or the August 1, 2020 expiry date.

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

22. Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2019, \$94,000 in legal fees charged by Norton Rose Fulbright Canada LLP were included in general and administrative expenses, of which \$13,000 were in accounts payable and accrued liabilities as at December 31, 2019 (2018 - \$38,000 and \$8,000, respectively).

The Company has determined that the key management personnel of the Company is comprised of its directors and executive officers. Key management personnel compensation paid or payable during the years ended December 31, 2019 and 2018 are disclosed below.

	Year ended December 31,	
	2019	2018
Salaries and benefits included in general and administrative expenses	\$ 1,187	\$ 1,060
Director fees included in general and administrative expenses	205	210
Share-based compensation (note 17)	144	106
Key management compensation	\$ 1,536	\$ 1,376

23. Supplemental Disclosures

Presentation in the statements of comprehensive income

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

	Year ended December 31,	
	2019	2018
Operating	\$ 1,586	\$ 1,471
General and administrative	3,349	3,010
Employee compensation expenses	\$ 4,935	\$ 4,481

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

Presentation in the statements of cash flows

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

Net change in non-cash working capital	Year ended December 31,	
	2019	2018
Source (use) of cash:		
Accounts receivable	\$ 4,545	\$ (5,090)
Crude oil inventory	79	(16)
Prepaid expenses	11	121
Accounts payable and accrued liabilities	(2,554)	5,724
Income taxes payable	(1,401)	289
Transfer from other assets	(225)	70
Transfer from provisions	-	68
Transfer from non-current lease liabilities	(194)	-
Foreign exchange on working capital balances	(40)	(4)
Net change in non-cash working capital	\$ 221	\$ 1,162
Related to operating activities	\$ (1,215)	\$ (2,064)
Related to investing activities	1,422	3,198
Related to financing activities	14	28
Net change in non-cash working capital	\$ 221	\$ 1,162

Other non-cash items	Year ended December 31,	
	2019	2018
Accretion on decommissioning liabilities (note 15)	372	262
Accretion on term loan (note 14)	384	301
Term loan revaluation loss (note 14)	(656)	(208)
Production payment liability revaluation loss (note 14)	622	324
Change in fair value of non-current accounts receivable (note 11)	(49)	-
Derecognition of lease liabilities (note 13)	(15)	-
Other	-	8
Other non-cash items	\$ 658	\$ 687

24. Subsequent Events

Private placement

On February 26, 2020, the Company completed a private placement directed toward United Kingdom institutional investors, whereby gross proceeds of \$11,653,000 were raised by way of issuing 22,500,000 new common shares at a price of 40 pence sterling (approximately C\$0.69) per common share.

Economic uncertainty and crude oil price volatility

Subsequent to year-end, significant declines and abnormal volatility in financial markets and world crude oil prices have occurred as a result of the novel coronavirus pandemic and concurrent oil market share war. The scale and duration of these developments remain uncertain but could impact the Company's operations, future net earnings, cash flows and financial condition.

The impairment tests for the Company's petroleum assets are based on value in use calculations. As required by IFRS, the Company has not reflected these subsequent conditions in its indicators of impairment analysis or recoverable amount estimates of its petroleum assets as at December 31, 2019.

Notes to the Consolidated Financial Statements

As at December 31, 2019 and for the years ended December 31, 2019 and 2018

Impairment indicators for the Company's petroleum assets could exist at March 31, 2020, if current conditions persist. Management continues to work on revisions to the Company's forecasts and operating and capital investment plans in light of current conditions and will use these updated assumptions and forecasts for its impairment indicator analysis and impairment testing in the first quarter of 2020, if such tests are required.