Touchstone Exploration Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2022 and 2021

Management's Report to Shareholders

Management's Responsibility for Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements and for the consistency therewith of all other financial and operating data presented in year-end regulatory filings. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

Management is responsible for the integrity and objectivity of the financial information. Management has established and continuously monitors systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of Touchstone Exploration Inc.'s financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

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

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

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and to facilitate the preparation of relevant, reliable, and timely information. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the criteria established in "*Internal Control – Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded that Touchstone Exploration Inc.'s internal control over financial reporting was effective as of December 31, 2022.

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

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

Calgary, Alberta
March 23, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Touchstone Exploration Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2022 and December 31, 2021
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheets of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditor's Responsibilities for the Audit of the Financial Statements*"** section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the impact of estimated proved plus probable petroleum and natural gas reserves on property, plant and equipment ("PP&E") and exploration and evaluation ("E&E")

Description of the matter

We draw attention to note 3, note 4, note 6 and note 7 to the financial statements. The Company uses estimated proved plus probable petroleum and natural gas reserves to deplete its petroleum and natural gas development assets included in PP&E, to assess for indicators of impairment on the Company's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGUs and to assess E&E costs for impairment when transferred to PP&E.

In October 2022, the Company transferred $7,915,000 of E&E costs related to its Coho CGU to PP&E. Immediately prior to transferring the assets to PP&E, the Company performed the required impairment test to estimate the recoverable amount of the CGU. It was determined that the recoverable amount of the CGU exceeded its carrying value, resulting in no impairment expense recognized.

The estimated recoverable amount of the CGU involves significant estimates including:

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

The Company depletes its petroleum and natural gas development assets using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable petroleum and natural gas reserves, taking into account forecasted future development costs.

Depletion and depreciation expense on petroleum and natural gas development assets was $4,106,000 for the year ended December 31, 2022, a portion of which related to depletion.

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

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

- Forecasted future development costs.

The Company engages an independent qualified reserves evaluator to estimate proved plus probable petroleum and natural gas reserves and the related future cash flows.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved plus probable petroleum and natural gas reserves on PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved plus probable petroleum and natural gas reserves and the related future cash flows and the discount rates. Additionally, the assessment of the recoverable amount for impairment requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

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

We assessed the depletion expense calculation for compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

With respect to the estimate of proved and probable petroleum and natural gas reserves and the related future cash flows at December 31, 2022:

- We evaluated the competence, capabilities and objectivity of the independent qualified reserves evaluator engaged by the Company
- We compared forecasted oil and natural gas prices to those published by other independent qualified reserves evaluators
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Company to those estimates used in the prior year's estimate of proved petroleum and natural gas reserves and the related future cash flows to assess the Company's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2022 historical results. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 23, 2023

Touchstone Exploration Inc.
Consolidated Balance Sheets
Stated in thousands of United States dollars

As at	Note	December 31, 2022	December 31, 2021
Assets			
Current assets			
Cash		**16,335**	17,936
Accounts receivable	5	**7,487**	7,546
Inventory		**129**	143
Prepaid expenses		**1,342**	1,055
Assets held for sale	7	**1,122**	1,176
		26,415	27,856
Exploration and evaluation assets	6	**51,352**	50,760
Property, plant and equipment	7	**67,162**	61,275
Restricted cash	12	**1,021**	1,178
Other assets	9	**481**	673
Abandonment fund	14	**1,446**	1,278
Total assets		**147,877**	143,020
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**12,737**	16,000
Income taxes payable	15	**1,014**	236
Current portion of term loan	12	**6,000**	3,000
Liabilities associated with assets held for sale	7	**1,672**	1,695
		21,423	20,931
Lease liabilities	11	**1,373**	2,265
Term loan	12	**20,962**	26,896
Other liabilities	13	**-**	908
Decommissioning liabilities	14	**11,182**	10,012
Deferred income taxes	15	**14,557**	14,450
Total liabilities		**69,497**	75,462
Shareholders' equity			
Shareholders' capital	16	**114,635**	101,757
Contributed surplus		**4,905**	3,466
Other comprehensive loss		**(13,517)**	(13,219)
Deficit		**(27,643)**	(24,446)
Total shareholders' equity		**78,380**	67,558
Total liabilities and shareholders' equity		**147,877**	143,020

Commitments and contingencies (note 22)
Subsequent event (note 25)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

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

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

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

	Note	Year ended December 31, 2022	2021
Revenue			
Petroleum and natural gas sales	17	**42,944**	29,568
Less: royalties		**(14,641)**	(9,251)
Petroleum and natural gas revenue, net of royalties		**28,303**	20,317
Other revenue		**42**	40
Total revenue		**28,345**	20,357
Expenses			
Operating	24	**9,022**	7,286
General and administration	24	**7,775**	6,301
Net finance	18	**3,042**	1,437
Net loss (gain) on asset dispositions	6	**726**	(21)
Foreign exchange (gain) loss	20	**(333)**	185
Equity-based compensation	16	**1,341**	888
Depletion and depreciation	7	**4,333**	3,415
Impairment (reversal)	8	**195**	(13,674)
Other	19	**794**	-
Total expenses		**26,895**	5,817
Earnings before income taxes		**1,450**	14,540
Provision for income taxes			
Current expense	15	**4,648**	1,358
Deferred (recovery) expense	15	**(1)**	7,463
Total income tax expense		**4,647**	8,821
Net (loss) earnings		**(3,197)**	5,719
Currency translation adjustments		**(298)**	112
Comprehensive (loss) income		**(3,495)**	5,831
Net (loss) earnings per common share			
Basic and diluted	16	**(0.01)**	0.03

See accompanying notes to these consolidated financial statements.

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

	Note	Year ended December 31, 2022	2021
Shareholders' capital			
Balance, beginning of year		**101,757**	101,385
Private placements, net of fees	16	**12,269**	-
Equity-based settlements	16	**609**	372
Balance, end of year		**114,635**	101,757
Contributed surplus			
Balance, beginning of year		**3,466**	2,476
Equity-based settlements	16	**(215)**	(132)
Equity-based compensation expense	16	**1,341**	888
Equity-based compensation capitalized	6,7	**313**	234
Balance, end of year		**4,905**	3,466
Other comprehensive loss			
Balance, beginning of year		**(13,219)**	(13,331)
Other comprehensive (loss) income		**(298)**	112
Balance, end of year		**(13,517)**	(13,219)
Deficit			
Balance, beginning of year		**(24,446)**	(30,165)
Net (loss) earnings		**(3,197)**	5,719
Balance, end of year		**(27,643)**	(24,446)

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, 2022	2021
Operating activities			
Net (loss) earnings		**(3,197)**	5,719
Items not involving cash from operations:			
Net loss (gain) on asset dispositions	6	**726**	(21)
Unrealized foreign exchange gain	20	**(288)**	(288)
Equity-based compensation	16	**1,341**	888
Depletion and depreciation	7	**4,333**	3,415
Impairment (reversal)	8	**195**	(13,674)
Other	24	**561**	679
Deferred income tax (recovery) expense	15	**(1)**	7,463
Decommissioning expenditures	14	**(130)**	(9)
Funds flow from operations		**3,540**	4,172
Net change in non-cash operating working capital	24	**2,212**	(2,561)
Cash from operating activities		**5,752**	1,611
Investing activities			
Exploration and evaluation expenditures	6	**(9,788)**	(20,106)
Property, plant and equipment expenditures	7	**(1,542)**	(7,757)
Abandonment fund expenditures	14	**(160)**	(112)
Proceeds from asset dispositions	6	**1,346**	229
Net change in non-cash investing working capital	24	**(6,332)**	(1,645)
Cash used in investing activities		**(16,476)**	(29,391)
Financing activities			
Changes in restricted cash	12	**157**	(884)
(Repayment) advance of term loan	12	**(3,000)**	22,396
Other liability payments	13	**(573)**	(392)
Net finance lease payments	9,11	**(206)**	(326)
Issuance of common shares, net of fees	16	**12,663**	240
Net change in non-cash financing working capital	24	**11**	48
Cash from financing activities		**9,052**	21,082
Decrease in cash		**(1,672)**	(6,698)
Cash, beginning of year		**17,936**	24,281
Impact of foreign exchange on foreign denominated cash balances		**71**	353
Cash, end of year		**16,335**	17,936
Supplementary information for cash flow from operating activities			
Interest paid in cash	12	**2,273**	709
Income taxes paid in cash	15	**3,886**	1,122

See accompanying notes to these consolidated financial statements.

1. Nature of Business

Touchstone Exploration Inc. and its subsidiaries (collectively, "Touchstone" or the "Company") are engaged in the business of petroleum 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. Touchstone's common shares are listed on the Toronto Stock Exchange ("TSX") and on the AIM market of the London Stock Exchange ("AIM") under the symbol TXP.

2. Basis of Preparation

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars ("$" or "US$"). The financial statements have been prepared on a historical cost basis, except those items that are presented at fair value as detailed in the accounting policies disclosed in Note 3 "Summary of Significant Accounting Policies".

Touchstone'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 4 "Use of Estimates, Judgements and Assumptions".

These financial statements were approved and authorized for issuance by Touchstone's Board of Directors (the "Board") on March 23, 2023.

3. Summary of Significant Accounting Policies

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

Basis of consolidation

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

Entity	Country of incorporation	Ownership %
Touchstone Energy Inc.	Canada (Alberta)	100%
Touchstone Exploration (Barbados) Ltd.	Barbados	100%
Touchstone Exploration (Trinidad) Ltd.	Trinidad	100%
Primera Oil and Gas Limited	Trinidad	100%
Territorial Oilfield Management Services Limited	Trinidad	100%
Touchstone Renewables Ltd.	Trinidad	100%

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

Joint arrangements

Touchstone may conduct its petroleum and natural gas activities through jointly controlled operations, and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby Touchstone has less than 100 percent working interest, the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks.

The Company's joint venture arrangement with Heritage Petroleum Company Limited ("Heritage") on the Ortoire block is considered a material jointly controlled arrangement. Touchstone has an 80 percent working interest in the block with Heritage holding the remaining 20 percent. Given both parties approve the operating and capital budgets, the Company has joint control over the relevant activities of this arrangement.

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"). Touchstone has determined that the functional currency of the parent company is the Canadian dollar ("C$"); the functional currency of the Company's Barbadian entity is the US$; and the functional currency of each of its Trinidadian subsidiaries is the Trinidad and Tobago dollar ("TT$").

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

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

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

Business combinations

Touchstone accounts for business combinations using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the acquisition date.

Identifiable assets acquired and liabilities assumed are measured and recognized at their fair value at the date of the acquisition, with the exception of income taxes, right-of-use ("ROU") assets, and lease liabilities. Any deferred tax asset or liability arising from a business combination is recognized at the acquisition date. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the financial statements from the closing date of the acquisition. If the consideration of the acquisition is less than the fair value of the net assets received, the difference is recognized immediately in the statements of comprehensive income. If the consideration of the acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the consolidated balance sheet ("balance sheet").

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. Subsequent measurement is dependent on the financial instruments' classification, as described below.

- *Fair value through profit or loss*: Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately recognized on the statements of comprehensive income. Financial instruments under this classification include cash, restricted cash, and production liability (included in other liabilities on the balance sheet).
- *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 accounts receivable, accounts payable and accrued liabilities, income taxes payable, lease liabilities and term loan.
- *Fair value through other comprehensive income*: Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of income tax. The Company does not have any financial instruments under this classification.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. Expected credit losses exist if one or more loss events occur after initial recognition of the financial asset which has an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. Touchstone uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in general and administration expenses.

Derecognition of financial liabilities

If an amendment to a contract or agreement comprises a substantial modification, Touchstone will derecognize the existing financial liability and recognize a new financial liability, with the difference recognized as a gain or loss in the statements of comprehensive income. To determine whether a modification is substantial, the Company performs quantitative and qualitative tests. Quantitatively, if the present value of the cash flows under the new terms is at least 10 percent different than the remaining cash flows of the original liability, the modification is deemed to be substantial. Qualitatively, the change is evaluated based on its impact to the economic risk associated with the liability and would be specific to the contract. If the modification results in the derecognition of a liability, any associated fees are recognized as part of the gain or loss. If the modification is not deemed to be substantial, any associated fees are adjusted against the liability's carrying amount and are amortized over the remaining term.

Fair value measurement

Fair value is the price that would be received when selling 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. All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using the following three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets used in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, included quoted forward price for commodities, time value and volatility factors, 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

Touchstone's restricted cash balance represents minimum cash reserves required in accordance with its credit facility agreement. Balances are classified as non-current if the relevant agreement expires greater than one year from the applicable reporting date.

Inventory

Product inventories are valued at the lower of cost and net realizable value on a weighted average cost basis. The cost of inventory includes expenditures incurred in the normal course of business to bring each product to its existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less expected selling costs. If the carrying amount exceeds net realizable value, an impairment is recognized. The impairment may be reversed in a subsequent period if the circumstances which caused it no longer exist and the inventory is still on hand.

Exploration and evaluation assets

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

Exploration and evaluation ("E&E") assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, exploration drilling, completion and production testing costs, directly attributable overhead and equity-based compensation expenses, and estimates of any decommissioning costs are capitalized and accumulated pending determination of technical feasibility and commercial viability. Technical feasibility and commercial viability of E&E assets are dependent upon the assignment of a sufficient amount of economically recoverable petroleum and natural gas reserves ("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 E&E may have sales of petroleum and natural gas products associated with production from test wells. These operating results, including attributable royalties and operating expenses, are recognized in the statements of comprehensive income.

When a project classified as E&E is determined to be technically feasible and commercially viable, the relevant costs are transferred to property, plant and equipment ("PP&E") on the balance sheet. The assets are assessed for impairment prior to any such transfer, by comparing the carrying amount to the greater of the assets' fair value less cost of disposal or value in use. If a decision is made by Management not to continue an E&E project, the E&E carrying value is derecognized and expensed as impairment on the statements of comprehensive income.

Property, plant and equipment

Items of PP&E, which currently include petroleum and natural gas development assets, ROU assets and corporate assets, are measured at cost less accumulated depletion and depreciation expense and accumulated impairment expense.

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

Petroleum and natural gas development 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 and natural gas development assets into CGUs. The Company depletes its petroleum and natural gas development assets using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves. Proved plus probable reserves are estimated annually by independent qualified reserves evaluators 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 to production are included in the depletion calculation.

The Company operates under numerous production and exploration leases with varying expiry dates. Under its lease operating agreements with Heritage, the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment assessment and depletion purposes, the Company assumes that all relevant agreements will be renewed in accordance with any renewal options.

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

Impairment of non-financial assets

Property, plant and equipment

PP&E assets are grouped into CGUs for the purposes of assessing 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.

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

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

Exploration and evaluation assets

E&E assets are assessed for impairment at the CGU level and are reviewed at each reporting date for indicators of potential impairment or, in the case of previously impaired E&E assets, reversals of impairment. An impairment loss on E&E assets is recognized if the carrying value of the assets exceed the estimated recoverable amount. Similarly, a previously recorded impairment loss may be reversed if the estimated recoverable amount of a particular CGU is greater than the carrying amount. E&E asset impairment losses or reversals are recognized in the statements of comprehensive income as impairment expense (reversal).

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 E&E and PP&E assets are classified as held for sale, they are assessed for indicators of impairment and are measured at the lower of their carrying amount and estimated recoverable amount, with any impairment loss recognized in the statements of comprehensive income. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted or depreciated.

Dispositions

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

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

Lease arrangements

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

As lessee

When Touchstone is a party to a lease arrangement as the lessee, leases are recognized as a ROU asset and a corresponding lease liability on the balance sheet 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 the lease payments which may include fixed payments, variable lease payments based on an index or a rate, amounts expected to be payable under residual value guarantees, and payments to exercise an extension or termination option if the Company is reasonably certain to exercise either option. The future payments are discounted using the interest rate implicit in the lease or, when that rate cannot be readily determined, Touchstone's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the lease liability and finance expenses. Finance expenses are recognized on the statements of comprehensive income over the lease term.

ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. ROU assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

Lease liabilities and ROU assets are remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase extension or termination option.

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

As lessor

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

Term loan

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

Production liability

The non-current portion of the production liability granted in connection with the Company's former term loan is included in other liabilities on the balance sheet, with the current portion included in accounts payable and accrued liabilities. The liability is measured at fair value at each financial reporting date using internal forecasts of future petroleum and natural gas production and forward commodity strip pricing. The liability is reduced by actual amounts paid to the counterparty.

Provisions and contingent liabilities

Provisions are recognized when Touchstone has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefit will be required to settle the obligation, and the amount can be reliably estimated. 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 Touchstone from the contract are lower than the unavoidable cost of meeting the obligations in the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost during the remaining term of the contract. Before a provision is established, the Company first recognizes any impairment loss on any assets associated with the onerous contract.

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

Decommissioning liabilities

Provisions for abandonment and reclamation obligations associated with Touchstone's E&E and PP&E assets are recognized as decommissioning liabilities. Decommissioning liabilities are measured at the present value of Management's best estimate of expenditures required to settle the liability at the end of the related assets' useful life at balance sheet reporting date. On at least a quarterly basis, Management reviews these estimates, and any changes, if any, are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. Capitalized costs included in PP&E balances are depleted based on a unit-of-production basis consistent with the underlying assets. The long-term liability is increased in each reporting period with the passage of time, and the associated accretion expense is recognized in the statements of comprehensive income in net finance expenses. Periodic revisions to the liability-specific risk-free discount rate, estimated timing of cash flows, or to the estimated undiscounted cost can also result in an increase or decrease to the decommissioning liability and the related asset. Actual costs incurred upon settlement of the obligations are recognized against the provision to the extent of the liability recognized.

With respect to decommissioning liabilities associated with the Company's production licences with Heritage, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a specific well in comparison to the well's cumulative historical production. Touchstone is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum and natural gas operations conducted on its Trinidad and Tobago Ministry of Energy and Energy Industries ("MEEI") and private production and exploration agreements.

Decommissioning abandonment fund

Pursuant to production and exploration licences with both Heritage and the MEEI and joint operating arrangements with Heritage, Touchstone is obligated to remit payments into various abandonment funds based on product sales volumes. As these funds are effectively a reimbursement right, there is no associated reduction to the corresponding decommissioning liability. Accrued and paid abandonment funds are recorded as non-current assets on the balance sheet as the funds must be used for the future abandonment of wells and/or facilities in the associated licenced area.

Revenue recognition

The Company principally generates revenue from the sale of commodities, which include crude oil, natural gas and natural gas liquids. Revenue associated with the sale of commodities is recognized when control of the commodity is transferred to the buyer, the significant risks and rewards of ownership of the commodity is transferred to the buyer, and Touchstone has the present right to payment.

Touchstone also generates revenue from gathering and selling third-party products through its infrastructure, which is recognized as other revenue in the statements of comprehensive income.

Equity-based compensation plans

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

Income taxes

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

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

Deferred income 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 income taxes are not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and loss or for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the income 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 by the reporting date.

Deferred income tax assets and liabilities are presented as non-current. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to set off the recognized amounts, and the intent is to either settle on a net basis or to realize the assets and settle the liabilities simultaneously. A deferred income tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Per share information

Basic per share information is computed by dividing net earnings (loss) attributable to shareholders by the weighted average number of common shares outstanding during the period.

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

4. Use of Estimates, Judgements and Assumptions

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

Economic uncertainty

Estimates are more difficult to determine, and the range of potential outcomes can be wider, in periods of higher volatility and uncertainty. Global markets and commodity pricing remain unpredictable from the impacts of macro-economic influences, such as the ongoing military actions between Russia and Ukraine, the re-opening of economies post novel coronavirus pandemic lockdowns, inflationary pressures on governments, businesses and communities, and rising interest rates. The scale and duration of these developments are unclear, and the full extent of their impact presents uncertainty and risk with respect to the Company and its performance.

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

Climate reporting regulations

Emissions, carbon and other regulations impacting climate and climate-related matters are dynamic and constantly evolving. With respect to environmental, social and governance reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters*. The cost to comply with these standards and others that may be developed or evolved over time are currently being evaluated and have yet to be quantified by the Company.

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.

Petroleum and natural gas reserves

There are a number of inherent uncertainties associated with estimating proved plus probable reserves. Reserve estimates are based on a number of significant assumptions, such as engineering and geological data, forecasted oil and natural gas price estimates, forecasted production volumes, and the timing and amount of forecasted royalty, operating and future development costs, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing as of December 31, 2022 and 2021, which could differ significantly from future periods. The estimate of reserves and the related cash flows are evaluated by independent qualified reserves evaluators at least annually in accordance with NI 51-101.

Petroleum and natural gas investments

The Company applies judgment when classifying the nature of petroleum and natural gas investments as E&E or PP&E and when determining whether capitalization of the initial costs of these investments is appropriate. The Company uses historical drilling results, project economics, resource quantities, estimated operating expenses and future development costs to make judgments about future events and circumstances.

Determination of cash-generating units

Determination of what constitutes a CGU is subject to Management's judgement. The recoverability of E&E asset and petroleum and natural gas development asset carrying values included in PP&E are assessed at the CGU level, and the asset composition of a CGU can directly impact the recoverability of the assets included therein. Geological formation, shared infrastructure and marketing arrangements, product type, geographic location, and internal management are key factors considered when grouping Touchstone's petroleum and natural gas development assets into CGUs.

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 input estimates the Company applies in determining the recoverable amount of assets include estimates of proved plus probable reserves and the related future cash flows therefrom, forecasted production volumes, forecasted oil and natural gas prices, forecasted royalty, operating and future development costs, forecasted income tax expenses, forecasted inflation rates, and discount rates.

In estimating the recoverable amount of E&E asset CGUs, Management factors in future development plans, licence expiries, and required regulatory approvals into the relevant CGU assessment. Where applicable, the Company uses proved plus probable reserves to assess certain

E&E assets for impairment prior to being transferred to PP&E as estimated by the Company's independent qualified reserves evaluator. E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the products are technically feasible and commercially viable. This assessment requires significant Management judgement, as E&E assets are subject to continuous internal review to confirm the ongoing intent to establish the technical feasibility and commercial viability of a project.

The recoverable amounts of Touchstone's PP&E CGUs are estimated based on value in use calculations using discounted after-tax cash flows derived from the Company's proved plus probable reserves as estimated by the Company's independent qualified reserves evaluator. The reserve evaluation is based on an estimated reserve life up to a maximum of 50 years. Key input estimates used in the determination of related future cash flows from proved plus probable reserves are set forth below.

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

Depletion of petroleum and natural gas development assets

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

Exploration and evaluation assets

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of petroleum and natural gas products is technically feasible and commercially viable. Determining whether sufficient progress has been made is a judgemental area, and it is possible to have E&E assets classified as such for several years while activities are being conducted or the

Company is seeking regulatory and internal approvals for development plans. E&E assets are subject to ongoing Management review to confirm the intent to establish technical feasibility and commercial viability of a discovery. This assessment includes many changing factors, including reserves, project economics, expected capital expenditures and production costs, access to infrastructure, obtaining and the timing of receiving required regulatory approvals, and potential infrastructure construction and expansions. Furthermore, the transfer of E&E assets to PP&E is based on Management's judgement of technical feasibility and commercial viability.

Decommissioning liabilities

The provision for abandonment and reclamation obligations associated with Touchstone's E&E and PP&E assets is based on numerous assumptions and judgements, including ultimate remediation plans, settlement amounts, historical third-party production data, inflation factors, risk-free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. Actual costs and timing of cash outflows could differ from estimates because of changes in laws and regulations and market conditions. Additionally, further discovery, analysis of site conditions, and changes in technology could also cause estimates to differ from actual costs.

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. Where the discount rate implicit in a lease cannot be readily determined, the rate is estimated using Touchstone's incremental borrowing rate. This 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 and contingent liabilities

The determination of provisions and disclosure of contingent liabilities involves Management judgements about the probability of outcomes of future events and estimates on timing and amount of expected future cash flows. Such disclosure could relate to predicted outcomes of ongoing legal matters, ongoing or completed asset dispositions, and current regulatory processes.

Equity-based compensation

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

Income taxes

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of income tax assets. Income tax filings are subject to subsequent government audits and reassessments and changes in facts, circumstances, and interpretations of the standards may result in a material change in the Company's provision for income taxes.

5. Financial Assets and Credit Risk

Credit risk is the risk of a financial loss to the Company if a partner or counterparty to a product sales contract, financial instrument or other financial transaction fails to meet its contractual obligations. As at December 31, 2022, Touchstone was exposed to credit risk with respect to its accounts receivable and finance lease receivable balances.

Credit risk is considered to be low for the Company's accounts receivable, as Touchstone's credit exposure typically pertains to monthly petroleum and natural gas sales and joint interest billings to Trinidad government owned petroleum and natural gas entities, and value added taxes ("VAT") due from the Trinidad government. The credit risk associated with Touchstone's finance lease receivable are considered negligible as the assets are secured by the underlying equipment, with ownership transferring to the counterparties subsequent to receipt of the final lease payments (refer to note 9).

The following table details the composition of Touchstone's accounts receivable balance as at December 31, 2022 and 2021.

($000's)	**December 31, 2022**	December 31, 2021
Petroleum sales	**1,845**	1,594
Natural gas sales	**558**	-
Joint interest billings	**478**	216
VAT	**4,190**	5,519
Other	**416**	217
Accounts receivable balance	**7,487**	7,546

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

($000's)	**December 31, 2022**	December 31, 2021
Current (less than 30 days)	**3,398**	2,397
31-60 days	**293**	380
61-90 days	**307**	404
Past due (greater than 90 days)	**3,489**	4,365
Accounts receivable balance	**7,487**	7,546

6. Exploration and Evaluation Assets

($000's)	**Year ended December 31, 2022**	2021
Balance, beginning of year	**50,760**	30,680
Additions	**10,383**	20,343
Transfer to PP&E	**(7,915)**	-
Dispositions	**(2,046)**	-
Impairment expense (note 8)	**(90)**	(114)
Effect of change in foreign exchange rates	**260**	(149)
Balance, end of year	**51,352**	50,760

During the year ended December 31, 2022, $926,000 of direct and attributable overhead charges were capitalized to E&E assets (2021 - $1,007,000).

Transfer to PP&E

Upon first natural gas production in October 2022, the Company transferred $7,915,000 of E&E costs related to its Coho CGU to PP&E. Immediately prior to transferring the assets to PP&E, Touchstone performed the required impairment test to estimate the recoverable amount of the CGU. It was determined that the recoverable amount of the CGU exceeded its carrying value, resulting in no impairment expense recognized.

Disposition

In conjunction with initial Coho production, the Company sold a gathering line tying in the Coho natural gas facility to a third-party natural gas processing facility to The National Gas Company of Trinidad and Tobago Limited for net proceeds of $1,200,000. A net loss of $846,000 was recorded in connection with the transaction and included in net loss on asset dispositions in the statement of comprehensive income during the year ended December 31, 2022.

7. Property, Plant and Equipment

($000's)	**Petroleum and natural gas development assets**	**Right-of-use assets**	**Corporate assets**	**Total**
Cost				
Balance, January 1, 2021	141,410	631	1,944	143,985
Additions	7,755	2,324	450	10,529
Change in decommissioning asset (note 14)	(490)	-	-	(490)
Transfer to other assets (note 9)	(1,271)	-	-	(1,271)
Assets reclassified as held for sale	(3,957)	-	-	(3,957)
Foreign exchange translation	(553)	(5)	2	(556)
Balance, December 31, 2021	**142,894**	**2,950**	**2,396**	**148,240**
Additions	**1,533**	**7**	**94**	**1,634**
Change in decommissioning asset (note 14)	**528**	**-**	**-**	**528**
Transfer from E&E assets (note 6)	**7,915**	**-**	**-**	**7,915**
Foreign exchange translation	**829**	**(20)**	**(135)**	**674**
Balance, December 31, 2022	**153,699**	**2,937**	**2,355**	**158,991**
Accumulated depletion, depreciation and impairment				
Balance, January 1, 2021	98,784	351	1,834	100,969
Depletion and depreciation	3,305	59	51	3,415
Impairment reversal (note 8)	(13,786)	-	-	(13,786)
Transfer to other assets (note 9)	(411)	-	-	(411)
Assets reclassified as held for sale	(2,835)	-	-	(2,835)
Foreign exchange translation	(389)	(1)	3	(387)
Balance, December 31, 2021	**84,668**	**409**	**1,888**	**86,965**
Depletion and depreciation	**4,106**	**81**	**146**	**4,333**
Foreign exchange translation	**661**	**(10)**	**(120)**	**531**
Balance, December 31, 2022	**89,435**	**480**	**1,914**	**91,829**
Carrying amounts				
Balance, December 31, 2021	58,226	2,541	508	61,275
Balance, December 31, 2022	**64,264**	**2,457**	**441**	**67,162**

$71,638,000 in future development costs were included in petroleum and natural gas development asset cost bases for depletion calculation purposes for the year ended December 31, 2022 (2021 - $62,637,000). During the year ended December 31, 2022, $474,000 of direct and attributable overhead charges were capitalized to PP&E (2021 - $411,000).

Dispositions

In 2021 Touchstone executed sales and purchase agreements with a third party to dispose of three non-core licences for aggregate consideration of $350,000. Effective May 1, 2022, two of the property sales closed, with an $85,000 gain on asset disposition recorded during the year ended December 31, 2022. The outstanding disposition remains subject to standard regulatory approvals which are proceeding. The following table specifies the carrying values that were classified as held for sale as at December 31, 2022 and 2021.

($000's)	**December 31, 2022**	December 31, 2021
PP&E	**1,091**	1,122
Abandonment fund (note 14)	**31**	54
Assets held for sale	**1,122**	1,176
Decommissioning liabilities (note 14)	**(1,672)**	(1,695)
Liabilities associated with assets held for sale	**(1,672)**	(1,695)
Net liabilities held for sale	**(550)**	(519)

Private lease agreements

Touchstone 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 and natural gas sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the year ended December 31, 2022, production volumes produced under expired private lease agreements represented 3.8 percent of annual Company production (2021 - 1.9 percent).

8. Impairment

Exploration and evaluation assets

During the year ended December 31, 2022, the Company recognized E&E asset impairment expenses of $195,000 related to non-core properties (2021 - $112,000). The impairment expenses reflected $90,000 in licence financial obligations and writing down $105,000 of related decommissioning assets based on updates in long-term inflation estimates that increased corresponding decommissioning liabilities (2021 - $114,000 and ($2,000), respectively).

The December 31, 2022 E&E asset carrying value of $51,352,000 was included in the Ortoire CGU. No indicators of impairment were identified by the Company as at December 31, 2022 or 2021.

Property, plant and equipment

On December 31, 2022, the Company evaluated its petroleum and natural gas development assets included in PP&E for indicators of potential impairment or reversal. As a result of this assessment, no indicators were identified.

2021 Impairment tests

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

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

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

Calculating CGU recoverable amounts involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. The estimated recoverable amounts as of December 31, 2021 were determined using value in use calculations incorporating discounted after-tax cash flows of proved plus probable reserves using forecasted oil prices and cost estimates as assessed by the Company's independent qualified reserves evaluator. Discounted future cash flows were determined by applying a 20 percent after-tax discount rate as at December 31, 2021. The following table details the annual forward crude oil pricing and inflation rates used in estimating the recoverable amounts of the Company's CGUs as forecasted by the Company's independent qualified reserves evaluator effective January 1, 2022.

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

The value in use calculations used to determine the recoverable amounts of Touchstone's CGUs at December 31, 2021 were classified as Level 3 fair value measurements as certain key assumptions were not based on observable market data, but rather, Management's best estimates. Changes in any of the key judgments, such as a revision in reserves, changes in forecasted oil prices and inflation rates, operating costs, future development costs, or the discount rate, would impact the estimated recoverable amounts, and any impairment reversals or losses would affect comprehensive income (loss). The following table demonstrates the sensitivity of the pre-tax impairment reversal amounts by CGU from possible changes in key assumptions inherent in the December 31, 2021 impairment tests.

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

9. Other Assets

The following table sets forth the components of other assets as at December 31, 2022 and 2021.

($000's)	**December 31, 2022**	December 31, 2021
Long-term prepaid deposits	**24**	26
Finance lease receivable	**457**	647
Other assets balance	**481**	673

Effective March 1, 2021, the Company entered into separate three-year arrangements to lease its oilfield service rigs and swabbing units to two third-party service providers. Principal payments commenced in March 2021, and the Company continues to hold title to the assets until all principal payments have been collected. The lease arrangements were classified as finance leases, as substantially all of the risks and rewards incidental to ownership of the underlying assets are held by the lessees.

The following table details the movements of the Company's finance lease receivable during the years ended December 31, 2022 and 2021.

($000's)	Year ended December 31, 2022	2021
Balance, beginning of year	**738**	-
Additions	**-**	856
Interest income	**63**	65
Payments received	**(239)**	(184)
Lease modification	**(33)**	-
Effect of change in foreign exchange rates	**5**	1
Balance, end of year	**534**	738
Current (included in accounts receivable)	**77**	91
Non-current (included in other assets)	**457**	647
Finance lease receivable balance	**534**	738

10. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Touchstone actively manages its liquidity risk through strategies such as continuously monitoring actual and forecasted cash flows from operating, investing and financing activities, and opportunities to expand its existing credit facility or to issue additional equity. The Company's near-term development plan is strategically balanced between maintaining petroleum and natural gas production volumes, bringing natural gas exploration discoveries onto production and proceeding with exploratory activities. Touchstone will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. Management believes that future cash flows generated from these sources will be adequate to settle financial obligations as they come due.

Refer to Note 12 "Term Loan", Note 21 "Capital Management" and Note 22 "Commitments and Contingencies" for further details regarding the Company's debt structure and capital management objectives and policies. The following table sets forth estimated undiscounted cash outflows and financial maturities of Touchstone's financial liabilities as at December 31, 2022.

($000's)	Undiscounted cash outflows(1)	Financial maturity by period: Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities(2)	**11,039**	11,039	-	-
Income tax payable (note 15)	**1,014**	1,014	-	-
Lease liabilities (note 11)	**2,581**	1,055	1,258	268
Term loan principal (note 12)	**27,000**	6,000	12,000	9,000
Term loan interest (note 12)	**4,946**	1,923	2,434	589
Other liabilities (note 13)	**816**	816	-	-
Total financial liabilities	**47,396**	**21,847**	**15,692**	**9,857**

Notes:
(1) The undiscounted cash outflows equal their carrying values, with the exception of lease liabilities and term loan principal.
(2) Excludes the current portion of lease liabilities and other liabilities.

11. Lease Liabilities

Touchstone is a party to lease arrangements for a drilling rig, office space and office equipment. Lease agreements are negotiated on an individual basis and contain a wide range of varying terms and conditions. The lease contracts are effective for periods of two to nine years, and discount rates used in calculating the present values of lease payments during the year ended December 31, 2022 were between 5 and 10 percent. The following table provides a continuity of the Company's lease liabilities for the years ended December 31, 2022 and 2021.

($000's)	**Year ended December 31,**	
	2022	2021
Balance, beginning of year	**2,648**	383
Additions	**7**	2,710
Interest expense	**242**	81
Repayments	**(624)**	(526)
Effect of change in foreign exchange rates	**(18)**	-
Balance, end of year	**2,255**	2,648
Current (included in accounts payable and accrued liabilities)	**882**	383
Non-current	**1,373**	2,265
Lease liabilities balance	**2,255**	2,648

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

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, 2022 and 2021.

($000's)	**December 31, 2022**	**December 31, 2021**
Less than one year	**1,055**	616
1 to 3 years	**1,258**	2,168
Thereafter	**268**	440
Undiscounted cash flows related to lease liabilities	**2,581**	3,224

Payments recognized in the financial statements relating to short-term leases during the year ended December 31, 2022 were $504,000 (2021 - $387,000). These arrangements primarily consisted of leases for motor vehicles and well service equipment, which were recognized in operating expenses in the statements of comprehensive income. Variable lease payments of $100,000 not included in the calculation of the Company's lease liabilities during the year ended December 31, 2022 were recognized in general and administration expenses in the statements of comprehensive income (2021 - $122,000).

12. Term Loan

The Company's indirect wholly owned Trinidadian subsidiary entered into a $20 million, seven-year term credit facility arrangement from a Trinidad-based financial institution effective June 15, 2020. On December 21, 2021, the parties entered into an amended and restated loan agreement providing for a $10 million increase in the principal balance to $30 million. The amended and restated loan agreement did not amend any other terms of the prior term loan agreement. Effective December 30, 2021, Touchstone withdrew $15 million on the credit facility, resulting in the full principal balance of $30 million outstanding.

The term loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The term loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. Twenty equal and consecutive quarterly principal payments of $1.5 million commenced on September 15, 2022. The term credit facility is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of the Trinidad subsidiary and its wholly owned Trinidad exploration and production subsidiary.

As at December 31, 2022, the principal balance outstanding was $27 million, as Touchstone made two scheduled principal payments of $1.5 million each during the year ended December 31, 2022. Eighteen equal and consecutive quarterly principal payments of $1.5 million remain outstanding.

The amended and restated term loan arrangement was considered a debt modification. The expanded facility was measured at amortised cost, with the aggregate associated financing fees unwound using the effective interest rate method to the face value at maturity. A $279,000 revaluation loss was recorded in net finance expenses in connection of the debt modification during the year ended December 31, 2021. The following table details the movements of the Company's term loan balance for the years ended December 31, 2022 and 2021.

($000's)	**Year ended December 31,**	
	2022	2021
Balance, beginning of year	**29,896**	7,176
Advances, net of debt modification fees	**-**	22,396
Payments	**(3,000)**	-
Revaluation loss	**-**	279
Accretion	**66**	45
Balance, end of year	**26,962**	29,896
Current	**6,000**	3,000
Non-current	**20,962**	26,896
Term loan balance	**26,962**	29,896

The term loan agreement contains industry standard representations and warranties, undertakings, events of default, and the following annual financial covenants applicable on a consolidated basis commencing with results for the year ended December 31, 2022.

Financial covenant description	**Limit**	**Year ended December 31, 2022**
Net senior funded debt(1) to trailing annual EBITDA(2)	Less than 2.50	**0.89**
Net senior funded debt to book value of equity(3)	Less than 0.70 times	**0.10**
Debt service coverage(4)	Equal to or greater than 2.50	**3.56**

Notes:
(1) Net senior funded debt is defined in the loan agreement as all obligations for senior secured and unsecured borrowed money which bear interest less restricted and unrestricted cash balances. Lease liabilities are excluded from the calculation of net senior funded debt.
(2) EBITDA is defined in the loan agreement as earnings (loss) before interest expenses, income tax expenses, all non-cash items including depreciation and amortization, and losses attributable to extraordinary and non-recurring items.
(3) Book value of equity is defined in the loan agreement as shareholders' capital, contributed surplus and retained earnings or deficit excluding increases and decreases in retained earnings from E&E asset and PP&E impairments or reversals and excluding payments of dividends.
(4) Debt service coverage is defined in the loan agreement as the ratio of trailing annual EBITDA plus restricted and unrestricted cash balances to the total of term loan interest expense due for the future annual period and scheduled principal payments in respect of outstanding term loan principal for the future annual period.

Pursuant to the term credit facility agreement, Touchstone must maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments at all times. Accordingly, the Company classified $1,021,000 of cash as long-term restricted cash as at December 31, 2022 (2021 - $1,178,000).

13. Other Liabilities

The Company granted its former Canadian-based lender a production payment equal to 1.33 percent of petroleum and natural gas sales from Trinidad land holdings, payable quarterly through October 31, 2023. The production liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts (considered Level 3 inputs within the fair value hierarchy). The following table details the movements of the production liability during the years ended December 31, 2022 and 2021.

($000's)	Year ended December 31,	
	2022	2021
Balance, beginning of year	**1,211**	1,519
Revaluation loss	**240**	83
Payments	**(573)**	(392)
Effect of change in foreign exchange rates	**(62)**	1
Balance, end of year	**816**	1,211
Current (included in accounts payable and accrued liabilities)	**816**	303
Non-current (included in other liabilities)	**-**	908
Other liabilities balance	**816**	1,211

14. Decommissioning Liabilities and Abandonment Fund

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

Pursuant to Heritage and MEEI production and exploration licences and agreements, the Company is obligated to remit payments into various abandonment funds based on production. Touchstone remits $0.25 per barrel equivalent of products sold, and the funds shall be used for the future abandonment of wells in the related licenced area. As at December 31, 2022, the Company classified $1,446,000 of accrued or paid fund contributions as non-current abandonment fund assets (2021 - $1,278,000), with $31,000 of abandonment fund assets classified as assets held for sale (refer to note 7).

The Company has estimated the net present value of the cash flows required to settle its decommissioning liabilities to be $11,182,000 as at December 31, 2022 based on an inflation adjusted undiscounted future liability of $17,920,000 (2021 - $10,012,000 and $15,943,000, respectively). The following table summarizes the movements of Touchstone's estimated decommissioning liability provision during the years ended December 31, 2022 and 2021.

($000's)	Year ended December 31,	
	2022	2021
Balance, beginning of year	**10,012**	11,919
Liabilities incurred from development activities	**268**	101
Liabilities settled	**(130)**	(9)
Accretion expense	**222**	273
Revisions to estimates	**732**	(529)
Liabilities reclassified as held for sale (note 7)	**-**	(1,695)
Effect of change in foreign exchange rates	**78**	(48)
Balance, end of year	**11,182**	10,012

Decommissioning liabilities were estimated as at December 31, 2022 using a weighted average long-term risk-free rate of 5.3 percent and a long-term inflation rate of 2.4 percent (2021 - 5.3 percent and 1.6 percent, respectively). The revision in rates increased the estimated decommissioning liability by an aggregate $732,000 during the year ended December 31, 2022 (2021 - reduction of $529,000).

15. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2022 and 2021 were a combined rate of 55 percent of taxable income. The following table is a reconciliation of income taxes calculated by applying the applicable aggregate Trinidad statutory petroleum tax rate to net earnings before income tax expense.

($000's unless otherwise stated)	**Year ended December 31,**	
	2022	2021
Net earnings before income taxes	**1,450**	14,540
Trinidad statutory income tax rate	**55.0%**	55.0%
Expected income tax expense at statutory tax rate	**798**	7,997
Effect on income tax resulting from:		
Supplemental petroleum tax	**1,560**	-
Change in income tax assets not recognized	**(389)**	(1,443)
Income tax rate differential	**(973)**	825
Effect of change in foreign exchange rates and other	**3,651**	1,442
Income tax expense	**4,647**	8,821

The Company's net deferred income tax liability solely relates to Trinidad operations. The following table details the components of the net liability for the years ended December 31, 2022 and 2021.

($000's)	**December 31, 2022**	December 31, 2021
Deferred income tax liabilities		
PP&E in excess of income tax basis	**23,602**	24,232
Other	**248**	224
Deferred income tax assets		
Decommissioning liabilities	**(672)**	(589)
Lease liabilities	**(988)**	(1,167)
Non-capital losses	**(1,455)**	(3,845)
Intercompany interest	**(6,178)**	(4,405)
Deferred income tax liability	**14,557**	14,450

The December 31, 2022 net deferred income tax liability increased by $107,000 from December 31, 2021, with $108,000 recognized though equity and a $1,000 deferred income tax recovery recognized though net loss (2021 - $34,000 expense recognized through equity and a $7,463,000 recovery recognized through net earnings).

The following table sets forth the components of Touchstone's unrecognized deductible temporary differences as at December 31, 2022 and 2021.

($000's)	**December 31, 2022**	December 31, 2021
E&E assets	**(49,906)**	(49,129)
PP&E	**5,253**	14,915
Loss carry forwards	**130,721**	125,950
Decommissioning liabilities	**11,632**	10,637
Other	**10,220**	11,716
Unrecognized deductible temporary differences	**107,920**	114,089

The following table sets forth the Company's estimated income tax losses as at December 31, 2022 and 2021.

($000's)	**December 31, 2022**	December 31, 2021
Trinidad PPT losses	**42,728**	36,608
Trinidad corporate tax losses	**1,029**	1,511
Canada non-capital losses	**89,608**	95,459

Trinidadian PPT losses and corporate tax losses may be carried forward indefinitely to reduce the taxes in future years. PPT losses can only be utilized to shelter a maximum of 75 percent of income subject to PPT per annum. A deferred tax asset has not been recognized with respect to PPT losses in the amount of $40,402,000 and Trinidad corporate income tax losses of $56,000 as it was not considered probable that the benefit of the respective losses would be realized at December 31, 2022 (2021 - $29,791,000 and $56,000, respectively). Similarly, the benefit of the Canadian non-capital losses was not recognized as at December 31, 2022 and 2021.

The following table is a continuity schedule of the Company's current income tax payable for the years ended December 31, 2022 and 2021.

($000's)	**Year ended December 31, 2022**	2021
Balance, beginning of year	**236**	-
Current income tax expenses		
Petroleum profit tax / unemployment levy	**1,058**	1,237
Supplemental petroleum tax	**3,422**	-
Corporate income tax / other	**168**	121
Income tax payments	**(3,886)**	(1,122)
Income tax receipts	**12**	-
Effect of change in foreign exchange rates	**4**	-
Balance, end of year	**1,014**	236

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 income tax matters under review, and Touchstone believes that the provision for income taxes is adequate.

16. Shareholders' Capital

Issued and outstanding common shares

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

	Number of shares	**Shareholders' capital** *($000's)*
Balance, January 1, 2021	**209,399,627**	**101,385**
Equity-based settlements	1,332,100	372
Balance, December 31, 2021	**210,731,727**	**101,757**
Issued pursuant to private placements, net of fees	19,924,400	12,269
Equity-based settlements	2,381,099	609
Balance, December 31, 2022	**233,037,226**	**114,635**

Private placements

On December 13, 2022, the Company completed a private placement directed toward Canadian investors, whereby gross proceeds of $5,778,000 were raised by way of issuing 8,704,400 common shares at a price of C$0.90 per common share. Fees incurred from the private placement were $434,000, which included brokerage commissions, legal and advisory fees, resulting in net proceeds of $5,344,000.

In connection with the Canadian private placement, Touchstone completed a private placement on December 14, 2022 directed toward United Kingdom investors, raising gross proceeds of $7,483,000 by issuing 11,220,000 common shares at a price of 54.5 pence sterling (approximately C$0.90) per common share. Share issuance costs of $558,000 were incurred, resulting in net proceeds of $6,925,000.

Equity compensation plan

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

The following table summarizes changes in share options and the related weighted average exercise prices for the years ended December 31, 2022 and 2021.

	Number of share options	**Weighted average exercise price** *(C$)*
Issued and outstanding, January 1, 2021	9,552,434	0.34
Granted	3,013,000	1.70
Exercised	(1,332,100)	0.22
Issued and outstanding, December 31, 2021	**11,233,334**	**0.72**
Granted	3,338,000	1.43
Exercised	(2,381,099)	0.21
Forfeited	(261,800)	1.47
Issued and outstanding, December 31, 2022	**11,928,435**	**1.00**
Exercisable, December 31, 2022	**5,733,106**	**0.58**

The following table sets forth share options outstanding and the weighted average remaining life of the share options as at December 31, 2022.

Range of exercise price per common share *(C$)*	**Number of share options outstanding**	**Weighted average remaining term** *(years)*	**Number of share options exercisable**	**Weighted average remaining term** *(years)*
0.22 to 0.25	3,156,434	0.9	3,156,434	0.9
0.48	2,319,001	2.3	1,482,671	2.3
1.27 to 1.43	3,356,000	4.2	84,334	3.6
1.55 to 1.73	2,930,000	3.5	898,335	3.4
2.07	167,000	3.0	111,332	3.0
0.22 to 2.07	**11,928,435**	**2.8**	**5,733,106**	**1.7**

The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10 percent of the Company's issued and outstanding common shares. As of December 31, 2022, shares options outstanding represented 5.1 percent of Touchstone's outstanding common shares (2021 - 5.3 percent).

During the year ended December 31, 2022, the Company recorded equity-based compensation expenses of $1,341,000 (2021 - $888,000).

The weighted average fair value of share options granted during the year ended December 31, 2022 was C$0.75 per option as estimated on the date of each grant using the Black-Scholes option pricing model (2021 - C$0.93 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, 2022 and 2021 are set forth in the table below.

Assumption	**Year ended December 31,**	
	2022	2021
Grant date share price *(C$)*	**1.43**	1.70
Exercise price *(C$)*	**1.43**	1.70
Risk-free interest rate *(percent)*	**2.6**	0.5
Expected life of share options *(years)*	**3.0**	3.0
Volatility *(percent)*	**80.0**	87.3
Expected annual dividends *(C$)*	**-**	-
Expected forfeiture rate *(percent)*	**5.0**	5.0

Weighted average common shares

The following table sets forth the details of weighted average common shares used in calculating net (loss) earnings per common share during the years ended December 31, 2022 and 2021.

	Year ended December 31,	
	2022	2021
Weighted average common shares outstanding - basic	**213,210,555**	210,160,212
Dilutive impact of equity-based compensation	**-**	7,517,872
Weighted average common shares outstanding - diluted	**213,210,555**	217,678,084

There was no dilutive impact to the weighted average number of common shares for the year ended December 31, 2022, as approximately 4.8 million share options were excluded from the diluted weighted average share calculation as they were anti-dilutive.

17. Petroleum and Natural Gas Sales

Touchstone derives its primary revenue from contracts with Trinidad government-owned entities through the transfer of commodities at the end of each month. The following table sets forth petroleum and natural gas sales by product type for the years ended December 31, 2022 and 2021.

($000's)	**Year ended December 31,**	
	2022	2021
Crude oil	**41,830**	29,529
Natural gas liquids	**-**	39
Natural gas	**1,114**	-
Petroleum and natural gas sales	**42,944**	29,568

At December 31, 2022, accounts receivable from petroleum and natural gas sales were $2,403,000 (2021 - $1,594,000).

18. Net Finance Expenses

($000's)	Year ended December 31, 2022	2021
Finance lease interest income (note 9)	**(63)**	(65)
Lease liability interest expense (note 11)	**242**	81
Term loan interest expense (note 12)	**2,316**	734
Term loan revaluation loss (note 12)	**-**	279
Accretion on term loan (note 12)	**66**	45
Production liability revaluation loss (note 13)	**240**	83
Accretion on decommissioning liabilities (note 14)	**222**	273
Other	**19**	7
Net finance expenses	**3,042**	1,437
Cash net finance expenses	**2,481**	758
Non-cash net finance expenses (note 24)	**561**	679
Net finance expenses	**3,042**	1,437

19. Other Expenses

During the year ended December 31, 2022, the Company recorded $794,000 in aggregate costs related to an oil spill that occurred as a result of vandalism in June 2022.

20. Financial Instruments and Market Risk Management

Financial instruments

As of December 31, 2022, the Company's financial instruments included cash, accounts receivable, restricted cash, finance lease receivable (included in other assets on the balance sheet), accounts payable and accrued liabilities, income taxes payable, lease liabilities and term loan.

The Company's financial instruments that are carried at fair value include cash, restricted cash and the production liability as disclosed in Note 13 "Other Liabilities". Touchstone's cash and restricted cash balances are classified as Level 1 measurements, and its production liability is classified as Level 3 measurements in the three-level fair value hierarchy. There were no transfers between levels in the fair value hierarchy for the years ended December 31, 2022 and 2021.

The carrying values of Touchstone's accounts receivable, accounts payable and accrued liabilities and income taxes payable as of December 31, 2022 approximate their fair values due to the short-term nature of these instruments.

Market risk management

The Company is exposed to certain financial risks inherent in the international oil and natural gas industry including, but not limited to, commodity price risk, foreign exchange rate risk, credit risk (refer to note 5) and liquidity risk (refer to note 10). The risk exposures are proactively reviewed by Touchstone, and Management seeks to mitigate these risks through various business processes and controls. Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board to establish risk management guidelines to be used by Touchstone.

Commodity price risk

Touchstone's operational and financial results are largely dependent on the commodity prices received from crude oil, natural gas and natural gas liquids production. The Company has entered into a long-term fixed price contract for its natural gas production. However, movements in crude oil and liquids pricing could have a significant positive or negative effect on the Company's comprehensive income (loss) and cash flows. To mitigate this risk, Touchstone maintains a risk management strategy to protect funds flow from operations from the volatility of crude oil and liquids pricing. The Company's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in crude oil and liquids prices while allowing for participation in petroleum price increases. Touchstone had no commodity-based risk management contracts in place as at or during the years ended December 31, 2022 and 2021. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of crude oil and liquids sales and protect future development and exploration capital programs.

For the year ended December 31, 2022, with all other variables held constant, a 10 percent increase or decrease in the realized pricing received from crude oil and liquids production volumes would have resulted in an approximate $2,181,000 increase or $1,122,000 decrease in comprehensive income (2021 - $1,050,000 and $1,050,000, respectively).

Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. Touchstone's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum and natural gas sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency risk through collecting and paying foreign currency denominated balances in a timely fashion. Touchstone does not hedge its foreign exchange risk.

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

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

For the year ended December 31, 2022, with all other variables held constant, a 5 percent change in the C$ to US$ and TT$ to US$ exchange rates would have resulted in an approximate $691,000 increase or decrease in comprehensive (loss) income (2021 - $108,000). Increases or decreases in the foreign exchange rates applicable to TT$, C$ and pounds sterling dollar-denominated payables and receivables would have a nominal impact on Touchstone's comprehensive (loss) income for the year ended December 31, 2022 (2021 - $108,000).

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect comprehensive income (loss) and cash flows. As at December 31, 2022 and 2021, the Company did not hold any variable interest rate debt.

21. Capital Management

Touchstone actively manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. Touchstone considers its capital structure to include shareholders' equity, working capital and bank debt. The Company's long-term goal is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only cash flows from operations. Exploration activities and profitable growth activities will be financed with a combination of cash flows from operations and other sources of capital. Touchstone uses share equity and term debt as its primary sources of capital.

Touchstone considers funds flow from operations to be a key measure of capital management and operating performance as it demonstrates the Company's ability to generate the funds necessary to finance capital expenditures and repay debt. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds flow from operations provides a useful measure of the Company's ability to generate cash that is not subject to short-term movements in non-cash operating working capital.

Touchstone monitors working capital and net debt as part of the Company's capital structure to evaluate its true debt and liquidity position and to manage capital and liquidity risk. Working capital is calculated as current assets minus current liabilities as they appear on the balance sheet. Net debt is determined by summing the Company's working capital and the principal (undiscounted) long-term amount of senior secured debt.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of two times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices.

Touchstone also monitors its capital management through the net debt to managed capital ratio. Management defines managed capital as the sum of net debt and shareholders' equity. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to managed capital at a ratio of less than 0.4 to 1.

Net debt, managed capital, net debt to funds flow from operations ratio and net debt to managed capital ratio are considered non-IFRS capital management measures and therefore may not be comparable to similar measures presented by other companies. Touchstone's internal capital management calculations for years ended December 31, 2022 and 2021 are set forth in the following table.

($000's)	**Target measure**	**December 31, 2022**	December 31, 2021
Current assets		**(26,415)**	(27,856)
Current liabilities		**21,423**	20,931
Working capital surplus		**(4,992)**	(6,925)
Principal non-current balance of term loan		**21,000**	27,000
Net debt		**16,008**	20,075
Shareholders' equity		**78,380**	67,558
Managed capital		**94,388**	87,633
Annual funds flow from operations		**3,540**	4,172
Net debt to funds flow from operations ratio	At or < 2.0 times	**4.52**	4.81
Net debt to managed capital ratio	< 0.4 times	**0.17**	0.23

Touchstone's net debt to funds flow from operations ratio has exceeded its target based on continuing facility capital expenditures required to bring its natural gas discoveries onstream.

22. Commitments and Contingencies

Touchstone has contractual obligations in the normal course of business which include minimum work obligations under various operating agreements with Heritage, exploration and commitments under its Cory Moruga and Ortoire block exploration and production licences with the MEEI, and various lease commitments for office space and motor vehicles. The following table sets forth the Company's estimated minimum contractual payments as at December 31, 2022.

($000's)		Estimated payments due by year			
	Total	**2023**	**2024**	**2025**	**Thereafter**
Operating agreements	**22,975**	5,075	5,273	5,416	7,211
Exploration agreements	**20,290**	5,063	6,499	6,675	2,053
Other commitments	**908**	480	131	154	143
Minimum payments	**44,173**	**10,618**	**11,903**	**12,245**	**9,407**

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

In 2022, Touchstone was granted an extension to the exploration phase of the Ortoire licence to July 31, 2026. The Company is obligated to drill three exploration wells prior to the end of the amended licence term.

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

23. Related Parties

The Company's Corporate Secretary and former director is a senior partner of Touchstone's Canadian legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2022, $204,000 in legal fees and disbursements charged by Norton Rose Fulbright Canada LLP were incurred, of which $44,000 were included in accounts payable and accrued liabilities as at December 31, 2022 (2021 - $81,000 and $24,000, respectively).

Further, the Company's Trinidad-based director is a member of the board of directors of a private Trinidad engineering services company that occasionally provides oilfield supplies to Touchstone. For the year ended December 31, 2022, $41,000 in products were purchased from this company (2021 - $10,000). As at December 31, 2022, $16,000 was included in accounts payable and accrued liabilities (2021 - $nil).

Touchstone has determined that the key management personnel of the Company is comprised of its directors and executive officers. The compensation of directors and executive officers is reviewed annually by the Board's independent Governance and Compensation Committee against industry practice for petroleum and natural gas companies of similar size and scope. The following table sets forth key management personnel compensation paid or payable during the years ended December 31, 2022 and 2021.

($000's)	Year ended December 31,	
	2022	2021
Salaries and benefits included in general and administration expenses	**1,094**	1,048
Director fees included in general and administration expenses	**395**	363
Equity-based compensation (note 16)	**1,034**	661
Capitalized salaries, benefits and equity-based compensation	**306**	279
Key management compensation	**2,829**	2,351

24. Supplemental Disclosures

Presentation in the statements of comprehensive income

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

The following table details the amount of employee compensation expense included in operating and general and administration expense line items in the statements of comprehensive income for the years ended December 31, 2022 and 2021.

($000's)	Year ended December 31, 2022	2021
Operating expense	**1,101**	855
General and administration expense	**3,697**	3,417
Employee compensation expenses	**4,798**	4,272

Presentation in the statements of cash flows

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

Net change in non-cash working capital *($000's)*	Year ended December 31, 2022	2021
Source (use) of cash:		
Accounts receivable	**59**	(2,861)
Inventory	**14**	(51)
Prepaid expenses	**(287)**	(801)
Accounts payable and accrued liabilities	**(3,263)**	(379)
Income taxes payable	**778**	236
Transfer from other assets	**(14)**	(113)
Transfer from non-current other liabilities	**(533)**	(141)
Transfer from non-current lease liabilities	**(500)**	(337)
Foreign exchange on working capital balances	**(363)**	289
Net change in non-cash working capital	**(4,109)**	(4,158)
Related to operating activities	**2,212**	(2,561)
Related to investing activities	**(6,332)**	(1,645)
Related to financing activities	**11**	48
Net change in non-cash working capital	**(4,109)**	(4,158)

Other non-cash items *($000's)*	Year ended December 31, 2022	2021
Lease modification (note 9)	**33**	-
Term loan revaluation loss (note 12)	**-**	279
Accretion on term loan (note 12)	**66**	45
Production liability revaluation loss (note 13)	**240**	83
Accretion on decommissioning liabilities (note 14)	**222**	273
Other	**-**	(1)
Other non-cash items	**561**	679

25. Subsequent Event

In January 2023, the Company's indirect wholly owned Trinidadian subsidiary, Primera Oil and Gas Limited, entered into an Asset Exchange Agreement for the exchange of certain onshore Trinidad assets with a privately held Trinidadian entity. Pursuant to the agreement, Touchstone agreed to swap its operated 100 percent working interests in the Fyzabad, San Francique and Barrackpore producing blocks for the counterparty's working interest in the Rio Claro, Balata East and Balata East Deep Horizons blocks for no cash consideration with the asset exchange becoming effective upon closing. The agreement remains subject to certain closing conditions, including receipt of applicable regulatory approvals and an extension of the Rio Claro Exploration and Production (Public Petroleum Rights) Licence.

Corporate Information

Directors
John D. Wright
Chair of the Board

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

Corporate Secretary
Thomas E. Valentine

Officers and Senior Executives
Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

Brian Hollingshead
Vice President Engineering and Business Development

Alex Sanchez
Vice President Production and Environment

Cayle Sorge
Vice President Finance

Head Office
Touchstone Exploration Inc.
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T2P 3N9

Registered Office
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T2P 4H2

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

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

Stock Exchange Listings
Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

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

Auditor
KPMG LLP
Calgary, Alberta, Canada

Reserves Evaluator
GLJ Ltd.
Calgary, Alberta, Canada

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

Transfer Agent and Registrar
Odyssey Trust Company
Calgary, Alberta, Canada

Link Group
London, United Kingdom

UK Nominated Advisor and Joint Broker
Shore Capital
London, United Kingdom

UK Joint Broker
Canaccord Genuity
London, United Kingdom

UK Public Relations
FTI Consulting
London, United Kingdom