Touchstone Exploration Inc.

Interim Consolidated Financial Statements (unaudited)

March 31, 2019

Interim Consolidated Statements of Financial Position (unaudited)

(US$ thousands)	Note		**March 31, 2019**		December 31, 2018		January 1, 2018
					(note 3)		(note 3)
Assets	10						
Current assets							
Cash		**$**	**7,586**	$	3,554	$	11,089
Accounts receivable	5		**10,629**		11,893		6,803
Crude oil inventory			**95**		150		134
Prepaid expenses			**338**		257		378
			18,648		15,854		18,404
Exploration assets	6		**3,944**		3,644		1,659
Property and equipment	3,7		**63,519**		63,041		50,045
Restricted cash	16		**271**		271		299
Other assets			**1,256**		1,330		1,486
Abandonment fund	11		**1,014**		966		835
Total assets		**$**	**88,652**	$	85,106	$	72,728
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities	8	**$**	**12,680**	$	16,262	$	10,330
Income taxes payable	8		**3,774**		2,730		2,441
Term loan and associated liabilities	10		**231**		180		208
			16,685		19,172		12,979
Provisions	3		**-**		125		53
Lease liabilities	3,9		**744**		-		-
Term loan and associated liabilities	10		**10,666**		10,683		11,657
Decommissioning liabilities	11		**9,017**		8,915		9,438
Deferred income taxes			**16,010**		14,994		8,185
Total liabilities			**53,122**		53,889		42,312
Shareholders' equity							
Shareholders' capital	12		**61,483**		56,987		56,987
Contributed surplus			**2,207**		2,172		2,035
Accumulated other comprehensive loss			**(14,460)**		(14,427)		(14,733)
Accumulated deficit			**(13,700)**		(13,515)		(13,873)
Total shareholders' equity			**35,530**		31,217		30,416
Total liabilities and shareholders' equity		**$**	**88,652**	$	85,106	$	72,728

Commitments and contingencies (Note 16)
Subsequent events (Note 17)

See accompanying notes to these unaudited interim consolidated financial statements.

Interim Consolidated Statements of Comprehensive Income (Loss) (unaudited)
For the three months ended March 31

(US$ thousands, except per share amounts)	Note		**2019**		2018
					(note 3)
Revenues					
Petroleum sales		**$**	**11,015**	$	8,212
Royalties			**(2,919)**		(2,337)
Petroleum revenue			**8,096**		5,875
Loss on financial derivatives	14		**-**		(56)
Other income			**8**		375
			8,104		6,194
Expenses					
Operating			**2,495**		2,191
General and administrative			**1,315**		1,373
Net finance	13		**321**		447
Foreign exchange loss (gain)	14		**38**		(269)
Share-based compensation	12		**31**		25
Depletion and depreciation	7		**1,451**		894
Impairment	6		**78**		156
			5,729		4,817
Earnings before income taxes			**2,375**		1,377
Income taxes					
Current tax expense			**1,618**		291
Deferred tax expense			**942**		956
			2,560		1,247
Net (loss) earnings			**(185)**		130
Currency translation adjustments			**(33)**		275
Comprehensive (loss) income		**$**	**(218)**	$	405
Net (loss) earnings per common share					
Basic and diluted	12	**$**	**(0.00)**	$	0.00

See accompanying notes to these unaudited interim consolidated financial statements.

Interim Consolidated Statements of Changes in Shareholders' Equity (unaudited)

(US$ thousands)	Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Shareholders' equity
January 1, 2018 (note 3)	**$ 56,987**	**$ 2,035**	**$ (14,733)**	**$ (13,873)**	**$ 30,416**
Net earnings	-	-	-	130	130
Other comprehensive income	-	-	275	-	275
Share-based compensation expense (note 12)	-	25	-	-	25
Share-based compensation capitalized (note 7)	-	6	-	-	6
March 31, 2018	**$ 56,987**	**$ 2,066**	**$ (14,458)**	**$ (13,743)**	**$ 30,852**
January 1, 2019 (note 3)	**$ 56,987**	**$ 2,172**	**$ (14,427)**	**$ (13,515)**	**$ 31,217**
Net loss	-	-	-	(185)	(185)
Other comprehensive loss	-	-	(33)	-	(33)
Private placement (note 12)	4,496	-	-	-	4,496
Share-based compensation expense (note 12)	-	31	-	-	31
Share-based compensation capitalized (note 7)	-	4	-	-	4
March 31, 2019	**$ 61,483**	**$ 2,207**	**$ (14,460)**	**$ (13,700)**	**$ 35,530**

See accompanying notes to these unaudited interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows (unaudited)
For the three months ended March 31

(US$ thousands)	Note	**2019**	2018
	3		restated
Cash provided by (used in) the following activities:			
Operating activities			
Net (loss) earnings for the period		**$ (185)**	$ 130
Items not involving cash from operations:			
Non-cash loss on financial derivatives	14	**-**	56
Unrealized foreign exchange loss (gain)	14	**58**	(281)
Share-based compensation	12	**31**	25
Depletion and depreciation	7	**1,451**	894
Impairment		**78**	156
Non-cash other		**71**	212
Deferred income tax expense		**942**	956
Decommissioning expenditures	11	**(16)**	(86)
Funds flow from operations		**2,430**	2,062
Change in non-cash operating working capital		**307**	(2,930)
Costs related to financial derivatives	14	**-**	(153)
Cash flow from (used in) operating activities		**2,737**	(1,021)
Investing activities			
Exploration asset expenditures	6	**(360)**	(177)
Property and equipment expenditures	7	**(399)**	(2,852)
Abandonment fund expenditures	11	**(44)**	(30)
Change in non-cash investing working capital		**(2,109)**	751
Cash flow used in investing activities		**(2,912)**	(2,308)
Financing activities			
Payment of term loan production obligation	10	**(110)**	(82)
Term loan amendment fees	10	**(112)**	-
Finance lease (payments) receipts	9	**(32)**	59
Issuance of common shares, net of fees	12	**4,496**	-
Change in non-cash financing working capital		**14**	8
Cash flow from (used in) financing activities		**4,256**	(15)
Increase (decrease) in cash		**4,081**	(3,344)
Cash, beginning of period		**3,554**	11,089
Impact of foreign exchange on foreign denominated cash balances		**(49)**	281
Cash, end of period		**$ 7,586**	$ 8,026
The following are included in cash flow from operating activities:			
Interest paid in cash		**227**	228
Income taxes paid in cash		**587**	197

See accompanying notes to these unaudited interim consolidated financial statements.

1. Reporting Entity

Touchstone Exploration Inc. and its subsidiaries (collectively, the "Company") are engaged in the business of crude oil and natural gas exploration, development, acquisition and production. The Company is currently active in the Republic of Trinidad and Tobago ("Trinidad").

Touchstone Exploration Inc. is incorporated under the laws of Alberta, Canada with its head and principal office located at 4100, 350 7th Avenue SW, Calgary, Alberta, T2P 3N9. The Company's common shares are listed on the Toronto Stock Exchange and on the AIM market of the London Stock Exchange under the symbol "TXP".

2. Basis of Preparation and Statement of Compliance

These unaudited condensed interim consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018. Certain reclassification adjustments have been made to these financial statements to conform to the current presentation.

Unless otherwise stated, amounts presented in these financial statements are rounded to thousands of **United States dollars** ("$" or "US$), and tabular amounts are stated in thousands of **United States dollars**, as described further in Note 3 "Changes to Accounting Policies".

The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Summary of Significant Accounting Policies" of the Company's audited consolidated financial statements for the year ended December 31, 2018. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year, except as disclosed in Note 3 "Changes to Accounting Policies". There have been no significant changes to the use of estimates or judgments since December 31, 2018, except as noted in Note 4 "Use of Estimates, Judgements and Assumptions".

All intercompany transactions have been eliminated upon consolidation between Touchstone and its subsidiaries in these financial statements. The Company's operations are viewed as a single operating segment by the chief operating decision makers of the Company for the purposes of resource allocation and assessing performance.

These financial statements were authorized for issue by the Company's Board of Directors on May 13, 2019.

3. Changes to Accounting Policies

(a) Change in presentation currency

The Company changed its presentation currency from Canadian dollars to United States dollars effective January 1, 2019, with retrospective application on comparative figures in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 21 *Foreign Currency* ("IAS 21"). The change in accounting policy was made to better reflect the Company's international business activities and to improve comparability of the Company's financial results with other internationally focused junior oil and gas companies.

The Company did not change its functional currency, nor did it change the functional currencies of any of its subsidiaries. The functional currency of the parent company is the Canadian dollar ("C$"), the functional currency of the Company's Barbadian entity is the US$, and the functional currencies of its three operational Trinidadian subsidiaries is the Trinidad and Tobago dollar ("TT$").

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

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

As such, the change in presentation currency does not have an economic impact on the Company's underlying operations and transactions. The change in presentation currency simply converts the consolidated financial statement amounts to US$ as described above. In addition to the comparative consolidated statement of financial position, the Company has presented a third consolidated statement of financial position as at January 1, 2018 as a result of the change in presentation currency.

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

(b) Adoption of IFRS 16 *Leases* ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16. The standard supersedes IAS 17 *Leases* ("IAS 17") and requires the recognition of a right-of-use ("ROU") asset and lease obligation on the statement of financial position for most leases where the entity is acting as a lessee. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17. The Company is the lessee in the majority of its lease arrangements; however, the Company does have one material lease arrangement where it acts as the lessor.

The Company has elected to apply IFRS 16 using the modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to opening accumulated deficit at

January 1, 2019 and applies the standard prospectively. Accordingly, comparative information before adoption has not been restated and continues to be reported under IAS 17.

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

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

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

The Company identified ROU lease assets and liabilities related to head office space, oilfield service equipment, motor vehicles and office equipment. The following table sets forth the impact on the consolidated statement of financial position as at January 1, 2019.

		January 1, 2019
ROU asset (included in property and equipment)	$	1,194
Increase in total assets	**$**	**1,194**
Short-term portion of lease liabilities (included in accounts payable and accrued liabilities)	$	482
Provisions and accounts payable and accrued liabilities		(158)
Long-term portion of lease liabilities		870
Increase in total liabilities and shareholders' equity	**$**	**1,194**

Upon adoption of IFRS 16, lease liability amounts are now included in the Company's term loan financial covenants (see Note 10 "Term Loan and Associated Liabilities).

The adoption of IFRS 16 did not affect its finance lease where the Company is the lessor.

Update to Significant Accounting Policies

The Company applied IFRS 16 using the modified retrospective approach; therefore, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy found in the audited consolidated financial statements for the year ended December 31, 2018. The accounting policy set forth below is applicable from January 1, 2019.

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 the Company is a lessee, leases are recognized as a right-of-use asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. The future payments are discounted using the interest rate implicit in the lease or, when that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the lease liability and finance expenses. Finance expenses are charged to the consolidated statements of comprehensive income (loss) over the lease term.

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

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

As lessor

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

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

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

(d) Future accounting policies

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the financial statements once adopted.

4. Use of Estimates, Judgements and Assumptions

Leases

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further Management judgment and estimation in various areas specific to the contractual arrangements. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option.

Lease obligations are estimated using a discount rate equal to the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company's incremental borrowing rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

5. Financial Assets and Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. As at March 31, 2019, the Company was exposed to credit risk with respect to its accounts receivable and other assets, which includes finance lease receivable and deferred consideration from a property disposition.

The credit risk associated with the Company's finance lease receivable is considered to be low as the asset is secured by the underlying fixed assets, with ownership transferring to the counterparty subsequent to the final payment. The credit risk associated with the Company's deferred consideration is also considered low as the Company is selling the counterparty's crude oil produced from the disposed assets through its facilities and currently has the right to net the quarterly payment from the gross proceeds received.

The Company's crude oil production is sold, as determined by market-based prices adjusted for quality differentials, to Heritage Petroleum Company Limited ("Heritage") (formerly the Petroleum Company of Trinidad and Tobago Limited). Typically, the Company's maximum credit exposure is petroleum sales for two months, of which $4,487,000 was included in accounts receivable as at March 31, 2019, which represented approximately 42 percent of the total balance (December 31, 2018 - $5,165,000 and 43 percent, respectively). In addition, $5,347,000 in value added tax due from the Trinidad government was included in accounts receivable as at March 31, 2019, which represented approximately 50 percent of the accounts receivable balance (December 31, 2018 - $6,006,000 and 51 percent, respectively).

As at March 31, 2019, the Company determined that the average expected credit loss on the Company's accounts receivables was nil. The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from Trinidad government agencies for value added taxes, and the Company has historically not experienced any collection issues. The aging of accounts receivable as at March 31, 2019 and December 31, 2018 is disclosed in the following table.

	March 31, 2019	December 31, 2018
Not past due	**$ 4,832**	$ 6,731
Past due (greater than 90 days)	**5,797**	5,162
Accounts receivable	**$ 10,629**	$ 11,893

6. Exploration Assets

Exploration assets consist of the Company's projects in the exploration and evaluation stage which are pending determination of technical and commercial feasibility. The following table is a continuity schedule of the Company's exploration assets at the end of the respective periods.

	Three months ended March 31, 2019	Year ended December 31, 2018
Balance, beginning of period	**$ 3,644**	$ 1,659
Additions	**360**	2,557
Impairments	**(78)**	(548)
Effect of change in foreign exchange rates	**18**	(24)
Balance, end of period	**$ 3,944**	$ 3,644

During the three months ended March 31, 2019, $57,000 of general and administrative expenses were capitalized to exploration assets (2018 - $7,000).

During the three months ended March 31, 2019, the Company incurred $78,000 in lease expenses and letter of credit holding costs relating to its East Brighton property, which were impaired given the property's estimated recoverable value was $nil (2018 - $93,000).

The $3,944,000 exploration asset balance was included in the Ortoire cash-generating unit. No indicators of impairment were identified by the Company as at March 31, 2019.

7. Property and Equipment

The following table is a continuity schedule of the Company's property and equipment at the end of the respective periods.

	Petroleum assets	**Corporate assets**	**Total**
Cost			
Balance, January 1, 2018	**$ 120,100**	**$ 1,960**	**$ 122,060**
Additions	15,194	13	15,207
Dispositions	(142)	-	(142)
Effect of change in foreign exchange rates	(844)	(156)	(1,000)
Balance, December 31, 2018	**$ 134,308**	**$ 1,817**	**$ 136,125**
Additions	399	-	399
Right-of-use assets (note 3)	1,114	80	1,194
Effect of change in foreign exchange rates	681	40	721
Balance, March 31, 2019	**$ 136,502**	**$ 1,937**	**$ 138,439**
Accumulated depletion, depreciation and impairments			
Balance, January 1, 2018	**$ 70,465**	**$ 1,550**	**$ 72,015**
Depletion and depreciation	3,992	124	4,116
Impairment recoveries	(3,724)	-	(3,724)
Decommissioning obligation change in estimate	1,171	-	1,171
Effect of change in foreign exchange rates	(366)	(128)	(494)
Balance, December 31, 2018	**$ 71,538**	**$ 1,546**	**$ 73,084**
Depletion and depreciation	1,414	37	1,451
Effect of change in foreign exchange rates	353	32	385
Balance, March 31, 2019	**$ 73,305**	**$ 1,615**	**$ 74,920**

		Petroleum assets		Corporate assets		Total
Carrying amounts:						
Balance, December 31, 2018	$	62,770	$	271	$	63,041
Balance, March 31, 2019	**$**	**63,197**	**$**	**322**	**$**	**63,519**

As at March 31, 2019, $68,743,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2018 - $68,644,000). During the three months ended March 31, 2019, $193,000 and $4,000 in general and administrative expenses and share-based compensation expenses were capitalized to property and equipment, respectively (2018 - $205,000 and $6,000).

At March 31, 2019, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded.

(a) Exploration and production licence

The Company's Palo Seco exploration and production agreement with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") expired on August 19, 2013. The Company is currently negotiating a renewal or extension of the licence and has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed. During the three months ended March 31, 2019, production volumes produced under the expired licence represented 0.5 percent of total production (2018 - 0.8 percent).

(b) Private lease agreements

The Company is operating under a number of private lease agreements which have expired and are currently being renewed. Based on legal opinions received, the Company is continuing to recognize petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the three months ended March 31, 2019, production volumes produced under expired private lease agreements represented 1.6 percent of total production (2018 - 2.7 percent).

8. Financial Liabilities and Liquidity Risk

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

The following table sets forth estimated undiscounted cash outflows relating to financial liabilities as at March 31, 2019.

	Undiscounted amount	Less than 1 year	1 to 3 years	4 to 5 years
Accounts payable and accrued liabilities	$ 12,680	$ 12,680	$ -	$ -
Income taxes payable	3,774	3,774	-	-
Term loan principal	11,235	-	3,033	8,202
Term loan production payments	2,207	466	1,041	700
Term loan interest payments	3,292	901	1,614	777
Lease liabilities	1,365	574	546	245
Financial liabilities	**$ 34,553**	**$ 18,395**	**$ 6,234**	**$ 9,924**

Refer to Note 10 "Term Loan and Associated Liabilities" and Note 15 "Capital Management" for further details regarding the Company's debt structure and capital management objectives.

9. Lease Liabilities

The following table details the movements of the Company's lease liabilities for the period ended March 31, 2019.

	Total
Balance, January 1, 2019 (note 3)	**$ 1,352**
Interest expense	26
Payments	(141)
Effect of change in foreign exchange rates	6
Balance, March 31, 2019	**$ 1,243**
Current (included in accounts payable and accrued liabilities)	499
Non-current	744
Lease liabilities	**$ 1,243**

The Company has lease liabilities for head office space, oilfield service equipment, motor vehicles and office equipment. The lease contracts are effective from two to four years. Discount rates used in calculating the present values of lease payments during the three months ended March 31, 2019 were between 5 percent and 10 percent. Leases are negotiated on an individual basis and contain a wide range of varying terms and conditions. The following table details the undiscounted cash flows which include both principal and interest components of the Company's lease liabilities as at March 31, 2019.

	March 31, 2019
Less than one year	$ 574
1 to 3 years	546
4 years	245
Undiscounted cash flows related to lease liabilities	**$ 1,365**

Payments recognized in the financial statements relating to short-term leases for the three months ended March 31, 2019 were $33,000. These leases related to short-term motor vehicle and office equipment were recognized in operating expenses and general administrative expenses, respectively.

10. Term Loan and Associated Liabilities

On November 23, 2016, the Company completed an arrangement for a C$15 million, five-year term credit facility from a Canadian investment fund. The term loan bears a fixed interest rate of 8 percent per annum, compounded and payable quarterly.

Effective June 15, 2018, the Company and the lender entered into a Second Amending Agreement to the Credit Agreement, which extended the term loan maturity date to November 23, 2022 and extended all principal payments by one year. Effective March 29, 2019, the Company and the lender entered into a Third Amending Agreement to the Credit Agreement (the "2019 Amendment"), which extended the term loan maturity date to November 23, 2023. The Company is required to repay C$810,000 per quarter commencing on January 1, 2021 through October 1, 2023, and the then outstanding principal balance is repayable on the maturity date. As consideration for the 2019 Amendment, the Company paid the lender a financing fee of C$150,000 ($112,000).

In connection with the term loan, the Company granted the lender a production payment equal to 1 percent of total petroleum sales from then current Company land holdings in Trinidad. Concurrent with the execution of the 2019 Amendment, the Company and the lender extended the production payment agreement to mature on October 31, 2023 regardless of any repayment or prepayment of the term loan. The Company may prepay any principal portion of the term loan and has the option to negotiate a buyout of the future production payment obligation if the term loan balance is prepaid in full. The term loan and the Company's obligations in respect of the production payment are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The debt instrument is comprised of two financial liability components: the term loan liability and the production payment liability. At inception the term loan liability was measured at fair value, net of all transaction fees, using a discount rate of 12 percent. The term loan was revalued based on the 2019 Amendment, resulting in a gain of $277,000 recognized during the three months ended March 31, 2019 (2018 - $nil). The production payment liability is revalued at each reporting period based on internally estimated future production and forward crude oil pricing forecasts using a discount rate of 15 percent. As a result of these changes in estimates and the 2019 Amendment, a revaluation loss of $232,000 was recognized during the three months ended March 31, 2019 (2018 - $126,000). The following is a continuity schedule of the term loan and associated liabilities balances at the end of the respective periods.

	Term loan liability	Production payment liability	Total
Balance, January 1, 2018	**$ 11,031**	**$ 834**	**$ 11,865**
Revaluation (gain) loss	(219)	341	122
Accretion	301	-	301
Payments / transfers to accounts payable	(119)	(377)	(496)
Effect of change in foreign exchange rates	(864)	(65)	(929)
Balance, December 31, 2018	**$ 10,130**	**$ 733**	**$ 10,863**
Revaluation (gain) loss	(277)	232	(45)
Accretion	73	-	73
Payments / transfers to accounts payable	(112)	(110)	(222)
Effect of change in foreign exchange rates	212	16	228
Balance, March 31, 2019	**$ 10,026**	**$ 871**	**$ 10,897**
Current	-	231	231
Non-current	10,026	640	10,666
Term loan and associated liabilities	**$ 10,026**	**$ 871**	**$ 10,897**

The term loan arrangement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at March 31, 2019 were as follows:

Covenant	Covenant threshold	Three months ended March 31, 2019
Net funded debt to equity ratio[(1)]	< 0.50 times	**0.11 times**
Net funded debt to EBITDA ratio[(2)]	< 2.50 times	**0.38 times**

Notes:
(1) Net funded debt is defined as interest-bearing debt including capital lease liabilities, less cash balances. Equity is defined as book value of shareholders' equity less accumulated other comprehensive loss.
(2) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined as net earnings before interest, income taxes and non-cash items.

11. Decommissioning Liabilities and Abandonment Fund

The Company's decommissioning liabilities relate to future site restoration and well abandonment costs including the costs of production equipment removal and land reclamation based on current environmental regulations. The provision is estimated by Management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. Payments to settle the obligations occur over the operating lives of the underlying assets, estimated to be from three to twenty-two years, with the majority of the costs estimated to be incurred subsequent to 2031. The liabilities are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement.

Pursuant to Heritage and MEEI production and exploration licences, the Company is obligated to remit payments into an abandonment fund based on production. The Company remits $0.25 per barrel of crude oil sold, and the funds will be used for the future abandonment of wells in the related licenced area. As at March 31, 2019, the Company classified $1,014,000 of accrued or paid fund contributions as long-term abandonment fund assets (December 31, 2018 - $966,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be $9,017,000 as at March 31, 2019 based on an inflation adjusted future liability of $31,217,000 (December 31, 2018 - $8,915,000 and $31,606,000, respectively). The following table summarizes the Company's estimated decommissioning obligation provision at the end of the respective periods:

	Three months ended March 31, 2019	Year ended December 31, 2018
Balance, beginning of period	**$ 8,915**	$ 9,438
Liabilities incurred	**1**	208
Liabilities settled	**(16)**	(66)
Accretion expense	**90**	262
Revision to estimates	**(15)**	(828)
Dispositions	**-**	(62)
Effect of change in foreign exchange rates	**42**	(37)
Balance, end of period	**$ 9,017**	$ 8,915

At March 31, 2019, decommissioning liabilities were valued using a long-term risk-free rate of 7.9 percent and a long-term inflation rate of 3.7 percent (December 31, 2018 - 7.9 percent and 3.7 percent, respectively).

12. Shareholders' Capital

(a) Issued and outstanding common shares

The Company has authorized an unlimited number of voting common shares without nominal or par value. The following table is a continuity schedule of the Company's common shares outstanding and shareholders' capital:

	Number of shares		Balance
Balance, January 1, 2018 and December 31, 2018	**129,021,428**	**$**	**56,987**
Issued pursuant to private placement	31,666,667		4,496
Balance, March 31, 2019	**160,688,095**	**$**	**61,483**

(b) February 2019 private placement

On February 26, 2019, the Company completed a private placement directed toward United Kingdom institutional investors, whereby gross proceeds of $5,013,000 (£3,800,000) were raised by way of a placing of 31,666,667 new common shares at a price of C$0.21 (12 pence) per common share. Fees incurred from the private placement were $517,000, which included brokerage commissions and legal, accounting and corporate finance advisory fees. Net proceeds of the private placement were $4,496,000.

(c) Share option plans

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

	Number of share options		Weighted average exercise price
Outstanding, January 1, 2018	**6,870,840**	**C$**	**0.50**
Granted	1,688,800		0.23
Forfeited	(25,000)		2.10
Outstanding, December 31, 2018 and March 31, 2018	**8,534,640**	**C$**	**0.44**
Exercisable, March 31, 2019	**5,685,147**		**0.56**

Subsequent to March 31, 2019, the Company granted annual 2019 share options to officers and employees (see Note 17 "Subsequent Events").

The Company has an incentive share compensation option plan which provides for the grant of incentive share options to purchase common shares of the Company at a C$0.05 exercise price. A maximum of one million common shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant. As at March 31, 2019, 15,000 incentive share options were outstanding and exercisable with an exercise price of C$0.10 per incentive share.

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

During the three months ended March 31, 2019, the Company recorded share-based compensation expenses of $31,000 in relation to share option plans (2018 - $25,000).

(d) Weighted average common shares

The weighted average common shares used in calculating net loss per common share was calculated as follows.

	Three months ended March 31,	
	2019	2018
Weighted average common shares, basic	**140,984,391**	129,021,428
Dilutive impact of share-based compensation	**-**	670,265
Weighted average common shares, diluted	**140,984,391**	129,691,693

There was no dilutive impact to the weighted average number of common shares for the three months ended March 31, 2019, as all share options and incentive share options were excluded from the weighted average dilutive share calculations because their effect would be anti-dilutive.

13. Net Finance Expenses

The following table summarizes net finance expenses recorded during the three months ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
Interest income	**$ (31)**	$ (44)
Interest expense on term loan (note 10)	**222**	231
Term loan revaluation gain (note 10)	**(277)**	-
Production payment liability revaluation loss (note 10)	**232**	126
Accretion on term loan (note 10)	**73**	70
Accretion on decommissioning liabilities (note 11)	**90**	64
Accretion on deferred consideration	**(18)**	-
Lease liability interest expense (note 9)	**26**	-
Other	**4**	-
Net finance expenses	**$ 321**	$ 447

14. Financial Derivatives and Market Risk Management

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

(a) Commodity price risk

The nature of crude oil operations exposes the Company to risks associated with commodity prices. The Company maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. The Company's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases.

The Company had no commodity financial contracts in place as at or during the three months ended March 31, 2019. Subsequent to March 31, 2019, the Company purchased Brent reference price based put options through December 31, 2019 (see Note 17 "Subsequent Events").

In January 2018, the Company purchased crude oil put option contracts for 500 barrels per day at a strike price of Brent $55.00 per barrel from March 1, 2018 through December 31, 2018. The monthly options expired without being exercised. A derivative loss of $56,000 was recognized during the three months ended March 31, 2018.

(b) Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the TT$ and the US$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT$. This is currently mitigated by the fact that the TT$ is informally pegged to the US$. The Company is also subject to foreign exchange exposure relating to Canadian head office expenses and its term loan, which are denominated in C$. Any material movements in the C$ to US$ exchange rate may have a material effect on the Company's reporting results. The Company also has foreign exchange exposure on costs dominated in pounds sterling required to maintain its AIM listing.

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the three months ended March 31, 2019 and 2018.

During the three months ended March 31, 2019, the TT$ continued to be stable vis-à-vis the US$. The C$ gradually appreciated relative to the US$ during the three months ended March 31, 2019. However, in comparison to the three months ended March 31, 2018, the Canadian dollar relative to the US$ was five percent weaker. As a result, the Company recorded a foreign exchange loss of $38,000 during the three months ended March 31, 2019 (2018 - gain of $269,000). The majority of the translation differences were unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

15. Capital Management

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

The Company's objective is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of 2.0 times. Net debt is a Non-IFRS measure calculated by summing the Company's working capital and the principal (undiscounted) amounts of long-term debt and lease liabilities. Working capital is a Non-IFRS measure calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position. Net debt is used by

Management as a key measure to assess the Company's liquidity. Funds flow from operations is an additional GAAP measure included in the Company's consolidated statements of cash flows.

The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. The Company's internal capital management calculations for the three months ended March 31, 2019 and the year ended December 31, 2018 are summarized below.

	Target measure	March 31, 2019	December 31, 2018
Current assets		$ (18,648)	$ (15,854)
Current liabilities		16,685	19,172
Working capital (surplus) deficit		$ (1,963)	$ 3,318
Principal long-term portion of term loan		11,235	11,004
Long-term lease liabilities		744	-
Net debt		$ 10,016	$ 14,322
Shareholders' equity		35,530	31,217
Net debt plus equity		$ 45,546	$ 45,539
Trailing twelve-month funds flow from operations		$ 8,782	$ 8,414
Net debt to funds flow from operations	**< 2.0 times**	**1.1**	1.7
Net debt to net debt plus equity	**< 0.4 times**	**0.2**	0.3

Note:
(1) Trailing twelve-month funds flow from operations as at March 31, 2019 include funds flow from operations for the three months ended March 31, 2019 plus funds flow from operations for the April 1 through December 31, 2018 interim period.

16. Commitments and Contingencies

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under exploration and production agreements with the MEEI and various lease commitments for office space and equipment. As at March 31, 2019, the Company's estimated contractual capital requirements were as follows:

	Total	2019	2020	2021	Thereafter
Operating agreements	$ 3,231	$ 815	$ 284	$ 296	$ 1,836
Exploration agreements	10,400	3,129	7,271	-	-
Office leases	584	151	225	208	-
Equipment leases	319	163	149	7	-
Minimum payments	**$ 14,534**	**$ 4,258**	**$ 7,929**	**$ 511**	**$ 1,836**

Under the terms of its operating agreements, the Company must fulfill minimum work obligations on an annual basis over the specific licence term. In aggregate, the Company is obligated to drill 12 wells and perform 18 well recompletions prior to the end of 2021. As of March 31, 2019, 10 wells have been drilled, and 15 well recompletions were completed with respect to these obligations. The Company has provided $271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments (December 31, 2018 - $271,000). The balance is classified as long-term restricted cash on the consolidated statements of financial position.

Under the terms of its exploration licences, the Company must drill five wells prior to the end of December 31, 2020; none of which have been completed as of March 31, 2019.

17. Subsequent Events

(a) Grant of share options

On April 5, 2019, the Company granted 2,550,000 share options to officers, directors and employees at an exercise price of C$0.23 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.

(b) Financial derivatives

On April 17, 2019, the Company entered into the following financial derivative contracts to mitigate its exposure to fluctuations in commodity prices:

Oil contract	Volume	Pricing point	Strike price	Term
Put options	800 barrels per day	Brent ICE	US$56.10 per barrel	June 1, 2019 to December 31, 2019