Touchstone Exploration Inc.

Interim Consolidated Financial Statements (unaudited)

March 31, 2020

TSX / LSE: **TXP**

Touchstone Exploration Inc.
Interim Consolidated Statements of Financial Position (unaudited)
Stated in thousands of United States dollars

As at	Note	March 31, 2020	December 31, 2019
Assets	9		
Current assets			
Cash		**$ 12,219**	$ 6,182
Restricted cash	16	**271**	271
Accounts receivable	4	**6,638**	7,348
Crude oil inventory		**74**	71
Prepaid expenses		**759**	246
		19,961	14,118
Exploration assets	5	**15,223**	13,579
Property and equipment	6	**35,093**	55,730
Other assets		**226**	496
Abandonment fund	10	**1,153**	1,125
Total assets		**$ 71,656**	$ 85,048
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	**$ 10,758**	$ 13,708
Income taxes payable		**214**	1,329
Term loan and associated liabilities	9	**895**	220
		11,867	15,257
Lease liabilities		**66**	105
Term loan and associated liabilities	9	**13,142**	14,735
Decommissioning liabilities	10	**11,451**	11,547
Deferred income taxes	11	**3,200**	13,289
Total liabilities		**39,726**	54,933
Shareholders' equity			
Shareholders' capital	12	**72,435**	61,507
Contributed surplus		**2,367**	2,341
Accumulated other comprehensive loss		**(14,497)**	(14,598)
Accumulated deficit		**(28,375)**	(19,135)
Total shareholders' equity		**31,930**	30,115
Total liabilities and shareholders' equity		**$ 71,656**	$ 85,048

Commitments (note 16)

See accompanying notes to these unaudited interim consolidated financial statements.

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

	Note	Three months ended March 31, 2020	2019
Revenues			
Petroleum sales		**$ 6,698**	$ 11,015
Royalties		**(2,019)**	(2,919)
Petroleum revenue		**4,679**	8,096
Other income		**41**	8
Total revenue		**4,720**	8,104
Expenses			
Operating		**1,975**	2,495
General and administrative		**1,167**	1,315
Net finance	13	**738**	321
Foreign exchange (gain) loss	14	**(315)**	38
Share-based compensation	12	**44**	31
Depletion and depreciation	6	**1,088**	1,451
Impairment	7	**19,303**	78
Total expenses		**24,000**	5,729
(Loss) earnings before income taxes		**(19,280)**	2,375
Provision for income taxes			
Current expense		**32**	1,618
Deferred (recovery) expense	11	**(10,072)**	942
Total income tax (recovery) expense		**(10,040)**	2,560
Net loss		**(9,240)**	(185)
Currency translation adjustments		**101**	(33)
Comprehensive loss		**$ (9,139)**	$ (218)
Net loss per common share			
Basic and diluted	12	**$ (0.05)**	$ (0.00)

See accompanying notes to these unaudited interim consolidated financial statements.

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

	Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Shareholders' equity
January 1, 2019	**$ 56,987**	**$ 2,172**	**$ (14,427)**	**$ (13,515)**	**$ 31,217**
Comprehensive loss	-	-	(33)	(185)	(218)
Private placement (note 12)	4,496	-	-	-	4,496
Share-based compensation expense (note 12)	-	31	-	-	31
Share-based compensation capitalized	-	4	-	-	4
March 31, 2019	**$ 61,483**	**$ 2,207**	**$ (14,460)**	**$ (13,700)**	**$ 35,530**
January 1, 2020	**$ 61,507**	**$ 2,341**	**$ (14,598)**	**$ (19,135)**	**$ 30,115**
Comprehensive loss	-	-	101	(9,240)	(9,139)
Private placement (note 12)	10,850	-	-	-	10,850
Share-based settlements (note 12)	78	(24)	-	-	54
Share-based compensation expense (note 12)	-	44	-	-	44
Share-based compensation capitalized	-	6	-	-	6
March 31, 2020	**$ 72,435**	**$ 2,367**	**$ (14,497)**	**$ (28,375)**	**$ 31,930**

See accompanying notes to these unaudited interim consolidated financial statements.

Touchstone Exploration Inc.
Interim Consolidated Statements of Cash Flows (unaudited)
Stated in thousands of United States dollars

	Note	Three months ended March 31, 2020	2019
Cash provided by (used in) the following activities:			
Operating activities			
Net loss		**$ (9,240)**	$ (185)
Items not involving cash from operations:			
Unrealized foreign exchange (gain) loss	14	**(301)**	58
Share-based compensation	12	**44**	31
Depletion and depreciation	6	**1,088**	1,451
Impairment	7	**19,303**	78
Other		**435**	71
Deferred income tax (recovery) expense	11	**(10,072)**	942
Decommissioning expenditures		**-**	(16)
Funds flow from operations		**1,257**	2,430
Change in non-cash operating working capital		**(1,333)**	307
Cash flow (used in) from operating activities		**(76)**	2,737
Investing activities			
Exploration asset expenditures	5	**(1,823)**	(360)
Property and equipment expenditures	6	**(220)**	(399)
Abandonment fund expenditures	10	**(34)**	(44)
Proceeds from asset disposition		**23**	-
Change in non-cash investing working capital		**(2,894)**	(2,109)
Cash flow used in investing activities		**(4,948)**	(2,912)
Financing activities			
Payment of term loan production obligation	9	**(91)**	(110)
Term loan fees		**-**	(112)
Net finance lease payments		**(23)**	(32)
Issuance of common shares	12	**10,905**	4,496
Change in non-cash financing working capital		**(26)**	14
Cash flow from financing activities		**10,765**	4,256
Increase in cash		**5,741**	4,081
Cash, beginning of year		**6,182**	3,554
Impact of foreign exchange on foreign denominated cash balances		**296**	(49)
Cash, end of period		**$ 12,219**	$ 7,586
The following are included in cash flow from operating activities:			
Interest paid in cash		**291**	227
Income taxes paid in cash		**1,147**	587

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, Canada T2P 3N9. The Company's common shares are listed on the Toronto Stock Exchange and on the AIM market of the London Stock Exchange under the symbol "TXP".

2. Basis of Preparation and Statement of Compliance

These 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, 2019 ("the "annual financial statements"). 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 as detailed in the accounting policies disclosed in Note 3 "Summary of Significant Accounting Policies" of the Company's annual financial statements. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year. All inter-entity transactions have been eliminated upon consolidation between the Company and any subsidiaries in these financial statements. The Company's operations are viewed as a single operating segment by the chief operating decision makers of the Company for the purposes of resource allocation and assessing performance.

These financial statements were authorized for issue by the Company's Board of Directors on May 13, 2020.

3. Recent Developments and Impacts to Use of Estimates, Judgements and Assumptions

In March 2020, the outbreak of the novel coronavirus ("COVID-19") and subsequent measures intended to limit the pandemic contributed to significant declines and abnormal volatility of global financial markets. The pandemic adversely affected global commercial activity and significantly reduced worldwide demand for crude oil. Crude oil prices were concurrently impacted by increased global supply due to disagreements over production restrictions between members of OPEC and Russia.

The scale and duration of these developments remain uncertain and the full extent of the impact on the Company's operations and future financial performance is currently unknown. The COVID-19 outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial statements.

A full list of the significant estimates and judgements made by Management in the preparation of its financial statements are included in Note 5 "Use of Estimates, Judgements and Assumptions" of the annual financial statements. The outbreak and volatile market conditions have increased the complexity of estimates, judgements and assumptions used to prepare these financial statements, particularly related to the recoverability of asset carrying values and the deferred income tax provision.

Changes to any of these estimates, judgements and assumptions could result in a material adjustment to the carrying values of assets and liabilities. 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.

4. 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, 2020, the Company was exposed to credit risk with respect to its accounts receivable and other assets, which includes finance lease receivable and accounts receivable from a 2018 property disposition. The credit risk associated with the Company's finance lease receivable is minimal as the asset is secured by the underlying fixed assets, with ownership transferring to the counterparty subsequent to the final lease payment in 2022. The credit risk associated with the Company's deferred consideration is also considered low as the Company is selling the crude oil produced from the disposed assets through its facilities on behalf of the counterparty and has the right to net the quarterly receivable from the crude oil gross proceeds received.

The Company's credit exposure on accounts receivable typically pertains to accrued sales revenue for monthly production volumes sold to Heritage and value added taxes due from the Trinidad government. As at March 31, 2020, $1,337,000 of petroleum sales was included in accounts receivable, representing approximately 20 percent of the Company's consolidated accounts receivable balance (December 31, 2019 - $2,074,000 and 28 percent, respectively). $4,485,000 of the Company's consolidated accounts receivable was comprised of value added tax as at March 31, 2020, which represented approximately 68 percent of the total balance (December 31, 2019 - $4,283,000 and 58 percent, respectively).

As at March 31, 2020, the Company determined that the average expected credit loss on the Company's accounts receivables was $nil (December 31, 2019 - $nil). The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from the Trinidad government for value added taxes, and although the timing of settlement is uncertain, the Company has not historically experienced any material collection issues. The aging of accounts receivable as at March 31, 2020 and December 31, 2019 is disclosed in the following table.

Accounts receivable aging	**March 31, 2020**	December 31, 2019
Not past due	**$ 2,568**	$ 3,581
Past due (greater than 90 days)	**4,070**	3,767
Balance	**$ 6,638**	$ 7,348

5. Exploration Assets

	Three months ended March 31, 2020	Year ended December 31, 2019
Balance, beginning of year	**$ 13,579**	$ 3,644
Additions	**1,823**	10,191
Impairments	**(90)**	(309)
Effect of change in foreign exchange rates	**(89)**	53
Balance, end of year	**$ 15,223**	$ 13,579

During the three months ended March 31, 2020, the Company incurred $88,000 in lease expenses (2019 - $78,000) relating to its East Brighton property, which were impaired given the property's estimated recoverable value was $nil. The March 31, 2020 exploration asset carrying value of $15,223,000 was included in the Ortoire cash-generating unit. No indicators of impairment were identified by the Company as at March 31, 2020.

6. Property and Equipment

	Petroleum assets	Corporate assets	Balance
Cost			
Balance, January 1, 2019	**$ 134,308**	**$ 1,817**	**$ 136,125**
Additions	2,324	-	2,324
Right-of-use assets	1,114	80	1,194
Derecognition of right-of-use assets	(830)	-	(830)
Decommissioning liability change in estimate	2,422	-	2,422
Effect of change in foreign exchange rates	1,031	90	1,121
Balance, December 31, 2019	**$ 140,369**	**$ 1,987**	**$ 142,356**
Additions	227	-	227
Decommissioning liability change in estimate	(124)	-	(124)
Effect of change in foreign exchange rates	(898)	(162)	(1,060)
Balance, March 31, 2020	**$ 139,574**	**$ 1,825**	**$ 141,399**
Accumulated depletion, depreciation and impairments			
Balance, January 1, 2019	**$ 71,538**	**$ 1,546**	**$ 73,084**
Depletion and depreciation	5,036	135	5,171
Impairments	7,594	-	7,594
Derecognition of right-of-use assets	(175)	-	(175)
Decommissioning liability change in estimate	371	-	371
Effect of change in foreign exchange rates	505	76	581
Balance, December 31, 2019	**$ 84,869**	**$ 1,757**	**$ 86,626**
Depletion and depreciation	1,059	29	1,088
Impairments (note 7)	19,215	-	19,215
Decommissioning liability change in estimate	18	-	18
Effect of change in foreign exchange rates	(496)	(145)	(641)
Balance, March 31, 2020	**$ 104,665**	**$ 1,641**	**$ 106,306**
Carrying amounts			
Balance, December 31, 2019	$ 55,500	$ 230	$ 55,730
Balance, March 31, 2020	**$ 34,909**	**$ 184**	**$ 35,093**

7. Property and Equipment Impairments

At March 31, 2020, indicators of impairment were present due to the significant decline in crude oil forward pricing. The Company performed impairment tests on all cash-generating units ("CGUs") whereby the recoverable amount of each CGU was compared to its associated carrying value. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of $19,215,000 as reflected in the table below.

CGU	Three months ended March 31, 2020	2019
Coora	**$ 6,940**	$ -
WD-4	**5,968**	-
WD-8	**6,307**	-
Property and equipment impairments	**$ 19,215**	$ -

Estimating the recoverable amounts of the Company's CGUs involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement.

The estimated recoverable amounts were determined using value in use calculations incorporating the net present value of the after-tax cash flows derived from the Company's proved developed producing reserves in 2020 and 2021 and proved plus probable oil reserves thereafter as estimated by the Company's independent reserves evaluator as at December 31, 2019 and internally adjusted to reflect updated price assumptions as of April 1, 2020. The estimated recoverable amounts used an after-tax discount rate of 20 percent. The following table details the forward pricing and forecasted inflation rates used in calculating the recoverable amounts of the Company's CGUs as estimated by the Company's independent reserves evaluator, GLJ Petroleum Consultants Ltd. effective April 1, 2020.

Forecast Year	WTI Crude Oil Cushing, Oklahoma ($/bbl)	Brent Spot Crude Oil ($/bbl)	Inflation Rates (percent per year)
April - December 2020	30.00	34.00	0.0
2021	41.00	45.50	0.0
2022	47.50	52.50	1.0
2023	52.50	57.50	2.0
2024	57.50	62.50	2.0
2025	58.95	62.95	2.0
2026	60.13	64.13	2.0
2027	61.33	65.33	2.0
2028	62.56	66.56	2.0
2029	63.81	67.81	2.0
Thereafter	+2.0% / year	+2.0% / year	2.0

Changes in any of the key judgments, such as a revision in reserves, changes in forecast commodity prices, capital expenditures, operating costs or the discount rate would impact the estimated recoverable amounts. The following table demonstrates the sensitivity of the estimated recoverable amounts by CGU from possible changes in key assumptions inherent in the impairment tests.

CGU	Increase in discount rate of 1%	Decrease in discount rate of 1%	Increase in crude oil price of 10%	Decrease in crude oil price of 10%
Coora	$ 639	$ (705)	$ (1,911)	$ 429
WD-4	629	(693)	(1,946)	1,052
WD-8	663	(733)	(1,833)	595
Impairment (reversal)	**$ 1,931**	**$ (2,131)**	**$ (5,690)**	**$ 2,076**

8. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. While the decrease in commodity prices as a result of the COVID-19 pandemic will negatively impact the Company's financial performance and position, the Company believes that future cash flows will be adequate to meet financial obligations as they come due.

The Company manages liquidity risk by continuously monitoring actual and forecasted cash flows from operating, investing and financing activities and opportunities to extend/increase its existing debt facility or to issue additional equity. Given that the Company has minimal developmental work obligations and guarantees at March 31, 2020, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. The Company has applied for an extension of its Ortoire licence, as two exploration commitment wells must be drilled prior to October 2020. Refer to Note 9 "Term Loan and Associated Liabilities", Note 15 "Capital Management" and Note 16 "Commitments" for further details regarding the Company's debt structure and capital management objectives.

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at March 31, 2020.

		Financial maturity by period		
	Undiscounted cash outflows	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**
Accounts payable and accrued liabilities	$ 10,758	$ 10,758	$ -	$ -
Income taxes payable	214	214	-	-
Term loan principal (note 9)	14,114	776	6,210	7,128
Estimated term loan production payments (note 9)	2,098	260	1,298	540
Term loan interest (note 9)	2,983	1,111	1,576	296
Lease liabilities	273	206	67	-
Total financial liabilities	**$ 30,440**	**$ 13,325**	**$ 9,151**	**$ 7,964**

9. Term Loan and Associated Liabilities

The Company's C$20 million term credit facility bears a fixed interest rate of 8 percent per annum, compounded and payable quarterly. The Company is required to repay C$1.1 million per quarter of the principal commencing on January 1, 2021 through October 1, 2023, and the then outstanding principal balance is repayable on the November 23, 2023 maturity date. In connection with the term credit facility, the Company granted the lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2021 regardless of any repayment of the term credit facility. The credit facility and the Company's production payment obligations 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. The term loan liability is measured at amortised cost, and the discount on the term loan liability is unwound using the effective interest rate method to the face value at maturity. The production payment liability is revalued at each reporting period based on internally estimated future production and forward crude oil pricing forecasts.

	Term loan liability	**Production payment liability**	**Balance**
Balance, January 1, 2019	**$ 10,130**	**$ 733**	**$ 10,863**
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation (gain) loss	(656)	622	(34)
Accretion	384	-	384
Payments / transfers to accounts payable	-	(404)	(404)
Effect of change in foreign exchange rates	518	38	556
Balance, December 31, 2019	**$ 13,966**	**$ 989**	**$ 14,955**
Revaluation loss	-	260	260
Accretion	124	-	124
Payments / transfers to accounts payable	-	(91)	(91)
Effect of change in foreign exchange rates	(1,132)	(79)	(1,211)
Balance, March 31, 2020	**$ 12,958**	**$ 1,079**	**$ 14,037**
Current	$ 776	$ 119	$ 895
Non-current	12,182	960	13,142
Term loan and associated liabilities	**$ 12,958**	**$ 1,079**	**$ 14,037**

The term credit facility 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, 2020 are set forth below.

Covenant	Covenant threshold	Three months ended March 31, 2020
Net funded debt to equity ratio(1)	< 0.50 times	**0.03 times**
Net funded debt to EBITDA ratio(2)	< 2.50 times	**0.21 times**

Notes:
(1) Net funded debt is defined in the credit facility agreement as interest-bearing debt less cash, and excludes liabilities recognized as a result of the adoption of IFRS 16 *Leases*. Equity is defined as book value of shareholders' equity less accumulated other comprehensive loss, less the effects of impairment expenses or recoveries.
(2) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined in the credit facility agreement as net earnings before interest, income taxes and all non-cash items.

10. Decommissioning Liabilities and Abandonment Fund

Pursuant to Heritage and MEEI production and exploration licences, the Company is obligated to remit payments into abandonment funds based on production. The Company remits $0.25 per barrel of crude oil sold, and the funds will be used for the future abandonment of wells in the related licenced area. As at March 31, 2020, the Company classified $1,153,000 of accrued or paid fund contributions as non-current abandonment fund assets (December 31, 2019 - $1,125,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be $11,451,000 as at March 31, 2020 based on an inflation adjusted future liability of $26,653,000 (December 31, 2019 - $11,547,000 and $27,153,000, respectively). The following table summarizes the Company's estimated decommissioning liability provision at the end of the respective periods.

	Three months ended March 31, 2020	Year ended December 31, 2019
Balance, beginning of period	**$ 11,547**	$ 8,915
Liabilities incurred	**5**	91
Accretion expense	**102**	372
Revisions to estimates	**(148)**	2,108
Effect of change in foreign exchange rates	**(55)**	61
Balance, end of period	**$ 11,451**	$ 11,547

At March 31, 2020, decommissioning liabilities were valued using a long-term risk-free rate of 5.6 percent and a long-term inflation rate of 3.3 percent (December 31, 2019 - 5.5 percent and 3.3 percent, respectively). The revisions in estimates resulted in a net decrease to the estimated liability of $148,000 (December 31, 2019 – net increase of $2,108,000).

11. Income Taxes

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

	Three months ended March 31, 2020	Year ended December 31, 2019
Net loss before income taxes	**$ (19,280)**	$ (2,065)
Trinidad statutory rate	**55.00%**	55.00%
Expected income tax recovery at statutory rate	**$ (10,604)**	$ (1,136)
Effect on income tax resulting from:		
Supplemental petroleum tax	**6**	4,782
Deductible supplemental petroleum tax	**(3)**	(3,079)
Benefit of tax assets not recognized	**324**	(1,176)
Tax rate differential	**375**	3,889
Other	**(138)**	275
Total income tax (recovery) expense	**$ (10,040)**	$ 3,555

The net deferred income tax liability solely relates to the Company's Trinidad operations. The following table details the components of the liability for the three months ended March 31, 2019.

	December 31, 2019	**Recognized in equity**	**Recognized in earnings (loss)**	**March 31, 2020**
Property and equipment	$ (21,766)	$ 54	$ 10,589	**$ (11,123)**
Decommissioning liabilities	638	(3)	(6)	**629**
Loss carry forwards	5,706	(27)	(663)	**5,016**
Other	2,133	(7)	152	**2,278**
Net deferred income tax liability	$ (13,289)	$ 17	$ 10,072	**$ (3,200)**

As reflected in the table above, the Company's March 31, 2020 net deferred tax liability includes $7,923,000 of deferred tax assets (December 31, 2019 - $8,477,000). The deferred tax asset is reviewed at each reporting date to assess whether it is probable that the related tax benefit will be realized in the future. As at March 31, 2020, the Company estimated that future taxable income was sufficient to realize the deferred tax asset. The estimates used to determine future taxable income are subject to measurement uncertainty and actual results could differ from estimates.

12. Shareholders' Capital

Issued and outstanding common shares

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value.

Common shares and shareholders' capital	**Number of shares**	**Shareholders' capital**
Balance, January 1, 2019	**129,021,428**	**$ 56,987**
Issued pursuant to private placement, net of fees	31,666,667	4,496
Share-based settlements	15,000	24
Balance, December 31, 2019	**160,703,095**	**$ 61,507**
Issued pursuant to private placement, net of fees	22,500,000	10,850
Share-based settlements	286,300	78
March 31, 2020	**183,489,395**	**$ 72,435**

February 2020 private placement

On February 26, 2020, the Company completed a private placement directed toward United Kingdom institutional investors, whereby gross proceeds of $11,653,000 were raised by way of issuing 22,500,000 new common shares at a price of approximately C$0.69 per common share. Fees incurred from the private placement were $803,000, which included brokerage commissions and legal and corporate finance advisory fees, resulting in net proceeds of $10,850,000.

Equity compensation 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. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the grant date as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant.

	Number of share options		Weighted average exercise price
Outstanding, January 1, 2019	**8,534,640**	**C$**	**0.44**
Granted	2,550,000		0.23
Expired	(2,344,040)		0.87
Outstanding, January 1, 2020	**8,740,600**	**C$**	**0.26**
Exercised	(286,300)		0.27
Expired	(147,500)		2.10
Outstanding, March 31, 2020	**8,306,800**	**C$**	**0.23**
Exercisable, March 31, 2020	**4,450,936**		**0.23**

On April 6, 2020, the Company granted 2,611,000 share options to officers, directors and employees at an exercise price of C$0.48 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.

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, of which 437,625 have been historically issued under the plan as of March 31, 2020. There were no incentive share options outstanding as at March 31, 2020; no incentive options have been awarded since 2014.

During the three months ended March 31, 2020, the Company recorded share-based compensation expenses of $44,000 in relation to share option plans (2019 - $31,000).

Weighted average common shares

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

	Three months ended March 31,	
	2020	2019
Weighted average common shares, basic	**169,360,911**	140,984,391
Dilutive impact of share-based compensation	**-**	-
Weighted average common shares, diluted	**169,360,911**	140,984,391

There was no dilutive impact to the weighted average number of common shares for the three months ended March 31, 2020, as 5.2 million share options were excluded from the diluted weighted average share calculation as they were anti-dilutive (2019 – 0.5 million share options).

13. Net Finance Expenses

	Three months ended March 31,	
	2020	2019
Interest income	**$ (6)**	$ (31)
Term loan interest expense (note 9)	**299**	222
Term loan revaluation gain (note 9)	**-**	(277)
Production payment liability revaluation loss (note 9)	**260**	232
Accretion on term loan (note 9)	**124**	73
Accretion on decommissioning liabilities (note 10)	**102**	90
Lease liability interest expense	**5**	26
Other	**(46)**	(14)
Net finance expenses	**$ 738**	$ 321
Cash net finance expenses	**$ 302**	$ 221
Non-cash net finance expenses	**436**	100
Net finance expenses	**$ 738**	$ 321

14. Market Risk Management

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

Commodity price risk

The Company's operational and financial condition are largely dependent on the commodity prices received from petroleum production. Movement in commodity prices could have a significant positive or negative effect on the Company's net earnings and cash flows. To alleviate this risk, the Company maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. The Company's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases. The Company had no commodity-based risk management contracts in place during the three months ended March 31, 2020. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development and exploration capital programs.

Foreign currency risk

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

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the three months ended March 31, 2020 and year ended December 31, 2019.

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 and capital expenditures necessary for the replacement of production declines using only funds flow from operations. Profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. The Company typically uses equity and term debt to raise capital.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of 2.0 times. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Net debt is a Non-IFRS measure calculated by summing the Company's working capital and the principal (undiscounted) non-current amount of senior secured debt. Working capital is a Non-IFRS measure calculated as current assets minus current liabilities as they appear on the statements of financial position. Net debt is used by Management as a key measure to assess the Company's liquidity. Funds flow from operations is an additional IFRS measure included in the Company's consolidated statements of cash flows. Net debt and funds flow from operations are not standardized measures and therefore may not be comparable with the calculation of similar entities by other entities. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. The Company's internal capital management calculations for the three months ended March 31, 2020 and year ended December 31, 2019 are set forth in the table below.

	Target measure	**March 31, 2020**	December 31, 2019
Current assets		**$ (19,961)**	$ (14,118)
Current liabilities		**11,867**	15,257
Working capital (surplus) deficit		**$ (8,094)**	$ 1,139
Principal non-current balance of term loan		**13,338**	15,364
Net debt		**$ 5,244**	$ 16,503
Shareholders' equity		**31,930**	30,115
Net debt plus equity		**$ 37,174**	$ 46,618
Trailing twelve-month funds flow from operations(1)		**$ 5,667**	$ 6,840
Net debt to funds flow from operations	**at or < 2.0 times**	**0.93**	2.41
Net debt to net debt plus equity	**< 0.4 times**	**0.14**	0.35

Note:
(1) Trailing twelve-month funds flow from operations as at March 31, 2020 include funds flow from operations for the three months ended March 31, 2020 plus funds flow from operations for the April 1 through December 31, 2019 interim period.

16. Commitments

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under exploration and production agreements with the MEEI and various lease commitments for office space and equipment. The following table outlines the Company's estimated minimum contractual capital requirements as at March 31, 2020.

		Estimated payments due by year			
	Total	**2020**	**2021**	**2022**	**Thereafter**
Operating agreements	$ 2,967	$ 185	$ 963	$ 270	$ 1,549
Exploration agreements	6,460	6,460	-	-	-
Other commitments	323	176	147	-	-
Total minimum commitments	**$ 9,750**	**$ 6,821**	**$ 1,110**	**$ 270**	**$ 1,549**

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, 2020, 10 wells were drilled, and 15 well recompletions were completed with respect to these obligations. The Company has provided $271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments.

Under the terms of its Ortoire exploration licence, the Company has drilled two of four commitment wells and must also acquire and process 85-line kilometres of 2D seismic. The initial stage of the licence expires in October 2020, and the Company has applied for an extension based on its two commercial discoveries to date.