



**Touchstone Exploration Inc.**

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

**As at and for the three months ended March 31, 2023 and 2022**

**Touchstone Exploration Inc.**  
**Interim Condensed Consolidated Balance Sheets**  
*Unaudited, stated in thousands of United States dollars*

As at	Note	March 31, 2023	December 31, 2022
<b>Assets</b>			
Current assets			
Cash		10,859	16,335
Accounts receivable	3	6,551	7,487
Inventory		90	129
Prepaid expenses		1,034	1,342
Assets held for sale		1,122	1,122
		<b>19,656</b>	<b>26,415</b>
Exploration and evaluation assets			
Property, plant and equipment	4	60,464	51,352
Restricted cash	5	65,409	67,162
Other assets	8	962	1,021
Abandonment fund		446	481
		1,511	1,446
<b>Total assets</b>		<b>148,448</b>	<b>147,877</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	6	16,155	12,737
Income taxes payable	10	213	1,014
Current portion of term loan	8	6,000	6,000
Liabilities associated with assets held for sale		1,671	1,672
		<b>24,039</b>	<b>21,423</b>
Lease liabilities			
Term loan	7	1,374	1,373
Decommissioning liabilities	8	19,459	20,962
Deferred income taxes	9	10,955	11,182
	10	14,100	14,557
<b>Total liabilities</b>		<b>69,927</b>	<b>69,497</b>
<b>Shareholders' equity</b>			
Shareholders' capital	11	114,635	114,635
Contributed surplus		5,328	4,905
Other comprehensive loss		(13,520)	(13,517)
Deficit		(27,922)	(27,643)
<b>Total shareholders' equity</b>		<b>78,521</b>	<b>78,380</b>
<b>Total liabilities and shareholders' equity</b>		<b>148,448</b>	<b>147,877</b>

Commitments (note 16)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

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

For the three months ended March 31

Unaudited, stated in thousands of United States dollars (except per share amounts)

	Note	2023	2022
<b>Revenue</b>			
Petroleum and natural gas sales	12	8,476	10,496
Less: royalties		(2,504)	(3,586)
Petroleum and natural gas revenue, net of royalties		5,972	6,910
Other revenue		12	9
<b>Total revenue</b>		<b>5,984</b>	<b>6,919</b>
<b>Expenses</b>			
Operating		2,320	2,157
General and administration		2,101	1,973
Net finance	13	431	943
Gain on asset dispositions		-	(35)
Foreign exchange gain	14	(110)	(56)
Equity-based compensation	11	361	244
Depletion and depreciation	5	1,377	930
Impairment	4	15	136
<b>Total expenses</b>		<b>6,495</b>	<b>6,292</b>
<b>(Loss) earnings before income taxes</b>		<b>(511)</b>	<b>627</b>
<b>Provision for income taxes</b>			
Current expense	10	215	628
Deferred (recovery) expense	10	(447)	235
<b>Total income tax (recovery) expense</b>		<b>(232)</b>	<b>863</b>
<b>Net loss</b>		<b>(279)</b>	<b>(236)</b>
Currency translation adjustments		(3)	400
<b>Comprehensive (loss) income</b>		<b>(282)</b>	<b>164</b>
<b>Net loss per common share</b>			
Basic and diluted	11	(0.00)	(0.00)

See accompanying notes to these unaudited interim condensed consolidated financial statements.

**Touchstone Exploration Inc.****Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**

For the three months ended March 31

Unaudited, stated in thousands of United States dollars

	Note	2023	2022
<b>Shareholders' capital</b>			
Balance, beginning of period		114,635	101,757
Equity-based settlements	11	-	116
<b>Balance, end of period</b>		<b>114,635</b>	<b>101,873</b>
<b>Contributed surplus</b>			
Balance, beginning of period		4,905	3,466
Equity-based settlements	11	-	(41)
Equity-based compensation expense	11	361	244
Equity-based compensation capitalized	4,5	62	67
<b>Balance, end of period</b>		<b>5,328</b>	<b>3,736</b>
<b>Other comprehensive loss</b>			
Balance, beginning of period		(13,517)	(13,219)
Other comprehensive (loss) income		(3)	400
<b>Balance, end of period</b>		<b>(13,520)</b>	<b>(12,819)</b>
<b>Deficit</b>			
Balance, beginning of period		(27,643)	(24,446)
Net loss		(279)	(236)
<b>Balance, end of period</b>		<b>(27,922)</b>	<b>(24,682)</b>

See accompanying notes to these unaudited interim condensed consolidated financial statements.

**Touchstone Exploration Inc.**  
**Interim Condensed Consolidated Statements of Cash Flows**

For the three months ended March 31

Unaudited, stated in thousands of United States dollars

	Note	2023	2022
<b>Operating activities</b>			
Net loss		(279)	(236)
Items not involving cash from operations:			
Gain on asset dispositions		-	(35)
Unrealized foreign exchange gain	14	(119)	(140)
Equity-based compensation expense	11	361	244
Depletion and depreciation expense	5	1,377	930
Impairment expense	4	15	136
Other	13	(105)	309
Deferred income tax (recovery) expense	10	(447)	235
<b>Funds flow from operations</b>		<b>803</b>	<b>1,443</b>
Net change in non-cash operating working capital		110	(1,093)
<b>Cash from operating activities</b>		<b>913</b>	<b>350</b>
<b>Investing activities</b>			
Exploration and evaluation expenditures	4	(8,750)	(1,874)
Property, plant and equipment expenditures	5	(269)	(680)
Abandonment fund expenditures		(66)	(29)
Proceeds from asset dispositions		-	35
Net change in non-cash investing working capital		4,424	(5,620)
<b>Cash used in investing activities</b>		<b>(4,661)</b>	<b>(8,168)</b>
<b>Financing activities</b>			
Changes in restricted cash	8	59	5
Repayment of term loan	8	(1,500)	-
Net finance lease (payments) receipts	7	(295)	79
Issuance of common shares, net of fees		-	75
Net change in non-cash financing working capital		(130)	(107)
<b>Cash (used in) from financing activities</b>		<b>(1,866)</b>	<b>52</b>
Decrease in cash		(5,614)	(7,766)
Cash, beginning of year		16,335	17,936
Impact of foreign exchange on foreign denominated cash balances		138	(22)
<b>Cash, end of year</b>		<b>10,859</b>	<b>10,148</b>
Supplementary information for cash flow from operating activities			
Interest paid in cash	8	530	540
Income taxes paid in cash	10	1,013	36

See accompanying notes to these unaudited interim condensed consolidated financial statements.

## **1. Nature of Business**

Touchstone Exploration Inc. and its subsidiaries (collectively, "Touchstone" or the "Company") are engaged in the business of 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 7<sup>th</sup> 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 and Statement of Compliance**

### **Statement of compliance**

These unaudited interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 (the "2022 audited financial statements").

These financial statements have been prepared on a historical cost basis. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the 2022 audited financial statements. Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars ("\$" or "US\$"). Canadian dollars ("C\$") and Trinidad and Tobago dollars ("TT\$") may also be referenced herein.

These financial statements were approved and authorized for issuance by Touchstone's Board of Directors (the "Board") on May 11, 2023.

### **Use of estimates, judgements and assumptions**

The timely preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results may differ from estimates.

In preparing these financial statements, the judgments made by Management in applying the Company's accounting policies and the key sources of significant estimation uncertainty were the same as those applied to the 2022 audited financial statements.

## **3. Financial Assets and Credit Risk**

As at March 31, 2023, 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.

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

For the three months ended March 31, 2023 and 2022

The following table details the composition of Touchstone's accounts receivable balance for the periods indicated.

(\$000's)	March 31, 2023	December 31, 2022
Petroleum sales	1,594	1,845
Natural gas sales	417	558
Joint interest billings	606	478
VAT	3,492	4,190
Other	442	416
<b>Accounts receivable balance</b>	<b>6,551</b>	<b>7,487</b>

As at March 31, 2023, 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 for the periods indicated.

(\$000's)	March 31, 2023	December 31, 2022
Current (less than 30 days)	3,211	3,398
31-60 days	947	293
61-90 days	-	307
Past due (greater than 90 days)	2,393	3,489
<b>Accounts receivable balance</b>	<b>6,551</b>	<b>7,487</b>

#### 4. Exploration and Evaluation Assets

(\$000's)	Three months ended March 31, 2023	Year ended December 31, 2022
Balance, beginning of period	51,352	50,760
Additions	9,161	10,383
Transfer to property, plant and equipment	-	(7,915)
Dispositions	-	(2,046)
Impairment expense	(26)	(90)
Effect of change in foreign exchange rates	(23)	260
<b>Balance, end of period</b>	<b>60,464</b>	<b>51,352</b>

During the three months ended March 31, 2023, \$202,000 of direct and attributable overhead charges were capitalized to exploration and evaluation ("E&E") assets (2022 - \$201,000).

#### Impairment

During the three months ended March 31, 2023, the Company recognized E&E asset impairment expenses of \$15,000 related to non-core properties (2022 - \$136,000). The impairment expenses reflected licence financial obligations, partially offset by changes in long-term inflation estimates that decreased corresponding decommissioning liabilities.

The March 31, 2023 E&E asset carrying value of \$60,464,000 was included in the Ortoire CGU. No indicators of impairment were identified by the Company as at March 31, 2023.

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

For the three months ended March 31, 2023 and 2022

### 5. Property, Plant and Equipment

(\$000's)	Petroleum and natural gas development assets	Right-of-use assets	Corporate assets	Total
<b>Cost</b>				
Balance, January 1, 2022	142,894	2,950	2,396	148,240
Additions	1,533	7	94	1,634
Change in decommissioning asset	528	-	-	528
Transfer from E&E assets	7,915	-	-	7,915
Foreign exchange translation	829	(20)	(135)	674
<b>Balance, December 31, 2022</b>	<b>153,699</b>	<b>2,937</b>	<b>2,355</b>	<b>158,991</b>
Additions	167	(401)	127	(107)
Change in decommissioning asset	(241)	-	-	(241)
Foreign exchange translation	(90)	(39)	45	(84)
<b>Balance, March 31, 2023</b>	<b>153,535</b>	<b>2,497</b>	<b>2,527</b>	<b>158,559</b>
<b>Accumulated depletion, depreciation and impairment</b>				
Balance, January 1, 2022	84,668	409	1,888	86,965
Depletion and depreciation	4,106	81	146	4,333
Foreign exchange translation	661	(10)	(120)	531
<b>Balance, December 31, 2022</b>	<b>89,435</b>	<b>480</b>	<b>1,914</b>	<b>91,829</b>
Depletion and depreciation	1,324	19	34	1,377
Foreign exchange translation	(62)	(3)	9	(56)
<b>Balance, March 31, 2023</b>	<b>90,697</b>	<b>496</b>	<b>1,957</b>	<b>93,150</b>
<b>Carrying amounts</b>				
Balance, December 31, 2022	64,264	2,457	441	67,162
<b>Balance, March 31, 2023</b>	<b>62,838</b>	<b>2,001</b>	<b>570</b>	<b>65,409</b>

During the three months ended March 31, 2023, \$112,000 of direct and attributable overhead charges were capitalized to property, plant and equipment ("PP&E") (2022 - \$98,000).

#### Impairment

On March 31, 2023, the Company evaluated its petroleum and natural gas development assets included in PP&E for indicators of any potential impairment or reversal. As a result of this assessment, no indicators were identified.

### 6. 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 8 "Term Loan", Note 15 "Capital Management" and Note 16 "Commitments" for further details regarding the Company's debt structure and capital management objectives and policies.



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

For the three months ended March 31, 2023 and 2022

The following table sets forth estimated undiscounted cash outflows and financial maturities of Touchstone's financial liabilities as at March 31, 2023.

(\$000's)	Undiscounted cash outflows <sup>(1)</sup>	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities <sup>(2)</sup>	15,616	15,616	-	-
Income tax payable (note 10)	213	213	-	-
Lease liabilities (note 7)	2,184	690	1,259	235
Term loan principal (note 8)	25,500	6,000	12,000	7,500
Term loan interest (note 8)	4,421	1,806	2,198	417
<b>Total financial liabilities</b>	<b>47,934</b>	<b>24,325</b>	<b>15,457</b>	<b>8,152</b>

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.

### 7. Lease Liabilities

Touchstone is a party to lease arrangements for a drilling rig, office space and office equipment. The following table provides a continuity of the Company's lease liabilities for the periods indicated.

(\$000's)	Three months ended March 31, 2023	Year ended December 31, 2022
<b>Balance, beginning of period</b>	<b>2,255</b>	2,648
Additions	-	7
Interest expense	51	242
Repayments	(391)	(624)
Effect of change in foreign exchange rates	(2)	(18)
<b>Balance, end of period</b>	<b>1,913</b>	2,255
Current (included in accounts payable and accrued liabilities)	539	882
Non-current	1,374	1,373
<b>Lease liabilities balance</b>	<b>1,913</b>	2,255

### 8. Term Loan

The Company's Trinidad-based term loan facility balance was \$25.5 million as at March 31, 2023. Seventeen equal and consecutive quarterly principal payments of \$1.5 million remain outstanding. The term loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. The following table details the movements of the Company's term loan balance for the periods indicated.

(\$000's)	Three months ended March 31, 2023	Year ended December 31, 2022
<b>Balance, beginning of period</b>	<b>26,962</b>	29,896
Payments	(1,500)	(3,000)
Accretion	(3)	66
<b>Balance, end of period</b>	<b>25,459</b>	26,962
Current	6,000	6,000
Non-current	19,459	20,962
<b>Term loan balance</b>	<b>25,459</b>	26,962

The term loan agreement contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which are evaluated on an annual basis. As at March 31,

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

For the three months ended March 31, 2023 and 2022

2023, the Company was compliant with all covenants provided for in the credit facility.

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 \$962,000 of cash as long-term restricted cash as at March 31, 2023 (December 31, 2022 - \$1,021,000).

### 9. Decommissioning Liabilities

The Company has estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$10,955,000 as at March 31, 2023 based on an inflation adjusted undiscounted future liability of \$17,334,000 (December 31, 2022 - \$11,182,000 and \$17,920,000, respectively). Decommissioning liabilities were estimated as at March 31, 2023 using a weighted average long-term risk-free rate of 5.2 percent and a long-term inflation rate of 2.1 percent (December 31, 2022 - 5.3 percent and 2.4 percent, respectively). The following table summarizes the movements of Touchstone's estimated decommissioning liability provision for the periods indicated.

(\$000's)	Three months ended March 31, 2023	Year ended December 31, 2022
<b>Balance, beginning of period</b>	<b>11,182</b>	10,012
Liabilities incurred from development activities	4	268
Liabilities settled	-	(130)
Accretion expense	60	222
Revisions to estimates	(283)	732
Effect of change in foreign exchange rates	(8)	78
<b>Balance, end of period</b>	<b>10,955</b>	11,182

### 10. Income Taxes

The following table is a reconciliation of income taxes calculated by applying the applicable aggregate Trinidad statutory petroleum tax rate to net earnings (loss) before income tax expense.

(\$000's unless otherwise stated)	Three months ended March 31, 2023	2022
Net (loss) earnings before income taxes	(511)	627
Trinidad statutory income tax rate	55.0%	55.0%
Expected income tax (recovery) expense at statutory tax rate	(281)	345
Effect on income tax resulting from:		
Change in income tax assets not recognized	(328)	34
Income tax rate differential	55	473
Effect of change in foreign exchange rates and other	322	11
<b>Income tax (recovery) expense</b>	<b>(232)</b>	863

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.

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

For the three months ended March 31, 2023 and 2022

### 11. 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)
<b>Balance, January 1, 2022</b>	<b>210,731,727</b>	<b>101,757</b>
Issued pursuant to private placements, net of fees	19,924,400	12,269
Equity-based settlements	2,381,099	609
<b>Balance, December 31, 2022 and March 31, 2023</b>	<b>233,037,226</b>	<b>114,635</b>

#### Equity compensation plan

Touchstone has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board to directors, officers, employees and consultants of Touchstone. Equity-based 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 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. The following table summarizes changes in outstanding share options and the related weighted average exercise prices for the periods indicated.

	Number of share options	Weighted average exercise price (C\$)
Issued and outstanding, December 31, 2022	11,233,334	0.72
Granted	3,338,000	1.43
Exercised	(2,381,099)	0.21
Forfeited	(261,800)	1.47
<b>Issued and outstanding, December 31, 2022 and March 31, 2023</b>	<b>11,928,435</b>	<b>1.00</b>
<b>Exercisable, December 31, 2022 and March 31, 2023</b>	<b>5,733,106</b>	<b>0.58</b>

During the three months ended March 31, 2023, the Company recorded equity-based compensation expenses of \$361,000 (2022 - \$244,000).

#### Weighted average common shares

The following table sets forth the details of weighted average common shares used in calculating net loss per common share for the periods indicated.

	Three months ended March 31,	
	2023	2022
Weighted average common shares outstanding - basic	233,037,226	210,822,656
Dilutive impact of equity-based compensation	-	-
<b>Weighted average common shares outstanding - diluted</b>	<b>233,037,226</b>	<b>210,822,656</b>

There was no dilutive impact to the weighted average number of common shares for the three months ended March 31, 2023 and 2022, as approximately 3.8 million and 6.3 million share options

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

For the three months ended March 31, 2023 and 2022

were excluded from the diluted weighted average share calculation as they were anti-dilutive, respectively.

### 12. 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 periods indicated.

(\$000's)	Three months ended March 31,	
	2023	2022
Crude oil	7,500	10,496
Natural gas	976	-
<b>Petroleum and natural gas sales</b>	<b>8,476</b>	<b>10,496</b>

At March 31, 2023, accounts receivable from petroleum and natural gas sales were \$2,011,000 (December 31, 2022 - \$2,403,000).

### 13. Net Finance Expenses

(\$000's)	Three months ended March 31,	
	2023	2022
Interest income	(28)	(1)
Finance lease interest income	(12)	(17)
Lease liability interest expense (note 7)	51	63
Term loan interest expense (note 8)	525	589
Accretion on term loan (note 8)	(3)	44
Production liability revaluation (gain) loss	(162)	199
Accretion on decommissioning liabilities (note 9)	60	66
<b>Net finance expenses</b>	<b>431</b>	<b>943</b>
Cash net finance expenses	536	634
Non-cash net finance (income) expenses	(105)	309
<b>Net finance expenses</b>	<b>431</b>	<b>943</b>

### 14. Financial Instruments and Market Risk Management

#### Financial instruments

As of March 31, 2023, the Company's financial instruments included cash, accounts receivable, restricted cash, finance lease receivable (included in other assets on the consolidated 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 included in accounts payable and accrued liabilities. The carrying values of Touchstone's accounts receivable, accounts payable and accrued liabilities and income taxes payable as of March 31, 2023 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 3) and liquidity risk (refer to note 6). The risk exposures are proactively reviewed by Touchstone, and Management seeks to mitigate these risks through various business processes and controls. Management of cash flow variability is an integral component of the Company's

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

For the three months ended March 31, 2023 and 2022

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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 from its Ortoire property. 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 three months ended March 31, 2023 and 2022. The Company will continue to monitor forward commodity prices and may enter into future commodity-based risk management contracts to reduce the volatility of crude oil and liquids sales and protect future development and exploration capital programs.

### *Foreign currency risk*

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. Touchstone's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum 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.

## 15. 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 and development activities will be financed with a combination of cash flows from operations and other sources of capital. Touchstone uses share equity and bank 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

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

For the three months ended March 31, 2023 and 2022

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 consolidated 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. 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.

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. The following table sets forth Touchstone's internal capital management calculations for the reporting periods indicated.

(\$000's)	Target measure	March 31, 2023	December 31, 2022
Current assets		(19,656)	(26,415)
Current liabilities		24,039	21,423
Working capital deficit (surplus)		4,383	(4,992)
Principal non-current balance of term loan		19,500	21,000
Net debt		23,883	16,008
Shareholders' equity		78,521	78,380
Managed capital		102,404	94,388
Trailing twelve-month funds flow from operations <sup>(1)</sup>		2,900	3,540
<b>Net debt to funds flow from operations ratio</b>	At or < 2.0 times	<b>8.24</b>	4.52
<b>Net debt to managed capital ratio</b>	< 0.4 times	<b>0.23</b>	0.17

Note:

(1) Trailing twelve-month funds flow from operations as at March 31, 2023 includes the sum of funds flow from operations for the three months ended March 31, 2023 and funds flow from operations for the April 1 through December 31, 2022 interim period.

## 16. Commitments

Touchstone has contractual obligations in the normal course of business which include minimum work obligations under various operating agreements with Heritage Petroleum Company Limited ("Heritage"), exploration and commitments under its Cory Moruga and Ortoire block exploration and production licences with the Trinidad and Tobago Ministry of Energy and Energy Industries, and various lease commitments for office space and motor vehicles.

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

For the three months ended March 31, 2023 and 2022

The following table sets forth the Company's estimated minimum contractual payments as at March 31, 2023.

(\$000's)	Total	Estimated payments due by year			
		2023	2024	2025	Thereafter
Operating agreements	22,883	4,965	5,247	5,403	7,268
Exploration agreements	15,643	132	6,511	6,656	2,344
Other commitments	1,889	424	348	372	745
<b>Minimum payments</b>	<b>40,415</b>	<b>5,521</b>	<b>12,106</b>	<b>12,431</b>	<b>10,357</b>

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

As of March 31, 2023, Touchstone is obligated to drill two exploration wells on its Ortoire concession prior to the end of the July 31, 2026 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.



## 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.**  
4100, 350 7th Avenue SW  
Calgary, Alberta, Canada  
T2P 3N9

### Registered Office

3700, 400 3rd Avenue SW  
Calgary, Alberta, Canada  
T2P 4H2

### Operating Offices

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

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

### Stock Exchange 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