Touchstone Exploration Inc.

Consolidated Interim Financial Statements (unaudited)

September 30, 2020

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

As at	Note	September 30, 2020	December 31, 2019
Assets			
Current assets			
Cash		$ 7,673	$ 6,182
Restricted cash	18	271	271
Accounts receivable	4	3,863	7,348
Crude oil inventory		57	71
Prepaid expenses		435	246
		12,299	14,118
Exploration assets	5	22,307	13,579
Property and equipment	6	32,567	55,730
Restricted cash	10	589	-
Other assets	7	22	496
Abandonment fund	12	1,195	1,125
Total assets		$ 68,979	$ 85,048
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	$ 11,152	$ 13,928
Income taxes payable	8	278	1,329
		11,430	15,257
Lease liabilities	9	257	105
Term loan	10	14,684	13,966
Other liabilities	11	793	769
Decommissioning liabilities	12	9,692	11,547
Deferred income taxes	13	3,144	13,289
Total liabilities		40,000	54,933
Shareholders' equity			
Shareholders' capital	14	72,730	61,507
Contributed surplus		2,454	2,341
Accumulated other comprehensive loss		(14,385)	(14,598)
Accumulated deficit		(31,820)	(19,135)
Total shareholders' equity		28,979	30,115
Total liabilities and shareholders' equity		$ 68,979	$ 85,048

Commitments (note 18)
Subsequent Event (note 19)

See accompanying notes to these unaudited consolidated interim financial statements.

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

	Note	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Revenues					
Petroleum sales		**$ 4,725**	$ 9,011	**$ 15,178**	$ 29,734
Royalties		**(1,346)**	(2,641)	**(4,260)**	(8,336)
Petroleum revenue		**3,379**	6,370	**10,918**	21,398
Loss on financial derivatives	16	**-**	(78)	**-**	(53)
Other income		**28**	6	**91**	17
Total revenue		**3,407**	6,298	**11,009**	21,362
Expenses					
Operating		**1,680**	2,465	**5,142**	7,572
General and administrative		**1,204**	1,328	**3,367**	4,130
Net finance	15	**257**	417	**2,763**	989
Foreign exchange (gain) loss		**(84)**	3	**54**	132
Share-based compensation	14	**85**	43	**210**	123
Depletion and depreciation	6	**780**	1,180	**2,682**	3,880
Impairment	5,6	**79**	80	**19,266**	221
Total expenses		**4,001**	5,516	**33,484**	17,047
(Loss) earnings before income taxes		**(594)**	782	**(22,475)**	4,315
Provision for income taxes					
Current expense		**55**	1,201	**339**	4,254
Deferred expense (recovery)	13	**54**	634	**(10,129)**	2,132
Total income tax expense (recovery)	13	**109**	1,835	**(9,790)**	6,386
Net loss		**(703)**	(1,053)	**(12,685)**	(2,071)
Currency translation adjustments		**141**	47	**213**	(174)
Comprehensive loss		**$ (562)**	$ (1,006)	**$ (12,472)**	$ (2,245)
Net loss per common share					
Basic and diluted	14	**$ (0.00)**	$ (0.01)	**$ (0.07)**	$ (0.01)

See accompanying notes to these unaudited consolidated interim financial statements.

Touchstone Exploration Inc.
Consolidated Interim 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	-	-	(174)	(2,071)	(2,245)
Private placement (note 14)	4,496	-	-	-	4,496
Share-based compensation expense (note 14)	-	123	-	-	123
Share-based compensation capitalized	-	18	-	-	18
September 30, 2019	**$ 61,483**	**$ 2,313**	**$ (14,601)**	**$ (15,586)**	**$ 33,609**
January 1, 2020	**$ 61,507**	**$ 2,341**	**$ (14,598)**	**$ (19,135)**	**$ 30,115**
Comprehensive loss	-	-	213	(12,685)	(12,472)
Private placement (note 14)	10,850	-	-	-	10,850
Share-based settlements (note 14)	373	(124)	-	-	249
Share-based compensation expense (note 14)	-	210	-	-	210
Share-based compensation capitalized	-	27	-	-	27
September 30, 2020	**$ 72,730**	**$ 2,454**	**$ (14,385)**	**$ (31,820)**	**$ 28,979**

See accompanying notes to these unaudited consolidated interim financial statements.

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

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2020**	2019	**2020**	2019
Cash provided by (used in) the following activities:					
Operating activities					
Net loss		**$ (703)**	$ (1,053)	**$ (12,685)**	$ (2,071)
Items not involving cash from operations:					
Non-cash loss on financial derivatives	16	**-**	78	**-**	53
Unrealized foreign exchange (gain) loss		**(67)**	11	**(57)**	139
Share-based compensation	14	**85**	43	**210**	123
Depletion and depreciation	6	**780**	1,180	**2,682**	3,880
Impairment	5,6	**79**	80	**19,266**	221
Other	15	**(36)**	109	**1,712**	345
Deferred income tax expense (recovery)	13	**54**	634	**(10,129)**	2,132
Funds flow from operations		**192**	1,082	**999**	4,822
Change in non-cash working capital		**3,934**	(2,287)	**1,130**	(1,287)
Costs related to financial derivatives	16	**-**	-	**-**	(171)
Cash flows from (used in) operating activities		**4,126**	(1,205)	**2,129**	3,364
Investing activities					
Exploration asset expenditures	5	**(5,758)**	(3,234)	**(8,830)**	(4,275)
Property and equipment expenditures	6	**(211)**	(517)	**(523)**	(1,231)
Abandonment fund expenditures	12	**(15)**	(36)	**(76)**	(117)
Proceeds from asset disposition		**9**	-	**54**	-
Change in non-cash working capital		**2,585**	1,309	**(1,416)**	(1,673)
Cash flows used in investing activities		**(3,390)**	(2,478)	**(10,791)**	(7,296)
Financing activities					
Changes in restricted cash	10	**-**	-	**(589)**	-
Net payment of term loan	10	**-**	-	**(133)**	(112)
Payment of production liability	11	**(63)**	(89)	**(204)**	(296)
Net finance lease payments		**(29)**	(35)	**(74)**	(147)
Issuance of common shares	14	**49**	-	**11,099**	4,496
Change in non-cash working capital		**13**	(9)	**(47)**	(6)
Cash flows (used in) from financing activities		**(30)**	(133)	**10,052**	3,935
Increase (decrease) in cash		**706**	(3,816)	**1,390**	3
Cash, beginning of period		**6,891**	7,250	**6,182**	3,554
Impact of foreign exchange on foreign denominated cash balances		**76**	(11)	**101**	(134)
Cash, end of period		**$ 7,673**	$ 3,423	**$ 7,673**	$ 3,423
The following are included in cash flow from operating activities:					
Interest paid in cash		**294**	228	**1,113**	676
Income taxes paid in cash		**20**	4,203	**1,389**	6,214

See accompanying notes to these unaudited consolidated interim 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 consolidated interim 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, 2019 (the "annual financial statements"). Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars ("$" or "US$"). Certain reclassification adjustments have been made to these financial statements to conform to the current presentation.

The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Summary of Significant Accounting Policies" 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 November 12, 2020.

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

The outbreak of COVID-19 and subsequent measures intended to limit the pandemic have contributed to significant declines and abnormal volatility of global financial markets. The pandemic has adversely affected global commercial activity and has significantly reduced worldwide demand for crude oil, resulting in global oversupply and an unprecedented level of volatility and price weakness.

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. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The 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 continuing volatile market conditions have increased the complexity of estimates, judgements and assumptions used to prepare these financial statements, particularly related to the recoverability of 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 September 30, 2020, the Company was exposed to credit risk with respect to its accounts receivable.

The Company's credit exposure on accounts receivable typically pertains to accrued sales revenue for monthly production volumes sold to Heritage Petroleum Limited ("Heritage") and value added taxes ("VAT") due from the Trinidad government. As at September 30, 2020, $1,459,000 of petroleum sales was included in accounts receivable, representing approximately 38 percent of the Company's consolidated accounts receivable balance (December 31, 2019 - $2,074,000 and 28 percent, respectively). $1,868,000 of the Company's consolidated accounts receivable was comprised of VAT as at September 30, 2020, which represented approximately 48 percent of the total balance (December 31, 2019 - $4,283,000 and 58 percent, respectively).

As at September 30, 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 VAT, 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 September 30, 2020 and December 31, 2019 is disclosed in the following table.

Accounts receivable aging	**September 30, 2020**	December 31, 2019
Not past due	**$ 2,675**	$ 3,581
Past due (greater than 90 days)	**1,188**	3,767
Balance	**$ 3,863**	$ 7,348

5. Exploration Assets

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of year	**$ 13,579**	$ 3,644
Additions	**8,900**	10,191
Impairment	**(82)**	(309)
Effect of change in foreign exchange rates	**(90)**	53
Balance, end of period	**$ 22,307**	$ 13,579

During the three and nine months ended September 30, 2020, the Company incurred $81,000 and $82,000 in lease expenses relating to its East Brighton property, respectively (2019 - $80,000 and

$221,000), which were impaired given the cash-generating unit ("CGU") had an estimated recoverable value of $nil. Further, non-cash impairment reversals of $2,000 and $31,000 were recorded during the three and nine months ended September 30, 2020, respectively, reflecting decommissioning liability change in estimates relating to the Company's East Brighton and Cory Moruga CGUs.

The September 30, 2020 exploration asset carrying value of $22,307,000 was included in the Ortoire CGU. No indicators of impairment were identified by the Company as at September 30, 2020.

6. Property and Equipment

		Petroleum assets		Corporate assets		Total
Cost						
Balance, January 1, 2019	**$**	**134,308**	**$**	**1,817**	**$**	**136,125**
Additions		2,324		-		2,324
Right-of-use asset additions		1,114		80		1,194
Derecognition of right-of-use assets		(830)		-		(830)
Decommissioning liability change in estimate		2,422		-		2,422
Effect of change in foreign exchange rates		1,031		90		1,121
Balance, December 31, 2019	**$**	**140,369**	**$**	**1,987**	**$**	**142,356**
Additions		835		-		835
Right-of-use asset additions		-		178		178
Decommissioning liability change in estimate		(1,642)		-		(1,642)
Effect of change in foreign exchange rates		(722)		(49)		(771)
Balance, September 30, 2020	**$**	**138,840**	**$**	**2,116**	**$**	**140,956**
Accumulated depletion, depreciation and impairments						
Balance, January 1, 2019	**$**	**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**	**$**	**86,626**
Depletion and depreciation		2,606		76		2,682
Impairment		19,215		-		19,215
Decommissioning liability change in estimate		413		-		413
Effect of change in foreign exchange rates		(502)		(45)		(547)
Balance, September 30, 2020	**$**	**106,601**	**$**	**1,788**	**$**	**108,389**
Carrying amounts						
Balance, December 31, 2019	$	55,500	$	230	$	55,730
Balance, September 30, 2020	**$**	**32,239**	**$**	**328**	**$**	**32,567**

At September 30, 2020, 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.

As a result of the COVID-19 pandemic, global crude oil oversupply and the resulting drastic decrease in forecast crude oil prices compared to those at December 31, 2019, indicators of impairment were identified for all CGUs at March 31, 2020. The Company performed impairment tests on all CGUs, whereby the recoverable amount of each CGU was compared to its associated carrying value. The recoverable amounts were estimated 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. Based on the results of the impairment tests completed, the Company recognized gross non-cash impairment charges of $19,215,000.

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. 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.

7. Other Assets

Other asset composition	**September 30, 2020**	December 31, 2019
Prepaid deposits	**$ 22**	$ 23
Non-current accounts receivable related to property disposition	**-**	234
Non-current finance lease receivable	**-**	239
Balance	**$ 22**	$ 496

The Company entered into a five-year, $1,836,000 contractual agreement to lease its coil tubing unit, four service rigs and ancillary equipment to a third-party contractor on October 1, 2017. Effective September 30, 2019, the parties amended the lease arrangement to exclude a service rig, reducing the principal balance by $900,000. Effective September 1, 2020, the amended lease arrangement was terminated, with the remaining equipment reverting to the Company. The parties subsequently entered into an equipment lease arrangement, whereby the contractor will provide oilfield services by renting the Company's equipment for a monthly fee based on services rendered.

The following table details the movements of the Company’s finance lease receivable for the periods indicated.

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of year	**$ 376**	$ 1,447
Interest income	**18**	91
Payments	**(109)**	(262)
Lease modification	**-**	(900)
Lease termination	**(285)**	-
Balance, end of period	**$ -**	$ 376
Current (included in accounts receivable)	**-**	137
Non-current	**-**	239
Finance lease receivable	**$ -**	$ 376

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 withdraw from its existing debt facility or to issue additional equity. The Company's near-term development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities. Given that the Company has minimal developmental work obligations and guarantees at September 30, 2020, the Company will continue to manage its exploration capital expenditures to reflect current financial resources in the interest of sustaining long-term viability.

Refer to Note 10 "Term Loan", Note 17 "Capital Management" and Note 18 "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 September 30, 2020.

		Financial maturity by period		
	Undiscounted cash outflows	**Less than 1 year**	**1 to 3 years**	**Thereafter**
Accounts payable and accrued liabilities	**$ 11,152**	$ 11,152	$ -	$ -
Income taxes payable	**278**	278	-	-
Term loan principal (note 10)	**15,000**	-	3,750	11,250
Term loan interest (note 10)	**5,103**	1,178	2,196	1,729
Estimated production liabilities (note 11)	**1,684**	182	1,161	341
Lease liabilities (note 9)	**392**	93	91	208
Total financial liabilities	**$ 33,609**	**$ 12,883**	**$ 7,198**	**$ 13,528**

9. Lease Liabilities

The Company has lease liabilities for head office space, motor vehicles and office equipment. Leases are negotiated on an individual basis and contain varying terms and conditions. Discount rates used in calculating the present values of lease payments at September 30, 2020 and December 31, 2019 were between 5 and 10 percent. The following table details the movements of the Company's lease liabilities for the periods indicated.

	Nine months ended September 30, 2020	**Year ended December 31, 2019**
Balance, beginning of year	**$ 335**	$ 1,352
Interest expense	**15**	69
Payments	**(183)**	(432)
Lease modification	**178**	-
Derecognition of liabilities	**(5)**	(670)
Effect of change in foreign exchange rates	**(4)**	16
Balance, end of period	**$ 336**	$ 335
Current (included in accounts payable and accrued liabilities)	**79**	230
Non-current	**257**	105
Lease liabilities	**$ 336**	$ 335

Effective July 1, 2020, an arrangement relating to head office space was amended and extended by a further five-year period. The lease amendment was considered a lease modification, with the remeasured lease liability and associated right-of-use asset balances each increasing by $178,000.

10. Term Loan

The Company's indirect wholly owned Trinidadian subsidiary (the "Borrower") entered into a $20 million, seven-year term credit facility arrangement (the "New Term Loan") from a Trinidad based financial institution effective June 15, 2020 (the "Effective Date"). On the Effective Date, the Borrower withdrew $15 million to satisfy the Company's obligations relating to prepaying the C$20 million Canadian based term loan (the "Retired Term Loan"). During the nine months ended September 30, 2020, the Company incurred $180,000 in finance expenses and recorded a $1,158,000 revaluation loss in connection with prepaying the Retired Term Loan.

Pursuant to the New Term Loan, the Borrower has the option to withdraw the remaining $5 million available balance prior to one year from the Effective Date. The New Term Loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The New Term Loan bears a fixed interest rate of 7.85% per annum, compounded and payable quarterly. Principal payments commence two years from the Effective Date with twenty equal and consecutive quarterly principal repayments thereafter. Prepayments are permitted after one year with a 1.0% penalty and a 30-day notice period, and no penalty shall apply on principal repayments after three years. The New Term Loan is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of the Borrower and its wholly owned Trinidad exploration and production subsidiary. The New Term Loan contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be tested on an annual basis commencing with the year ended December 31, 2022.

At all times the Borrower must maintain a cash reserves balance of not less than the equivalent of two quarterly interest payments. Accordingly, the Company classified $589,000 as non-current restricted cash on the consolidated statement of financial position as at September 30, 2020 (December 31, 2019 - $nil).

The New Term Loan is measured at amortised cost, with the aggregate associated financing fees of $383,000 unwound using the effective interest rate method to the face value at maturity. The following table details the movements of the Company's term loan balances for the periods indicated.

	Retired Term Loan liability	New Term Loan liability	Term Loan
Balance, January 1, 2019	**$ 10,130**	**$ -**	**$ 10,130**
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation gain	(656)	-	(656)
Accretion	384	-	384
Effect of change in foreign exchange rates	518	-	518
Balance, December 31, 2019	**$ 13,966**	**-**	**$ 13,966**
(Payments) advances, net of fees	(14,750)	14,617	(133)
Revaluation loss on prepayment	1,158	-	1,158
Accretion	173	67	240
Effect of change in foreign exchange rates	(547)	-	(547)
Balance, September 30, 2020	**$ -**	**$ 14,684**	**$ 14,684**

11. Other Liabilities

In connection with the Retired Term Loan, the Company previously granted its former lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2023. Upon repayment of the Retired Term Loan, the Company and the lender agreed not to buyout the production payment liability and as such entered into an amended production payment agreement to continue the obligation under its previous terms and conditions. The production payment liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts. The following table details the movements of the Company's production liability for the periods indicated.

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of year	**$ 989**	$ 733
Revaluation loss	**158**	622
Payments	**(204)**	(404)
Effect of change in foreign exchange rates	**(15)**	38
Balance, end of period	**$ 928**	$ 989
Current (included in accounts payable and accrued liabilities)	**$ 135**	$ 220
Non-current	**793**	769
Other liabilities	**$ 928**	$ 989

12. Decommissioning Liabilities and Abandonment Fund

Pursuant to production and exploration contracts with Heritage and the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI"), the Company is obligated to remit payments into abandonment funds based on production. The 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 September 30, 2020, the Company classified $1,195,000 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 $9,692,000 as at September 30, 2020 based on an estimated inflation adjusted future liability of $21,486,000 (December 31, 2019 - $11,547,000 and $27,153,000, respectively). The following table summarizes the Company's estimated decommissioning liabilities at the end of the respective periods.

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of year	**$ 11,547**	$ 8,915
Liabilities incurred	**90**	91
Accretion expense	**210**	372
Revisions to estimates	**(2,107)**	2,108
Effect of change in foreign exchange rates	**(48)**	61
Balance, end of period	**$ 9,692**	$ 11,547

Based on currently available data, the long-term outlook for Trinidad inflation decreased from December 31, 2019, as the June 2020 inflation rate was 0.6%. At September 30, 2020, decommissioning liabilities were estimated using a long-term risk-free rate of 5.8 percent and a long-term inflation rate of 2.0 percent (December 31, 2019 - 5.5 percent and 3.3 percent, respectively), which combined to reduce the estimated decommissioning provision by an aggregate $2,107,000 during the nine months ended September 30, 2020.

13. Income Taxes

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

	Nine months ended September 30, 2020	Year ended December 31, 2019
Net loss before income taxes	**$ (22,475)**	$ (2,065)
Trinidad statutory rate	**55.00%**	55.00%
Expected income tax recovery at statutory rate	**$ (12,361)**	$ (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	**991**	(1,176)
Tax rate differential	**1,484**	3,889
Other	**93**	275
Total income tax (recovery) expense	**$ (9,790)**	$ 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 nine months ended September 30, 2020.

	December 31, 2019	Recognized in equity	Recognized in earnings (loss)	September 30, 2020
Property and equipment	$ (21,766)	$ 53	$ 10,496	**$ (11,217)**
Decommissioning liabilities	638	(3)	(150)	**485**
Term loan	-	-	(147)	**(147)**
Loss carry forwards	5,706	(27)	(509)	**5,170**
Other	2,133	(7)	439	**2,565**
Net deferred income tax liability	$ (13,289)	$ 16	$ 10,129	**$ (3,144)**

The Company's September 30, 2020 net deferred tax liability includes an aggregate $8,220,000 of deferred tax assets, which are reviewed at each reporting date to assess whether it is probable that the related tax benefit will be realized in the future (December 31, 2019 - $8,477,000). As at September 30, 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.

14. Shareholders' Capital

Issued and outstanding common shares

Common shares outstanding 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	1,204,666	373
Balance, September 30, 2020	**184,407,761**	**$ 72,730**

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

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.

The Company completed a private placement on November 12, 2020 (see Note 19 "Subsequent Event").

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$**	**0.44**
Granted	2,550,000		0.23
Expired	(2,344,040)		0.87
Outstanding, December 31, 2019	**8,740,600**	**C$**	**0.26**
Granted	2,611,000		0.48
Exercised	(1,204,666)		0.28
Expired	(147,500)		2.10
Cancelled	(28,000)		0.42
Outstanding, September 30, 2020	**9,971,434**	**C$**	**0.29**
Exercisable, September 30, 2020	**5,094,669**	**C$**	**0.22**

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 September 30, 2020. There were no incentive share options outstanding as at September 30, 2020, and no incentive options have been awarded since 2014.

During the three and nine months ended September 30, 2020, the Company recorded share-based compensation expenses of $85,000 and $210,000 in relation to share option plans, respectively (2019 - $43,000 and $123,000).

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 each of the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Weighted average common shares, basic	**184,277,327**	160,688,095	**179,111,625**	154,192,368
Dilutive impact of share-based compensation	**-**	-	**-**	-
Weighted average common shares, diluted	**184,277,327**	160,688,095	**179,111,625**	154,192,368

There was no dilutive impact to the weighted average number of common shares for the three and nine months ended September 30, 2020, as 7.6 million and 6.1 million share options were excluded from the diluted weighted average share calculation as they were anti-dilutive, respectively (2019 – 0.9 million and 1.0 million).

15. Net Finance Expense

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Interest income	**$ (6)**	$ (28)	**$ (31)**	$ (88)
Term loan interest expense	**295**	230	**882**	675
Term loan revaluation loss (gain)	**-**	-	**1,158**	(277)
Production liability revaluation loss (gain)	**(137)**	(39)	**158**	170
Accretion on term loan	**17**	80	**240**	231
Accretion on decom. liabilities	**87**	95	**210**	275
Lease liability interest expense	**5**	12	**15**	62
Finance expense	**-**	-	**180**	-
Other	**(4)**	67	**(49)**	(59)
Net finance expense	**$ 257**	$ 417	**$ 2,763**	$ 989
Cash net finance expense	**$ 293**	$ 308	**$ 1,051**	$ 645
Non-cash net finance expense	**(36)**	109	**1,712**	344
Net finance expense	**$ 257**	$ 417	**$ 2,763**	$ 989

16. 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 conditions 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 and nine months ended September 30, 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.

In April 2019, the Company purchased put option contracts from a financial institution for 800 bbls/d at a strike price of Brent $56.10 per barrel from June 1, 2019 to December 31, 2019. As at September 30, 2019, the Company recognized a financial derivative asset of $118,000 related to the put options. For the three and nine months ended September 30, 2019, the Company recorded derivative losses of $78,000 and $53,000, respectively related to 2019 commodity management contracts.

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$. In addition, the Company has US$ denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT$ is informally pegged to the US$. The Company has further foreign exchange exposure on cash balances denominated in Canadian dollars and pounds sterling, head office costs and production payment liabilities denominated and payable in Canadian dollars, as well as costs payable in pounds sterling required to maintain its AIM listing. Any material movements in the C$ to US$ and the pound sterling to US$ exchange rates may 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 and nine months ended September 30, 2020 and year ended December 31, 2019.

17. 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. Exploration activities and profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. The Company uses share equity and term debt as primary sources of 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 nine months ended September 30, 2020 and year ended December 31, 2019 are set forth in the table below.

	Target measure		September 30, 2020		December 31, 2019
Current assets		$	(12,299)	$	(14,118)
Current liabilities			11,430		15,257
Working capital (surplus) deficit		$	(869)	$	1,139
Principal non-current balance of term loan			15,000		15,364
Net debt		$	14,131	$	16,503
Shareholders' equity			28,979		30,115
Net debt plus equity		$	43,110	$	46,618
Trailing twelve-month funds flow from operations(1)		$	3,017	$	6,840
Net debt to funds flow from operations	**at or < 2.0 times**		**4.68**		2.41
Net debt to net debt plus equity	**< 0.4 times**		**0.33**		0.35

Note:
(1) Trailing twelve-month funds flow from operations as at September 30, 2020 equals the sum of funds flow from operations for the nine months ended September 30, 2020 and funds flow from operations for the October 1, 2019 through December 31, 2019 interim period.

The Company completed a private placement on November 12, 2020 with the net proceeds expected to be used to fund its remaining Ortoire exploration asset drilling commitments (see Note 19 "Subsequent Event").

18. 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 sets forth the Company's estimated minimum contractual capital requirements as at September 30, 2020.

			Estimated payments due by year							
		Total		2020		2021		2022		Thereafter
Operating agreements	$	2,774	$	58	$	953	$	260	$	1,503
Exploration agreements		7,486		2,140		5,346		-		-
Other commitments		897		64		144		129		560
Total minimum commitments	**$**	**11,157**	**$**	**2,262**	**$**	**6,443**	**$**	**389**	**$**	**2,063**

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 September 30, 2020, 10 wells were drilled, and 15 well recompletions were completed with respect to these obligations. As at September 30, 2020, the Company provided $271,000 in cash collateralized guarantees to

Heritage to support its operating agreement work commitments (December 31, 2019 - $271,000).

Subsequent to September 30, 2020, the Company was formally notified by the MEEI that the exploration phase of the Ortoire exploration and production licence was formally approved by the government of Trinidad and Tobago for a nine-month extension to July 31, 2021. In addition, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres. In exchange for the extension and seismic program reduction, the Company agreed to drill an additional well to a true vertical depth of 10,000 feet prior to June 2021. The formal amending document has yet to be executed by all participating parties. To date, the Company has drilled three of five commitment wells, and the required seismic program remains outstanding.

19. Subsequent Event

On November 12, 2020, the Company completed a private placement directed toward United Kingdom and Canadian investors, whereby gross proceeds of approximately $30.3 million were raised by way of issuing 24,291,866 new common shares at a price of 95 pence sterling (C$1.64) per common share.