Touchstone Exploration Inc.

Consolidated Financial Statements

December 31, 2016

Management's Report

The consolidated financial statements and accompanying notes to the consolidated financial statements are the responsibility of Management. Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. In the opinion of Management, the consolidated financial statements have been prepared within acceptable limits of materiality and, when necessary, Management has made informed judgments and estimates in accounting for transactions that were not complete at the statement of financial position date. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the consolidated financial statements.

Management has established systems of internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through its Audit Committee. The Audit Committee meets regularly with Management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Audit Committee has reported its findings to the Board of Directors, who have in turn approved the consolidated financial statements for issuance to the shareholders.

/s/ Paul Baay
President and Chief Executive Officer

/s/ Scott Budau
Chief Financial Officer

Calgary, Alberta
March 21, 2017

Independent Auditors' Report

To the Shareholders of Touchstone Exploration Inc.:

We have audited the accompanying consolidated financial statements of Touchstone Exploration Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Touchstone Exploration Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Calgary, Canada
March 21, 2017

Consolidated Statements of Financial Position
(thousands of Canadian dollars)

	Note	**December 31, 2016**	December 31, 2015
Assets	10		
Current assets			
Cash		**$ 8,433**	$ 4,710
Accounts receivable	16	**8,809**	9,846
Crude oil inventory		**125**	261
Prepaid expenses		**368**	3,680
Financial derivatives	16	**-**	7,650
Assets held for sale	6	**-**	1,413
		17,735	27,560
Exploration assets	6	**1,858**	1,654
Property and equipment	7	**60,358**	70,639
Restricted cash and cash equivalents	18	**8,461**	-
Other assets	9	**873**	766
		$ 89,285	$ 100,619
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 13,384**	$ 12,219
Income taxes payable	14	**3,505**	4,637
Bank loan	10	**-**	8,304
Liabilities associated with assets held for sale	6	**-**	1,413
		16,889	26,573
Provisions		**466**	830
Term loan and associated liabilities	10	**14,496**	-
Decommissioning obligations	11	**16,455**	15,168
Deferred income taxes	14	**4,745**	5,391
		53,051	47,962
Shareholders' equity			
Shareholders' capital	12	**169,995**	169,950
Warrants		**-**	33
Contributed surplus		**2,144**	1,939
Accumulated other comprehensive income		**9,231**	13,018
Deficit		**(145,136)**	(132,283)
		36,234	52,657
		$ 89,285	$ 100,619

Commitments and contingencies (note 18)
Subsequent event (note 22)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors of Touchstone Exploration Inc.:

/s/ John D. Wright
Director and Chairman of the Board of Directors

/s/ Corey Ruttan
Director and Chair of the Audit Committee

Consolidated Statements of Loss and Comprehensive Loss
(thousands of Canadian dollars, except per share amounts)

	Note	Year ended December 31, 2016	2015
Revenues			
Petroleum revenue		**$ 24,036**	$ 36,340
Royalties		**(6,818)**	(11,110)
		17,218	25,230
(Loss) gain on financial derivatives	16	**(1,970)**	8,835
		15,248	34,065
Expenses			
Operating	20	**10,042**	16,614
General and administrative	20	**6,398**	10,516
Net finance expenses	13	**230**	3,493
Gain on asset dispositions	6,7	**-**	(3,458)
Loss on marketable securities		**-**	51
Foreign exchange loss (gain)	16	**163**	(1,814)
Share-based compensation	12	**157**	363
Depletion and depreciation	7	**5,012**	8,380
Impairment	8	**5,337**	38,142
Accretion on decommissioning obligations	11	**378**	624
Accretion on term loan	10	**164**	-
		27,881	72,911
Net loss before income taxes		**(12,633)**	(38,846)
Income taxes			
Current tax expense	14	**466**	444
Deferred tax recovery	14	**(246)**	(17,143)
		220	(16,699)
Net loss		**(12,853)**	(22,147)
Foreign currency translation adjustment		**(3,787)**	8,563
Comprehensive loss		**$ (16,640)**	$ (13,584)
Net loss per common share			
Basic and diluted	15	**$ (0.15)**	$ (0.27)

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
(thousands of Canadian dollars)

	Note	Shareholders' capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Shareholders' Equity
Balance as at January 1, 2015		**$ 169,893**	**$ 33**	**$ 1,513**	**$ 4,455**	**$ (110,136)**	**$ 65,758**
Net loss		-	-	-	-	(22,147)	(22,147)
Other comprehensive income		-	-	-	8,563	-	8,563
Share-based compensation expense	12	-	-	363	-	-	363
Share-based compensation capitalized	12	-	-	118	-	-	118
Share-based settlements	12	57	-	(55)	-	-	2
Balance as at December 31, 2015		**$ 169,950**	**$ 33**	**$ 1,939**	**$ 13,018**	**$ (132,283)**	**$ 52,657**
Net loss		-	-	-	-	(12,853)	(12,853)
Other comprehensive loss		-	-	-	(3,787)	-	(3,787)
Share-based compensation expense	12	-	-	157	-	-	157
Share-based compensation capitalized	12	-	-	57	-	-	57
Share-based settlements	12	45	-	(42)	-	-	3
Transfer of unexercised warrants		-	(33)	33	-	-	-
Balance as at December 31, 2016		**$ 169,995**	**$ -**	**$ 2,144**	**$ 9,231**	**$ (145,136)**	**$ 36,234**

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31, 2016	2015
Cash provided by (used in):			
Operating activities			
Net loss for the year		**$ (12,853)**	$ (22,147)
Items not involving cash from operations:			
Non-cash loss (gain) on financial derivatives	16	**8,432**	(2,654)
Gain on asset dispositions	6,7	**-**	(3,458)
Non-cash loss on marketable securities		**-**	41
Unrealized foreign exchange loss (gain)	16	**199**	(1,707)
Share-based compensation	12	**157**	363
Depletion and depreciation	7	**5,012**	8,380
Impairment	8	**5,337**	38,142
Accretion on decommissioning obligations	11	**378**	624
Accretion on term loan	10	**164**	-
Other	20	**(463)**	2,467
Deferred income tax recovery	14	**(246)**	(17,143)
Funds flow from operations		**6,117**	2,908
Change in non-cash working capital	20	**2,682**	(6,153)
		8,799	(3,245)
Investing activities			
Restricted cash and cash equivalents	18	**(8,461)**	-
Disposition of marketable securities		**-**	249
Exploration asset expenditures	6	**(2,029)**	(1,245)
Property and equipment expenditures	7	**(1,852)**	(3,572)
Proceeds from dispositions	7	**650**	8,531
Change in non-cash working capital	20	**102**	(4,424)
		(11,590)	(461)
Financing activities			
Net (repayments) advances of bank loan	10	**(7,864)**	1,153
Advance of term loan, net of fees	10	**14,379**	-
Payments of term loan royalty	10	**(47)**	-
Net finance lease receipts (payments)	9	**42**	(125)
Issuance of common shares	12	**3**	2
		6,513	1,030
Change in cash		**3,722**	(2,676)
Cash, beginning of year		**4,710**	7,441
Impact of foreign exchange in foreign denominated cash balances		**1**	(55)
Cash, end of year		**$ 8,433**	$ 4,710
Supplemental information:			
Cash interest paid		**152**	366
Cash income taxes paid		**107**	3,454

See accompanying notes to these consolidated financial statements.

1. Reporting Entity

Touchstone Exploration Inc. (the "Company"), formerly Petrobank Energy and Resources Ltd., is incorporated under the laws of Alberta, Canada with its head office located in Calgary, Alberta. The Company is an oil and gas exploration and production company active in the Republic of Trinidad and Tobago ("Trinidad").

The principal address of the Company is located at 4100, 350 7th Avenue SW, Calgary, Alberta, T2P 3N9. The Company's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol "TXP".

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, amounts presented in these notes are rounded to thousands of Canadian dollars and tabular amounts are stated in thousands of Canadian dollars. Certain reclassification adjustments have been made to the consolidated financial statements to conform to the current presentation.

The consolidated financial statements have been prepared on the historical cost basis except where noted in the accounting policies disclosed in Note 3.

The preparation of the consolidated financial statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the financial statements are detailed in Note 5.

The consolidated financial statements were authorized for issue by the Board of Directors on March 21, 2017.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2016. The Company's principal subsidiaries are:

Entity	Country of incorporation	Ownership %
Archon Technologies Ltd.[1]	Canada	100%
Touchstone Energy Inc.	Canada	100%
Touchstone Exploration (Barbados) Ltd.	Barbados	100%
Touchstone Exploration (Trinidad) Ltd.	Trinidad	100%
Primera Oil and Gas Limited	Trinidad	100%
Territorial Oilfield Management Services Limited	Trinidad	100%

[1]On January 1, 2017, Archon Technologies Ltd. and Touchstone Exploration Inc. amalgamated pursuant to the *Business Corporations Act* (Alberta).

Intercompany balances and transactions are eliminated in preparing consolidated financial statements. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. A nominal amount of the Company's operating cash flows is derived through joint operations which are

involved in the development and production of crude oil in Trinidad. The consolidated financial statements reflect only the Company's proportionate interest in such activities.

(b) Functional and foreign currency

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company. The functional currency of the Company's Barbados subsidiary is the United States dollar ("US$") and the functional currency of the Company's Trinidad subsidiaries is the Trinidad and Tobago dollar ("TT$").

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

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

(i) assets and liabilities for each statement of financial position presented are translated at the reporting date closing rate;
(ii) revenue and expenses for each period are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognized in accumulated other comprehensive income, a separate component of equity.

(c) Financial instruments

Financial assets and financial liabilities are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- *Fair value through profit or loss:* Financial assets and liabilities classified as held-for-trading or designated as at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to earnings. The Company classifies its cash, restricted cash and cash equivalents and financial derivatives as held-for-trading.
- *Held-to-maturity investments, loans and receivables and other financial liabilities:* Held-to-maturity investments, loans and receivables, and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Company classifies accounts receivable as loans and receivables, and classifies accounts payable and accrued liabilities and term loan and associated liabilities as other financial liabilities.

- *Available-for-sale financial assets:* Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above. Available-for-sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value

recognized in other comprehensive income, net of tax. Transaction costs related to the purchase of available-for-sale assets are recognized in earnings. Amounts recognized in other comprehensive income for available-for-sale financial assets are charged to earnings when the asset is derecognized or when there is an impairment.

Derivatives may be used by the Company to manage exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. The Company does not designate its financial derivatives contracts as hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded and carried on the consolidated statement of financial position at fair value with actual amounts received or paid on the settlement of the financial derivative instrument recorded in earnings. Forward crude oil derivative contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price, using quoted market prices.

(d) Fair value measurement

The Company measures its cash, restricted cash and cash equivalents and financial derivatives at fair value at each reporting date. Prior to December 31, 2015, the Company also measured its investment in marketable securities at fair value at each reporting date. Fair value less costs of disposal is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment. In addition, the fair value of term loan and associated liabilities is disclosed in Note 10.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. To estimate the fair value of its financial instruments, the Company uses quoted market prices when available, or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk. All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value:

(i) Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Level 2 – inputs other than quoted prices used in Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs which can be observed or corroborated in the market place.

(iii) Level 3 – inputs that are less observable, unavailable or where observable data does not support the majority of the instrument’s fair value.

At each reporting date, the Company determines whether transfers have occurred between levels in the fair value hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the consolidated financial statements. Assessments of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy.

(e) Impairment of Financial Assets

The Company assesses whether there is objective evidence that indicates if a financial asset or group of financial assets is impaired at each reporting date. Objective evidence exists if one or more loss events occur after initial recognition of the financial asset which have an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. Objective evidence of impairment may include indications that a debtor is experiencing significant

financial difficulty, that a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, and changes in economic conditions that correlate with defaults.

If a receivable or group of receivables carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the receivable and its recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in general and administrative expenses. If the amount of the impairment loss decreases in a subsequent period because of a specific event, the impairment loss is reversed through the allowance account. Receivables and the associated allowance balance are written off when there is no longer a probability of future recovery.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is measured as the difference between the acquisition cost of the financial asset and its fair value and is reclassified from equity to general and administrative expenses.

(f) Crude oil inventory

Crude oil is valued at the lower of cost using the weighted average cost method and net realizable value. Costs of crude oil inventory includes expenditures incurred in bringing the crude oil to its existing location and condition and net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

(g) Exploration assets

Expenditures incurred before the Company has obtained legal rights to explore an area are recognized in the consolidated statement of earnings as exploration expenses.

Exploration assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, drilling and completion costs and directly attributable employee salaries and benefits are capitalized and accumulated pending determination of technical feasibility and commercial viability. Exploration assets are not depleted. When assets are determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment within the cash-generating unit ("CGU") and the recoverable amount is transferred to property and equipment. Management considers technical feasibility and commercial viability to exist when a project is expected to be free cash flow positive for the remaining life of the project, as demonstrated by the assignment of proved reserves, combined with Management's judgement of other factors impacting current project status and forecasted operating and financial results.

Exploration assets are also assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Indications of impairment are assessed by the Company on a quarterly basis.

(h) Property and equipment

All costs directly associated with the acquisition and development of oil and natural gas properties are capitalized and measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include transfers of exploration assets, property acquisitions, facilities, directly attributable overhead and share-based compensation expenses, as well as land acquisition, decommissioning obligations, geological and geophysical, and drilling and completion costs. Routine repairs and maintenance

costs are charged to earnings during the period in which they are incurred.

Oil and natural gas assets are accumulated in cost centres based on CGUs. CGUs are depleted using the unit-of-production method based upon estimated gross proved plus probable reserves, determined annually by independent professional engineers. Estimated future development costs necessary to bring the reserves into production are included in the depletion calculation.

The Company operates under several Trinidad leases with varying expiry dates. Under its leases with the Petroleum Company of Trinidad and Tobago Limited (“Petrotrin”), the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment testing and depletion purposes, the Company assumes that all relevant agreements will be renewed under similar terms based on the Company’s previous experience with the renewal process in Trinidad.

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

Gains or losses on the disposition of an item in property and equipment, including oil properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in net earnings.

Property and equipment is tested for impairment when indications of impairment exist. Indications of impairment are assessed by the Company on a quarterly basis.

(i) Impairment of non-financial assets

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If the recoverable amount is less than the carrying value, the asset is considered to be impaired. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs. The Company assesses exploration asset and property and equipment indicators of impairment on a quarterly basis.

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

Impairment losses are recognized in earnings. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in facts and circumstances used to determine the asset’s recoverable amount since the last impairment was recognized, such that the impairment no longer exists or has decreased. An impairment loss is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment has been recognized.

(j) Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, Management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Immediately before the non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and fair value less costs of disposal, with any impairment loss or reversal of impairment recognized in earnings. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

(k) Dispositions

Gains on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount of the assets held for sale and are recognized separately in earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured. Where the exchange is measured at fair value, a gain or loss is recognized in earnings.

(l) Restricted cash and cash equivalents

Restricted cash and cash equivalents include restricted cash on hand, market deposits or similar type instruments with an original maturity of three months or less when purchased. The Company’s restricted cash and cash equivalents are held to collateralize letters of credit that provide credit support in respect of Trinidad exploration and development license future work commitments. Balances are classified as long-term assets if the funds collateralize license work commitments that are expected to occur after one year.

(m) Business combinations

Transactions for the purchase of assets, where the assets acquired are deemed to constitute a business, are accounted for as business combinations. Using the acquisition method, identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. Directly attributable transaction costs incurred are expensed in the period the transaction closes.

Goodwill is recorded as the excess of the aggregate of the consideration transferred over the fair value of the net assets acquired and liabilities assumed. When the excess is negative, it is recognized immediately in earnings.

(n) Leases

The Company’s leases are classified as either financing or operating. Financing leases are those which will transfer substantially all the benefits and risks of ownership to the lessee. Assets acquired under financing leases are depleted and depreciated with property and equipment. Obligations recorded under financing leases are reduced by the principal as incurred and the imputed interest portion of financing lease payments is charged to interest expense. Payments under operating leases are expensed as incurred.

Where the Company has leased equipment to a third party and classified the arrangement as a finance lease, the Company records the short-term portion of the finance lease in accounts receivable, and the long-term portion in other assets. Finance income related to the lease is recognized using an approach that process a constant rate of return on the net investment of the lease. The net investment of the lease is the aggregate of the net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net earnings over the lease term.

(o) Term loan and associated liabilities

The term loan was initially measured at fair value, net of all transaction fees. The Term Loan is subsequently recognized as other financial liabilities measured at amortized cost using the effective interest rate method. The discount on the term loan is unwound using the effective interest rate method to the face value at maturity and is expensed to accretion.

The related royalty liability was initially measured at fair value. The liability is reduced by future amounts paid. Once the liability is reduced to $nil any subsequent amounts paid are recorded as finance expenses in the period incurred.

(p) Provisions

A provision is recognized if, as a result of a past event, the Company has a present, legal or constructive obligation that can be estimated reliably, and is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are measured using the best estimate of the expenditure required to settle the obligation.

(q) Decommissioning obligations

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property and equipment incurred upon the acquisition, construction, development and use of the asset. The initial liability is measured at the discounted value of the estimated costs to reclaim and abandon using a risk-free rate, subsequently adjusted for the accretion of discount and changes in expected costs. The decommissioning cost is capitalized in the relevant asset category. Costs capitalized to property and equipment are depleted into earnings based upon the unit-of-production method consistent with the underlying assets. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

With respect to decommissioning obligations for the Company’s Trinidad leases with Petrotrin, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a particular well site in comparison to the well’s cumulative historical production. To fund these obligations, the Company is required to remit into a well abandonment fund based on production. This is recognized as a current liability and a reduction of the decommissioning obligation. Both parties must agree on the budget and particular site to reclaim prior to using proceeds in the abandonment fund.

(r) Revenue recognition

Revenue from the sale of crude oil is recognized when delivery of the product has been completed and when legal title passes to an external party. Revenue is measured at the fair value of the consideration received or receivable.

(s) Share-based compensation

The Company grants share options and incentive share options to certain employees, officers and directors. The grant date fair values, as measured using the Black-Scholes option-pricing model, are recognized over the vesting periods of the awards, with a corresponding increase in contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of options that vest. When share options are exercised, the consideration received and the associated amounts previously recorded as contributed surplus are reclassified to shareholder's capital.

(t) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case the related income tax is also recognized in equity.

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

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the financial position date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Company intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is neither a business combination nor an event resulting in income or expense. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(u) Per share information

Basic earnings per share amounts are calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings and the weighted average number of common shares outstanding using the treasury stock method for the effects of dilutive instruments including outstanding share options, incentive share options and common share purchase warrants.

(v) Segment reporting

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by the Company's chief operating decision makers. The Company's operating segments are Trinidad and Canada/Corporate. The Company evaluates the financial performance of its operating segments primarily on operating cash flow.

4. Changes in Accounting Policies

(a) Accounting standards adopted

There were no new or amended accounting standards or interpretations adopted by the Company during the year ended December 31, 2016.

(b) Standards issued but not yet adopted

A number of accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2017 have not been applied in preparing the consolidated financial statements for the year ended December 31, 2016 as described below:

In April 2016, the IASB issued its final amendments to IFRS *15 Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 is expected to be applied by the Company on January 1, 2018. The Company is currently in the process of reviewing its underlying crude oil contracts to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules within IAS 39. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39. The Company does not anticipate any material changes in the carrying values of the Company's financial instruments because of the adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 is expected be applied on a retrospective basis by the Company on January 1, 2018.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 is expected to be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on its financial statements.

5. Use of estimates, judgements and assumptions

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. Estimates and underlying assumptions are reviewed on an ongoing basis, and any revisions to accounting

estimates are recognized in the period in which the estimates are revised. Significant estimates and judgements made by Management in the preparation of these consolidated financial statements are outlined below.

(a) Fair value of financial instruments

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward commodity prices, foreign exchange rates and interest rates, volatility curves and risk of non-performance. Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of financial derivatives was based on fair values provided by counterparties with whom the transactions were completed. By their nature, these estimates and assumptions are subject to measurement uncertainty.

(b) Crude oil reserves, recoverability of asset carrying values and depletion

The amounts recorded for exploration assets, property and equipment, depletion and depreciation and impairment testing are based on estimates of proven and probable reserves, production rates, future oil prices, future costs, future foreign exchange rates and other relevant assumptions. All of the Company's petroleum reserves are evaluated and reported by independent engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101.

There are a number of inherent uncertainties associated with estimating reserves and resources. Reserve and resource estimates are based on engineering data, estimated future prices, expected future rates of production and the timing and amount of future expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2016, which could differ significantly from other points in time throughout the year, or future periods. Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves. Changes in the economic environment could result in significant changes to the discount rate used to calculate net present values. Changes in reserves impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property and equipment for impairment calculations.

(c) Determination of cash-generating units

Determination of what constitutes a CGU is subject to the judgement of Management. The recoverability of development and production asset carrying values are assessed at the CGU level, and the asset composition of a CGU can directly impact the recoverability of the assets included therein. Furthermore, the transfer of exploration assets to property and equipment is based on Management's judgement of technical feasibility and commercial viability.

(d) Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of acquisition. In determining the fair values of the assets and liabilities,

Management must make assumptions and estimates, such as reserves, future commodity prices, fair values of undeveloped land, discount rates, decommissioning liabilities and possible outcomes of any assumed contingencies.

(e) Provisions

The determination of provisions may be a complex process that involves Management judgments about the outcomes of future events and estimates on timing and amount of expected future cash flows.

(f) Decommissioning obligations

The provision for decommissioning obligations is based on numerous assumptions and judgements including the ultimate settlement amounts, Trinidad historical production volumes, inflation factors, risk free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing decommissioning obligation, a corresponding adjustment is made to the property and equipment balance.

(g) Share-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share option awards is typically measured by reference to the five-day weighted average trading price of the common shares prior to the date of grant. The fair value of share options is measured using a Black-Scholes option pricing model. Measurement inputs include weighted average share prices prior to the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government of Canada bonds).

(h) Income taxes

Accounting for income taxes is a complex process requiring Management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and net earnings.

(i) Going concern

Management has made judgments relating to future projected cash flows in order to assess the Company's ability to continue as a going concern. These estimates are based upon Management's best estimates of future production volumes, forward pricing, future operating costs, future capital costs, future general and administrative expenses, exchange rates, interest rates and income taxes, all of which are subject to measurement uncertainty.

6. Exploration Assets

Exploration assets consist of the Company's projects in the exploration and evaluation stage which are pending determination of technical and commercial feasibility. The following is a continuity schedule of the Company's exploration assets for the years ended December 31, 2016 and 2015:

	Trinidad	Canada/ Corporate	Total
Balance, January 1, 2015	**$ 1,306**	**$ 8,183**	**$ 9,489**
Additions	1,792	273	2,065
Transfer to property and equipment	(631)	(3,237)	(3,868)
Dispositions	-	(4,728)	(4,728)
Classified as held for sale	(1,413)	-	(1,413)
Effect of change in foreign exchange rates	109	-	109
Balance, December 31, 2015	**$ 1,163**	**$ 491**	**$ 1,654**
Additions	4,041	35	4,076
Dispositions (note 7)	-	(60)	(60)
Impairment (note 8)	(4,574)	(466)	(5,040)
Transfer from held for sale	1,413	-	1,413
Effect of change in foreign exchange rates	(185)	-	(185)
Balance, December 31, 2016	**$ 1,858**	**$ -**	**$ 1,858**

The Company executed an agreement on October 1, 2015 to dispose of its 70% working interest in the East Brighton offshore block. The transaction failed to close as the agreement expired on September 16, 2016. Accordingly, the carrying values of the East Brighton exploration asset and associated decommissioning obligations were no longer classified as held for sale as at December 31, 2016.

During the year ended December 31, 2016, $206,000 (2015 - $nil) of general and administrative expenses were capitalized to Trinidad segment exploration assets, respectively.

On July 14, 2015, the Company disposed of its Dawson exploration asset CGU for net proceeds of $2,100,000 with no gain or loss recognized on the transaction. On July 30, 2015, the Company disposed of undeveloped land in its Beadle exploration asset CGU for net proceeds of $4,200,000. A gain of $3,351,000 was recognized in the statement of earnings as a result of the Beadle transaction

7. Property and Equipment

	Trinidad	Canada/ Corporate	Total
Cost:			
Balance, January 1, 2015	**$ 139,262**	**$ 7,384**	**$ 146,646**
Additions	4,093	278	4,371
Dispositions	(1,626)	(414)	(2,040)
Effect of change in foreign exchange rates	25,473	-	25,473
Balance, December 31, 2015	**$ 167,202**	**$ 7,248**	**$ 174,450**
Additions	4,656	138	4,794
Dispositions	-	(5,011)	(5,011)
Effect of change in foreign exchange rates	(12,241)	-	(12,241)
Balance, December 31, 2016	**$ 159,617**	**$ 2,375**	**$ 161,992**

	Trinidad	Canada/ Corporate	Total
Accumulated depletion, depreciation and impairments:			
Balance, January 1, 2015	**$ 43,247**	**$ 1,813**	**$ 45,060**
Depletion and depreciation	7,762	618	8,380
Impairments (note 8)	33,996	(2,223)	31,773
Dispositions	(442)	1,539	1,097
Decommissioning obligation change in estimate (note 11)	8,170	-	8,170
Effect of change in foreign exchange rates	9,331	-	9,331
Balance, December 31, 2015	**$ 102,064**	**$ 1,747**	**$ 103,811**
Depletion and depreciation	4,852	190	5,042
Impairments (note 8)	47	-	47
Dispositions	-	(144)	(144)
Decommissioning obligation change in estimate (note 11)	349	-	349
Effect of change in foreign exchange rates	(7,471)	-	(7,471)
Balance, December 31, 2016	**$ 99,841**	**$ 1,793**	**$ 101,634**
Net book values:			
Balance, December 31, 2015	$ 65,138	$ 5,501	$ 70,639
Balance, December 31, 2016	**59,776**	**582**	**60,358**

As at December 31, 2016, $70,870,000 in future development costs were included in Trinidad segment cost bases for depletion calculation purposes (December 31, 2015 - $70,764,000 in Trinidad segment and $1,019,000 in Canada segment). During the year ended December 31, 2016, $1,010,000 and $57,000 in general and administrative expenses and share-based compensation expenses were capitalized to Trinidad segment property and equipment, respectively (2015 – $1,281,000 and $118,000, respectively).

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs, all of which were included in the Company's Canadian operations segment. The Company received cash proceeds of $650,000 and 35,000 non-voting preferred shares of the purchaser (see note 8).

The Company disposed of its Luseland CGU for net proceeds of $2,200,000 effective March 1, 2015. The CGU consisted of one producing well and various decommissioning obligations. Approximately 4,000 acres of undeveloped land and ancillary production equipment were also included in the sale. A gain of $130,000 was recognized in the statement of earnings as a result of the transaction.

The Company's Lease Operatorship Agreements ("LOAs") with Petrotrin initially expire on December 31, 2020, with the Company holding a five-year renewal option. Under these agreements, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020 (see note 18). In 2016 the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 1, Coora 2 and WD-8 LOAs or the minimum work obligations specified in the WD-4 LOA. Although the LOAs provide that the minimum production levels are to be achieved on a best endeavors basis, the LOAs also describe the failure to achieve the minimum production levels or the failure to complete the work obligations as potentially constituting a material breach of the LOAs. As a result of this inconsistency, the Company sought legal advice regarding the effect of not meeting the production levels and not completing the work obligations.

On March 20, 2017, the Company received additional correspondence from Petrotrin requesting that, prior to April 20, 2017, the Company provide a proposal regarding the completion of the

work obligations for both calendar years 2016 and 2017. The Petrotrin letters did not take the position that there was any breach of the LOAs. It is not anticipated that a default notice will be issued; however, in any event, the Company is only required to begin to rectify the breach within seven days from the date of receipt of such notice and the Company began that process in February 2017.

The Company was advised by its legal counsel that any risk to the Company's operations under the LOAs is extremely remote. As such, no adjustments were made to these Company's December 31, 2016 consolidated financial statements. No assurance can be given that, if future breaches of these obligations occur, they will not result in a material adverse impact to the Company's cash flows. As at December 31, 2016, the Company was in compliance with all other obligations under the LOAs.

The Company's farmout agreements with Petrotrin initially expire on December 31, 2021. The Company holds a five-year renewal option, and the agreements are subject to five-year minimum work commitments. As at December 31, 2016, the Company was in compliance with all obligations associated with its farmout agreements.

The Company's Fyzabad and Palo Seco agreements with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") expired on August 19, 2013. The Company is currently negotiating license renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licenses will not be renewed. During the year ended December 31, 2016, the production volumes produced under expired MEEI production licenses represented 5.4% of total Trinidad segment production (2015 – 5.9%).

The Company is operating under several Trinidad freehold lease agreements which have expired and are currently being renegotiated. Based on legal opinions received, the Company is continuing to recognize revenue on the producing blocks as the Company is the operator. No title to the revenue has been disputed, and the Company is paying all associated royalties and taxes. The Company currently has no indication that any of the producing expired leases will not be renewed. During the year ended December 31, 2016, the production volumes produced under expired Trinidad freehold lease agreements represented 2.8% of total Trinidad segment production (2015 – 2.2%).

8. Impairments

Impairments consisted of the following non-cash charges (recoveries):

CGU	Year ended December 31, 2016	2015
Trinidad		
Exploration assets – Cory Moruga	**$ 241**	$ 948
Exploration assets – East Brighton	**4,334**	(317)
Property and equipment – Coora	**1,200**	12,549
Property and equipment – WD-4	**35**	8,840
Property and equipment – WD-8	**(3,823)**	9,768
Property and equipment – New Dome	**246**	303
Property and equipment – South Palo Seco	**1**	60
Property and equipment – Barrackpore	**879**	1,766
Property and equipment – Fyzabad	**1,148**	1,491
Property and equipment – San Francique	**361**	1,720
	$ 4,622	$ 37,128
Canada		
Exploration assets – Dawson	**$ -**	$ 2,562
Exploration assets – Luseland	**260**	122
Exploration assets – Various	**205**	553
Property and equipment – Kerrobert	**250**	(2,223)
	$ 715	$ 1,014
Total	**$ 5,337**	$ 38,142

(a) Exploration asset impairments

The Company incurred $241,000 in partner expenses related to the non-operated Cory Moruga property during the year ended December 31, 2016. These expenses were impaired as the estimated recoverable amount of the property was $nil.

Furthermore, during the year ended December 31, 2016 the Company incurred $4,334,000 of East Brighton property expenses which were impaired as the estimated recoverable amount of the asset was less than the corresponding carrying amount. The property, which was classified as held for sale at December 31, 2015, was no longer classified as held for sale at December 31, 2016 as the transaction failed to close. The Company revalued its decommissioning liability and incurred lease payments and letter of credit holding costs in relation to the property which resulted in the additional impairment recorded in the year.

At December 31, 2016, the Company identified indicators of impairment on its Canadian segment exploration asset CGUs due to potential decreased undeveloped land fair values and minimal capital development activity was incurred in 2016. The Company performed impairment tests which resulted in total impairment charges of $465,000. All CGUs had a fair value assessment of $nil as the Company has no further plans to develop the properties and over half of the acreage expires by the end of the first quarter of 2018.

The Company's net book value and recoverable amounts for each exploration asset CGU as at December 31, 2016 was as follows:

CGU	Segment		Net book value		Recoverable value
Cory Moruga	Trinidad	$	-	$	-
East Brighton	Trinidad		-		-
Ortoire	Trinidad		1,858		1,858
Luseland	Canada		-		-
Various	Canada		-		-
Total		**$**	**1,858**	**$**	**1,858**

During the year ended December 31, 2015, the following exploration asset impairment charges were recognized:

- Impairment charges of $948,000 were recorded with respect to the Company's interest in the Trinidad Cory Moruga block based on uneconomic well performance. The fair value of the CGU was assessed at $nil.
- An impairment reversal of $317,000 was recorded related to the East Brighton block CGU during the year ended December 31, 2015. The exploration asset was written up to its $1,413,000 decommissioning obligation value based on a sales agreement executed on October 1, 2015. The fair value of the CGU was determined to be $nil, as the value of the 3.5% gross overriding royalty was not reliably determinable.
- An impairment charge of $2,562,000 was recorded during the year ended December 31, 2015 to write down the Dawson CGU to the lesser of carrying value and the estimated recoverable amount based on $2,100,000 transaction proceeds received in July 2015.
- Impairment charges of $675,000 were recorded relating to the Company's Canadian undeveloped land in Luseland and other, which was written down to a combined value of $491,000 representing the estimated fair value less costs to sell as at December 31, 2015.

The Company's net book value and recoverable amounts for each exploration asset CGU as at December 31, 2015 was as follows:

CGU	Segment		Net book value		Recoverable value
Cory Moruga	Trinidad	$	-	$	-
East Brighton	Trinidad		1,413		1,413
Ortoire	Trinidad		1,163		1,163
Luseland	Canada		290		290
Various	Canada		201		1,843
Total		**$**	**3,067**	**$**	**4,709**

(b) Property and equipment impairments

At December 31, 2016, the Company evaluated its Trinidad segment development and production assets for indicators of any potential impairment or related reversal. Based on operating cost efficiencies achieved in 2016, impairment tests were performed on all CGUs, and net impairment charges of $47,000 were recorded.

The Company initially recorded a $250,000 preferred share conversion receivable relating to the sale of its Kerrobert property which closed in February 2016. The asset was subsequently written to a fair value of $nil as the purchaser entered creditor protection, resulting in an impairment expense of $250,000.

The Company's net book value and recoverable amounts for each property and equipment CGU as at December 31, 2016 was as follows:

CGU	Segment	Net book value	Recoverable amount
Coora	Trinidad	$ 10,571	$ 10,571
WD-4	Trinidad	12,881	12,881
WD-8	Trinidad	16,525	16,525
New Dome	Trinidad	155	155
South Palo Seco	Trinidad	-	-
Barrackpore	Trinidad	609	609
Fyzabad	Trinidad	11,670	11,670
San Francique	Trinidad	2,940	2,940
Total		**$ 55,351**	**$ 55,351**

Property and equipment impairment charges of $36,497,000 were recorded during the year ended December 31, 2015 on crude oil assets located in the Trinidad operating segment. The impairment charges, attributed to all Trinidad CGUs, were the result of sustained declines in forecasted short and long-term crude oil pricing. At June 30, 2015, the Company's Trinidad decommissioning obligations were revalued using the adjusted long-term Trinidad inflation rate of 4%, which represented a 1% increase from the previous estimate. The corresponding $2,503,000 increase to the decommissioning obligation asset balance was valued at $nil and charged to impairment, as the restated CGUs were initially impaired on December 31, 2014 and no headroom remained.

The Company recognized an impairment reversal of $2,223,000 relating to the Kerrobert CGU based on transaction proceeds received in February 2016. The Company's net book value and recoverable amounts for each property and equipment CGU as at December 31, 2015 was as follows:

CGU	Segment	Net book value	Recoverable value
Coora	Trinidad	$ 12,919	$ 12,919
WD-4	Trinidad	15,447	15,447
WD-8	Trinidad	14,429	14,429
New Dome	Trinidad	384	384
South Palo Seco	Trinidad	-	-
Barrackpore	Trinidad	1,369	1,369
Fyzabad	Trinidad	11,675	11,675
San Francique	Trinidad	3,057	3,057
Kerrobert	Canada	4,867	4,867
Total		**$ 64,147**	**$ 64,147**

(c) Impairment assumptions

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use.

In estimating the recoverable amount of each exploration asset CGU, the fair value of land was internally estimated by Management based upon recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

Furthermore, Management factored in future development plans and expiries into the relevant CGU assessment.

The recoverable amounts of the Company's property and equipment CGUs were estimated based on value in use using discounted after-tax cash flows derived from the Company's proved developed producing reserves in 2017 and 2018 and proved plus probable oil reserves thereafter as estimated by the Company's independent reserve evaluator as at December 31, 2016. The reserve evaluation is based on an estimated remaining reserve life up to a maximum of 50 years. The recoverable amount is sensitive to the following key assumptions which have been based on a long-term view of global oil and gas supply and demand as well as extensive industry experience: production volumes, reserve quantities, commodity prices, foreign exchange rates, royalty rates, operating costs, general and administrative costs, future development capital cost estimates, income taxes and discount rates.

Production and reserve volumes form the basis of the production profiles within the discounted cash flow models. Management engages external reserve evaluators to review the Company's internal estimates of volume and the value of proved and probable reserves in each CGU based upon production history, geological data and analysis. The data generated for each CGU takes into consideration the development plans approved by Management and reasonable assumptions that a market participant would apply in establishing a development plan for the assets. Crude oil prices and foreign exchange rates used in the impairment analysis were based on forecasts by the Company's independent reserve evaluator as at December 31, 2016 as outlined below:

Year	ICE Brent US$/bbl[1]	C$/US$ Exchange rates
2017	57.00	0.75
2018	61.00	0.78
2019	66.00	0.80
2020	70.00	0.83
2021	74.00	0.85
2022	77.00	0.85
2023	80.00	0.85
2024	83.00	0.85
2025	86.00	0.85
2026	89.64	0.85
Thereafter % change per year	2.0%	Nil

[1]The forecast benchmark price above is adjusted for quality differentials and transportation costs in performing the Company's impairment tests.

Royalty rates, operating costs, general and administrative costs and future development capital assumptions were based on historical results and Management's views regarding inflation over the forecast periods. Income tax rates were based on the published statutory tax rates for the appropriate revenue streams.

The discount rate was derived from a market participant view of the weighted average cost of capital ("WACC") for similar entities (i.e. small cap oil and gas entities with international assets) as this is viewed to be the best proxy for a market participant rate. The risks specific to each CGU are incorporated directly into the cash flows. The WACC factors in debt and equity weightings of comparable entities. The cost of equity and cost of debt are derived from rates applicable to comparable entities and equity risk premium, size and forecasting risks are incorporated by applying individual beta factors. Each of the factors was evaluated annually based on publicly available market data. Changes in the general economic environment could result in significant changes to this estimate. As at December 31, 2016, the net present value of forecasted cash

flows from oil reserves were calculated using an after-tax discount rate of 20% for Trinidad segment development assets (2015 – 19%).

The following table demonstrates the effect of the assumed discount rate and the effect of forward realized price estimates on impairment charges or recoveries for each property and equipment CGU recorded for the year ended December 31, 2016. The sensitivity is based on a one per cent increase and one per cent decrease in the assumed discount rate and a five per cent increase and five per cent decrease in the estimated realized crude oil price.

CGU	Increase in discount rate of 1%	Decrease in discount rate of 1%	Increase in crude oil prices of 5%	Decrease in crude oil prices of 5%
Coora	$ 785	$ (868)	$ (1,922)	$ 1,671
WD-4	804	(874)	(2,305)	1,910
WD-8	1,090	(1,194)	(2,292)	1,936
New Dome	9	(10)	(71)	37
South Palo Seco	-	-	-	-
Barrackpore	42	(45)	(207)	210
Fyzabad	717	(784)	(1,312)	1,040
San Francique	175	(192)	(358)	248
Impairment charge increase (decrease)	**$ 3,622**	**$ (3,967)**	**$ (8,467)**	**$ 7,052**

9. Other Assets

Effective May 1, 2015, the Company executed a Trinidad based fixed term contractual agreement to lease rig equipment to a third party. The arrangement was accounted for as a finance lease. The Company’s net investment in the finance lease receivable was as follows:

	Year ended December 31, **2016**	2015
Net investment in finance lease:		
Finance lease – gross investment	**$ 1,256**	$ 1,224
Unearned finance income	**(196)**	(191)
Total	**$ 1,060**	$ 1,033
Current portion (included in accounts receivable)	**274**	267
Non-current (included in other assets)	**786**	766
Total	**$ 1,060**	$ 1,033

In addition to the $786,000 lease receivable, the Company had a $87,000 prepaid expense balance included in other assets that is long-term in nature.

10. Term Loan and Associated Liabilities

On November 23, 2016, the Company completed an arrangement for a $15,000,000, five-year term loan agreement from a Canadian investment fund. The term loan replaced the Company’s bank loan, which was discharged. The Company immediately used a portion of the proceeds to cash collateralize its US$6,000,000 letter of credit that provides credit support in respect of its East Brighton offshore property future work commitments (note 18 and note 22).

The term loan matures on November 23, 2021 with no mandatory repayment of principal required until January 1, 2019. The Company is required to repay $810,000 per quarter commencing on

January 1, 2019 through October 1, 2021, and the then outstanding principal balance is repayable on the maturity date. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly in arrears from January 1, 2017. In connection with the term loan, the Company has also granted the lender a 1% gross overriding royalty on petroleum sales from current Company land holdings in Trinidad, which is payable until November 23, 2021 regardless of any repayment or prepayment of the term loan. The Company has the ability to prepay the term loan after 18 months and has the option to buy out all of the future royalty obligations if the term loan balance is prepaid in full. The term loan and the Company's obligations in respect of the royalty are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The term loan was initially measured at fair value, net of all transaction fees. The fair value was determined by using a discount rate of 12%. This rate was determined by reviewing publicly traded debt yields for small-sized oil and gas entities and selecting a set of bonds with comparable durations for entities with similar credit worthiness to the Company. The term loan balance less transaction costs is unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings.

The royalty obligation was initially measured at fair value, using the estimated royalty payable at the inception of the loan discounted by 15%. The discount rate was based on the Company's long-term weighted average cost of capital less a discount for the shorter time frame of the royalty period. The royalty liability is reduced by future amounts paid to the lender. Once the liability is reduced to $nil, any subsequent amounts paid are recorded as finance expenses in the period incurred.

The fair value of the term loan and royalty obligation were determined using inputs that would be considered Level 3 within the fair value hierarchy. The following is a continuity schedule of the term loan and associated liabilities balance from inception to December 31, 2016:

	Term loan liability	Royalty liability	Total
Balance, November 23, 2016	$ 13,132	$ 1,247	$ 14,379
Accretion	164	-	164
Payments	-	(47)	(47)
Balance, December 31, 2016	**$ 13,296**	**$ 1,200**	**$ 14,496**

The term loan arrangement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at and during the three months ended December 31, 2016 were as follows:

Covenant	Covenant threshold	Estimated position at December 31, 2016[1]
Cash balance	> $5,000,000	$8,433,000
Net funded debt to equity ratio[2]	< 0.5 times	0.2 times
EBITDA[3] for the fiscal quarter ending December 31, 2016	> $625,000	$807,000

[1]Estimated position subject to final approval.
[2]Net funded debt defined as interest-bearing debt less cash reserves. Equity defined as book value of shareholders' equity less accumulated other comprehensive income (loss).
[3]EBITDA defined as net earnings before interest, income taxes and non-cash items.

11. Decommissioning Obligations

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal and land reclamation based on current regulations and economic circumstances. The total decommissioning obligation is estimated by Management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods.

Pursuant to Trinidad production licenses, the Company is obligated to remit funds into an abandonment fund based on production. The abandonment fund obligations are determined based on cumulative crude oil sales and recognized as a current liability and a reduction of the long-term decommissioning obligation. Payments to the fund are typically made on an annual basis and recorded as a long-term asset included in property equipment. As at December 31, 2016, the Company has remitted $697,000 of abandonment fund payments, and $328,000 in short-term fund obligations are included in accounts payable and accrued liabilities. The Company and the relevant Trinidad government entity must agree on the budget and site to reclaim prior to using the abandonment fund.

As at December 31, 2016, the Company estimated the total undiscounted cash flows required to settle its Trinidad segment decommissioning obligations was approximately $20,664,000 (December 31, 2015 - $26,809,0000). The majority of these obligations are anticipated to be incurred in twenty-five years and are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement. December 31, 2016 decommissioning liabilities were discounted using a weighted average risk-free rate of 5.8% and calculated using an inflation rate of 4.8% (December 31, 2015 – 7.5% and 4%, respectively).

The following table reconciles the Company's decommissioning obligation provision:

	Trinidad	Canada/ Corporate	Total
Balance, January 1, 2015	**$ 13,979**	**$ 5,441**	**$ 19,420**
Dispositions	-	(1,625)	(1,625)
Liabilities incurred	517	-	517
Accretion expense (recovery)	643	(19)	624
Change in estimates	(5,098)	231	(4,867)
Effect of change in foreign exchange rates	2,918	-	2,918
Balance, December 31, 2015	**$ 12,959**	**$ 4,028**	**$ 16,987**
Dispositions (note 7)	-	(4,028)	(4,028)
Liabilities incurred	1	-	1
Accretion expense	378	-	378
Change in estimates	4,367	-	4,367
Effect of change in foreign exchange rates	(922)	-	(922)
Balance, December 31, 2016	**$ 16,783**	**$ -**	**$ 16,783**
Non-current	16,455	-	16,455
Current (included in accounts payable)	328	-	328
Total	**$ 16,783**	**$ -**	**$ 16,783**

As disclosed in note 7, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs on February 1, 2016. Through the disposition, the Company transferred its Canadian segment decommissioning liability to the purchaser.

At December 31, 2016, the Company's Trinidad decommissioning obligations were revalued using an adjusted long-term risk-free rate of 5.8% and an adjusted long-term inflation rate of 4.8%, which represented a 2.8% decrease and a 0.8% increase from previous estimates, respectively. The Company also revised its estimated costs to settle Trinidad well decommissioning obligations to US$25,000 per well from US$35,000 per well. A further increase in Petrotrin related decommissioning obligations was driven by 2016 production, which increases the Company's proportionate interest in future well abandonments. The adjustments resulted in a net increase to the estimated liability of $4,367,000, which was included in change in estimates.

12. Shareholders' Capital

(a) Issued and outstanding common shares

	Number of shares		Amount
Balance, January 1, 2015	**83,059,643**	**$**	**169,893**
Exercise of incentive share options	27,500		57
Balance, December 31, 2015	**83,087,143**	**$**	**169,950**
Exercise of incentive share options	50,000		45
Balance, December 31, 2016	**83,137,143**	**$**	**169,995**

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

(b) Share options and incentive share options

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the closing price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding common shares.

	Number of options		Weighted avg. exercise price
Outstanding, January 1, 2015	**4,814,085**	**$**	**1.04**
Granted	1,891,800		0.33
Forfeited	(1,397,440)		1.21
Outstanding, December 31, 2015	**5,308,445**	**$**	**0.75**
Granted	1,578,800		0.23
Forfeited	(1,245,205)		0.72
Outstanding, December 31, 2016	**5,642,040**	**$**	**0.61**
Exercisable, December 31, 2016	**2,669,934**		**0.87**

Share options outstanding and the weighted average remaining life of the share options as at December 31, 2016 were as follows:

Exercise price	Options outstanding	Weighted avg. remaining life	Options exercisable	Weighted avg. remaining life
$0.23	1,468,300	4.5 years	-	-
$0.33	1,497,200	3.3 years	499,068	3.3 years
$0.59 to $0.97	2,464,040	2.5 years	1,958,366	2.5 years
$2.10	212,500	2.8 years	212,500	2.8 years
$0.23 to $2.10	**5,642,040**	**3.2 years**	**2,669,934**	**2.6 years**

The weighted average fair value of options granted during the year ended December 31, 2016 was $0.13 per option (2015 – $0.16 per option) as estimated on the date of each grant using the Black-Scholes option pricing model. The weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted were as follows:

	Year ended December 31,	
	2016	2015
Risk-free interest rate	**0.5%**	0.7%
Expected life (years)	**3.0**	3.0
Expected volatility	**87.5%**	78.2%
Expected annual dividend yield	**0.0%**	0.0%
Forfeiture rate	**5.0%**	5.0%

The Company has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a $0.05 exercise price. A maximum of two million incentive shares has been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant.

	Number of incentive shares	Weighted avg. exercise price
Outstanding, January 1, 2015	**336,750**	**$ 0.06**
Exercised	(27,500)	0.10
Forfeited	(11,125)	0.10
Outstanding, December 31, 2015	**298,125**	**$ 0.06**
Exercised	(50,000)	0.05
Forfeited	(120,625)	0.06
Outstanding, December 31, 2016	**127,500**	**$ 0.06**
Exercisable, December 31, 2016	**110,800**	**0.06**

Of the 127,500 incentive share options outstanding as at December 31, 2016, 27,500 options have an exercise price of $0.10 and the remaining 100,000 options have an exercise price of $0.05.

During the year ended December 31, 2016, the Company recorded share-based compensation expenses of $157,000 (2015 – $363,000) in the consolidated statement of earnings as a result of the vesting of share options and incentive share options granted.

13. Net Finance Expenses

	Year ended December 31, **2016**	2015
Interest income	**$ (115)**	$ (99)
Interest expense on bank loan	**83**	412
Interest expense on term loan	**128**	-
Interest (recovery) expense on income taxes	**(132)**	975
Finance fees and other	**266**	2,205
Net finance expenses	**$ 230**	$ 3,493

14. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2016 and 2015 was a combined rate of 55% of taxable income. The following is a reconciliation of income taxes calculated by applying the applicable statutory rates to net loss before income taxes:

	Year ended December 31, **2016**	2015
Loss before income taxes	**$ (12,633)**	$ (38,846)
Statutory rate	**55.00%**	55.00%
Expected income tax recovery	**$ (6,948)**	$ (21,365)
Increase (decrease) in income taxes resulting from:		
Supplemental petroleum tax	**-**	570
Deductible supplemental petroleum tax	**-**	(313)
Benefit of tax assets not recognized	**5,343**	2,388
Tax rate differential	**1,669**	427
Other	**156**	1,594
Income tax expense (recovery)	**$ 220**	$ (16,699)

The net deferred income tax liability relates to the Company's Trinidad operations. The components of the liability for the years ended December 31, 2016 and 2015 were as follows:

	December 31, 2015 asset (liability)	Change through the balance sheet	Recognized in earnings or (loss)	**December 31, 2016 asset (liability)**
Property and equipment	$ (17,650)	$ -	$ (4,249)	**$ (21,899)**
Decommissioning obligation	7,107	-	(110)	**6,997**
PPT loss carry forwards	8,105	-	1,113	**9,218**
Financial derivatives	(3,473)	-	3,473	**-**
Other	520	-	419	**939**
Net deferred income tax liability	$ (5,391)	$ -	$ 646	**$ (4,745)**

The components of the Company's unrecognized deductible temporary differences were as follows:

	December 31, 2016	December 31, 2015
Property and equipment and exploration assets	**$ 1,045**	$ 1,710
Loss carry forwards	**101,861**	69,604
Decommissioning obligations	**4,061**	4,065
Other	**11,994**	31,192
Unrecognized deductible temporary differences	**$ 118,961**	$ 106,571

At December 31, 2016, the Company had approximately $27,663,000 and $1,772,000 (2015 - $23,929,000 and $1,068,000) in Trinidadian PPT and corporate tax losses respectively which may be carried forward indefinitely to reduce PPT and corporate tax in future years. The benefit of $11,555,000 of Trinidad PPT and corporate tax losses were not recognized as at December 31, 2016 (2015 - $10,251,000). The Company had approximately $91,418,000 (2015 – $51,416,000) in Canadian non-capital losses which begin to expire in 2026. The benefit of the Canadian non-capital losses was not recognized as at December 31, 2016 and 2015.

The Company previously acquired a Trinidad company that had overdue income tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the acquired subsidiary specified that upon confirmation from the BIR, the acquired subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the acquired subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of December 31, 2016, $3,068,000 (2015 - $3,314,000) in related interest was accrued in income taxes payable.

The acquired subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. The Company continues to work with the seller and the BIR to resolve this matter and does not believe that it will be required to make any further income tax payments nor any payments for the seller's portion of any interest.

15. Loss per Common Share

	Year ended December 31, **2016**	2015
Net loss	**$ (12,853)**	$ (22,147)
Weighted number of average common shares outstanding: Basic and diluted	**83,121,842**	83,080,417
Basic and diluted loss per share	**(0.15)**	(0.27)

There is no dilutive impact to the weighted average number of common shares at December 31, 2016 and 2015, as all share options, incentive share options and warrants were excluded from the weighted average dilutive share calculation because their effect would be anti-dilutive.

16. Risk Management

(a) 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. All of the Company's Trinidad crude oil production is sold, as determined by market based prices adjusted for quality differentials, to Petrotrin. Typically, the Company's maximum credit exposure to Petrotrin is revenue for one month's petroleum sales, of which $1,880,000 was included in accounts receivable as at December 31, 2016 (2015 - $2,732,000).

The aging of accounts receivable as at December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
Not past due	**$ 3,373**	$ 5,454
Past due greater than 90 days	**5,436**	4,391
Total accounts receivable	**$ 8,809**	$ 9,846

No provision was made for past due receivables as the Company assessed that there were no impaired receivables. The Company believes that the accounts receivable balances that are past due are still collectible, as the majority are due from Trinidad government agencies. The Company's carrying values of accounts receivable balances represents the Company's maximum credit exposure.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in the business environment.

To manage its capital structure in a period of low commodity prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. The Company will continue to manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability. Undiscounted cash outflows relating to financial liabilities as at December 31, 2016 were as follows:

	Undiscounted amount	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**
Accounts payable and accrued liabilities	$ 13,384	$ 13,384	$ -	$ -
Income taxes payable	3,505	3,505	-	-
Term loan	15,000	-	3,240	11,760
Total financial liabilities	**$ 31,889**	**$ 16,889**	**$ 3,240**	**$ 11,760**

(c) Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due.

On June 2, 2016, the Company liquidated its outstanding commodity financial contracts for gross proceeds of US$2,019,000. During the year ended December 31, 2016, the Company realized a net loss of $1,970,000 (2015 – gain of $8,835,000) related to financial derivatives. The Company had no commodity financial contracts in place as of December 31, 2016.

To manage commodity price risk, the Company may reduce capital expenditures, issue new equity or seek additional sources of debt should forward commodity pricing materially decrease. For the year ended December 31, 2016, with all other variables held constant, a 5% change in realized commodity prices would have resulted in an approximate $492,000 (2015 - $769,000) increase or decrease in net earnings.

(d) Foreign currency risk

Foreign 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 Canadian dollar and the Trinidad and Tobago dollar can have a significant effect on reported results. The Company's foreign exchange gain or losses primarily include unrealized foreign exchange gains on losses on the translation of the Company's US$ denominated working capital balances in Canada and Trinidad. 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 revenues 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 year ended December 31, 2016. For the year ended December 31, 2016, with all other variables held constant, a 1% change in the Canadian dollar to TT$ exchange rate would have resulted in an approximate $117,000 (2015 - $153,000) increase or decrease in net earnings.

(e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. As at December 31, 2016, the Company was not exposed to interest rate risk as its term loan interest rate is fixed in nature.

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. Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil prices, royalty expenses, operating expenses, general and administrative expenses, capital expenditures and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that in the Company's view would impact cash flow.

The Company's objective is to maintain net debt to annualized funds flow from operations at or below a level of 3.0 to 1. Net debt is a non-IFRS measure calculated as working capital less long-term portions of undiscounted interest bearing financial liabilities. Working capital is calculated as current assets less current liabilities. Net debt is used by management as a key measure to assess the Company's liquidity. 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.

	Target measure	December 31, 2016	December 31, 2015
Working capital surplus		$ (846)	$ (987)
Undiscounted term loan balance		15,000	-
Net debt (surplus)		$ 14,154	$ (987)
Shareholders' equity		36,234	52,657
Net debt plus equity		$ 50,388	$ 51,670
Funds flow from operations		$ 6,117	$ 2,908
Net debt to funds flow from operations	< 3.0 times	2.31	(0.34)
Net debt to net debt plus equity	< 0.4 times	0.28	(0.02)

18. Commitments and Contingencies

(a) Commitments

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under exploration license and production agreements with the MEEI and various lease commitments for office space and equipment. As at December 31, 2016, the Company's estimated contractual capital requirements over the next four years and thereafter were as follows:

	2017	2018	2019	2020	Thereafter
Trinidad operating agreements	$ 9,286	$ 3,059	$ 651	$ 420	$ 122
Trinidad exploration license	3,834	4,669	6,041	700	-
Canada office leases	227	401	279	261	243
Trinidad equipment leases	325	325	325	217	-
Total minimum payments	**$ 13,672**	**$ 8,454**	**$ 7,296**	**$ 1,598**	**$ 365**

Under the terms of its Trinidad operating agreements, the Company must fulfill the minimum work obligations on an annual basis over the specific license term. In total, the Company is obligated to drill 12 wells and perform 18 heavy workovers prior to the end of 2021. As of December 31, 2016, six workovers have been completed with respect to these obligations. The Company failed to drill four wells that were required in 2016 (see note 7). Under the terms of its Trinidad exploration agreements, the Company must drill five wells prior to the end of December 31, 2020, none of which have been performed as of December 31, 2016.

(b) Restricted cash and cash equivalents and letters of credit

As at December 31, 2016, the Company cash collateralized a US$6,000,000 letter of credit relating to work commitments on its offshore East Brighton exploration concession. The amount was reduced to US$2,150,000 subsequent to December 31, 2016 (see note 22). The Company has also cash collateralized bonds totaling US$299,000 related to its work commitments on its Petrotrin concessions. Given the associated funds collateralize work obligations that are expected to occur after one year, a total of $8,461,000 (US$6,299,000) was classified as long-term assets on the statement of financial position as of December 31, 2016.

The Company has a security agreement with Export Development Canada in connection with a performance security guarantee that supports a US$3,313,000 letter of credit provided to the MEEI related to work commitments on its Ortoire exploration property.

(c) Contingencies

The Company is involved in a limited number of legal claims associated with the ordinary conduct of business. The Company does not expect that these claims will have a material impact on its financial position as no provisions for such claims has been recorded as at December 31, 2016. The Company is responsible for the retirement of long-lived assets at the end of their useful lives.

As at December 31, 2016, the Company has recorded a total discounted liability of $16,783,000 based on current legislation and estimated future costs relating to its crude oil properties and facilities. Actual costs may differ from those estimated due to changes in legislation and changes in costs.

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

19. Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. The Company was formerly a party to transactions with Lightstream Resources Ltd. and Alvopetro Energy Ltd., which were related parties to the Company due to common Directors. The transactions included natural gas purchased for the Company's former Canadian operations segment from Lightstream Resources Inc. and an office sub-lease with Alvopetro Energy Ltd.

	Year ended December 31, 2016	2015
Legal fees charged by Norton Rose Fulbright Canada LLP	**$ 297**	$ 194
Office rent charged to Alvopetro Energy Ltd.	**85**	259
Gas purchased from Lightstream Resources Ltd.	**-**	146
Total related party transactions	**$ 382**	$ 599

All related party transactions were recorded at fair value. As at December 31, 2016, $112,000 and $nil in related party amounts were included in accounts payable and accounts receivable, respectively (2015 - $38,000 and $nil).

The Company has determined that the key management personnel of the Company are comprised of its directors and three executive officers. Key management personnel compensation paid or payable was as follows:

	Year ended December 31, 2016	2015
Salaries, director fees and short-term benefits included in general and administrative expenses	**$ 1,258**	$ 1,036
Termination benefits included in general and administrative expenses	**-**	523
Share-based compensation (note 12)	**224**	297
Total key management compensation	**$ 1,482**	$ 1,856

20. Supplemental Disclosures

(a) Presentation in the Statements of Loss and Comprehensive Loss

The Company's statements of earnings are prepared primarily by nature of item, except for employee compensation expenses which are included in both operating and general and administrative expense line items. The following table details the amount of total employee compensation expenses included in operating and general and administrative expense line items in the statements of earnings:

	Year ended December 31, 2016	2015
Operating	**$ 2,808**	$ 5,597
General and administrative	**3,801**	5,773
Total employee compensation expenses	**$ 6,609**	$ 11,370

(b) Presentation in the Statements of Cash Flows

The following tables provide a breakdown of certain line items contained within cash flow from operating activities:

Net change in non-cash working capital	Year ended December 31, 2016	2015
Source (use) of cash:		
Accounts receivable	**$ 1,037**	$ 5,101
Crude oil inventory	**136**	154
Prepaid expenses	**3,312**	(1,858)
Derivative asset	**(1,533)**	(1,291)
Accounts payable and accrued liabilities	**1,165**	(10,031)
Transfer from decommissioning obligations	**(141)**	(186)
Transfer from other assets	**(60)**	(526)
Income taxes payable	**(1,132)**	(1,940)
Net change in non-cash working capital	**$ 2,784**	$ (10,577)
Related to operating activities	**$ 2,682**	$ (6,153)
Related to investing activities	**102**	(4,424)
Net change in non-cash working capital	**$ 2,784**	$ (10,577)

Other non-cash items	Year ended December 31, 2016	2015
Amortization of capitalized bank loan fees	**$ -**	$ 2,164
Amortization of onerous lease	**(399)**	365
Finance income from capital lease	**(100)**	(62)
Non-cash lease inducement	**36**	-
Other non-cash items	**$ (463)**	$ 2,467

21. Segmented Information

The Company is comprised of Trinidad and Canada/Corporate operating segments.

	Trinidad	Canada/ Corporate	Total
As at December 31, 2016			
Exploration assets	$ 1,858	$ -	$ 1,858
Property and equipment, net	59,776	582	60,358
Total assets	73,932	15,353	89,285
Decommissioning obligations	16,455	-	16,455
Deferred tax liabilities	4,745	-	4,745
Total liabilities	35,375	17,676	53,051
Year ended December 31, 2016			
Petroleum sales	24,036	-	24,036
Total expenses	22,425	5,456	27,881
Loss before income taxes	(7,177)	(5,456)	(12,633)
Income tax recovery (expense)	130	(350)	220
Net loss	(7,047)	(5,806)	(12,853)
Exploration asset expenditures	1,994	35	2,029
Property and equipment expenditures	1,714	138	1,852
As at December 31, 2015			
Exploration assets	1,163	491	1,654
Property and equipment, net	65,138	5,501	70,639
Total assets	71,858	28,761	100,619
Decommissioning obligations	11,140	4,028	15,168
Deferred tax liabilities	5,391	-	5,391
Total liabilities	41,161	6,801	47,962
Year ended December 31, 2015			
Petroleum sales	34,128	2,212	36,340
Total expenses	66,458	6,453	72,911
Loss before income taxes	(34,210)	(4,636)	(38,846)
Income tax recovery	16,252	447	16,699
Net loss	(17,958)	(4,189)	(22,147)
Exploration asset expenditures	938	307	1,245
Property and equipment expenditures	3,511	61	3,572

22. Subsequent Event

On March 14, 2017, the MEEI approved a reduction of the Company’s letter of credit supporting required work commitments on the East Brighton property from US$6,000,000 to US$2,150,000. Upon release of the collateralized funds, cash balances will increase by US$3,850,000 and the long-term restricted cash and cash equivalents balance will reduce to US$2,449,000.