Touchstone Exploration Inc.

Interim Consolidated Financial Statements (unaudited)

September 30, 2017

Interim Consolidated Statements of Financial Position

(Unaudited, thousands of Canadian dollars)

	Note	**September 30, 2017**	December 31, 2016
Assets	7		
Current assets			
Cash		**$ 4,914**	$ 8,433
Accounts receivable	12	**9,163**	8,809
Crude oil inventory		**212**	125
Prepaid expenses		**414**	368
		14,703	17,735
Exploration assets	4	**1,969**	1,858
Property and equipment	5	**59,712**	60,358
Restricted cash and cash equivalents	6	**3,069**	8,461
Other assets		**684**	873
		$ 80,137	$ 89,285
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 11,472**	$ 13,384
Income taxes payable		**2,829**	3,505
		14,301	16,889
Provisions		**312**	466
Term loan and associated liabilities	7	**14,720**	14,496
Decommissioning obligations	8	**15,458**	16,455
Deferred income taxes		**5,746**	4,745
		50,537	53,051
Shareholders' equity			
Shareholders' capital	9	**170,772**	169,995
Contributed surplus		**2,300**	2,144
Accumulated other comprehensive income		**6,264**	9,231
Deficit		**(149,736)**	(145,136)
		29,600	36,234
		$ 80,137	$ 89,285

Commitments (note 14)
Subsequent events (note 15)

See accompanying notes to these unaudited consolidated financial statements.

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

	Note	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenues					
Petroleum revenue		**$ 7,885**	$ 6,169	**$ 22,712**	$ 16,952
Royalties		**(2,169)**	(1,630)	**(6,981)**	(4,692)
		5,716	4,539	**15,731**	12,260
Loss on financial derivatives	12	**-**	-	**-**	(1,970)
		5,716	4,539	**15,731**	10,290
Expenses					
Operating		**2,482**	2,307	**7,359**	7,764
General and administrative		**1,567**	1,077	**4,638**	4,708
Net finance expenses (income)	10	**267**	(1,007)	**1,429**	(171)
Foreign exchange loss		**299**	30	**534**	130
Share-based compensation	9	**33**	58	**133**	159
Depletion and depreciation	5	**1,093**	1,153	**3,383**	3,566
Impairment	4	**122**	813	**638**	1,040
Accretion on decommissioning obligations	8	**37**	123	**116**	277
Accretion on term loan	7	**100**	-	**451**	-
		6,000	4,554	**18,681**	17,473
Net loss before income taxes		**(284)**	(15)	**(2,950)**	(7,183)
Income taxes					
Current tax expense		**53**	369	**195**	436
Deferred tax expense (recovery)		**866**	318	**1,455**	(1,920)
		919	687	**1,650**	(1,484)
Net loss		**(1,203)**	(702)	**(4,600)**	(5,699)
Foreign currency translation adjustment		**(1,796)**	179	**(2,967)**	(4,562)
Comprehensive loss		**$ (2,999)**	$ (523)	**$ (7,567)**	$ (10,261)
Net loss per common share					
Basic and diluted	11	**$ (0.01)**	$ (0.01)	**$ (0.05)**	$ (0.07)

See accompanying notes to these unaudited consolidated financial statements.

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

	Note	Shareholders' capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Shareholders' Equity
Balance as at January 1, 2016		**$ 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		-	-	157	-	-	157
Share-based compensation capitalized		-	-	57	-	-	57
Share-based settlements		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**
Net loss		-	-	-	-	(4,600)	(4,600)
Other comprehensive loss		-	-	-	(2,967)	-	(2,967)
Issued pursuant to private placement	9	777	-	-	-	-	777
Share-based compensation expense	9	-	-	133	-	-	133
Share-based compensation capitalized	5	-	-	23	-	-	23
Balance as at September 30, 2017		**$ 170,772**	**$ -**	**$ 2,300**	**$ 6,264**	**$ (149,736)**	**$ 29,600**

See accompanying notes to these unaudited consolidated financial statements.

Interim Consolidated Statements of Cash Flows
(Unaudited, thousands of Canadian dollars)

	Note	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash provided by (used in):					
Operating activities					
Net loss for the period		**$ (1,203)**	$ (702)	**$ (4,600)**	$ (5,699)
Items not involving cash from operations:					
Non-cash loss on financial derivatives		**-**	-	**-**	8,432
Unrealized foreign exchange loss (gain)		**418**	(3)	**865**	311
Share-based compensation	9	**33**	58	**133**	159
Depletion and depreciation	5	**1,093**	1,153	**3,383**	3,566
Impairment	4	**122**	813	**638**	1,040
Accretion on decommissioning obligations	8	**37**	123	**116**	277
Accretion on term loan	7	**100**	-	**451**	-
Other		**(79)**	(193)	**(223)**	(402)
Deferred income tax expense (recovery)		**866**	318	**1,455**	(1,920)
Funds flow from operations		**1,387**	1,567	**2,218**	5,764
Change in non-cash working capital		**(2,201)**	(533)	**(4,118)**	1,625
		(814)	1,034	**(1,900)**	7,389
Investing activities					
Restricted cash and cash equivalents	6	**-**	(295)	**5,144**	(295)
Exploration asset expenditures	4	**(202)**	(847)	**(910)**	(1,476)
Property and equipment expenditures	5	**(1,889)**	(327)	**(7,375)**	(1,033)
Proceeds from dispositions		**-**	(250)	**-**	650
Change in non-cash working capital		**(2,023)**	(831)	**936**	(845)
		(4,114)	(2,550)	**(2,205)**	(2,999)
Financing activities					
Repayments of bank loan		**-**	-	**-**	(7,864)
Finance lease receipts		**19**	3	**35**	38
Issuance of common shares	9	**-**	-	**777**	3
		19	3	**812**	(7,823)
Change in cash		**(4,909)**	(1,513)	**(3,293)**	(3,433)
Cash, beginning of period		**9,925**	2,782	**8,433**	4,710
Impact of foreign exchange in foreign denominated cash balances		**(102)**	(21)	**(226)**	(29)
Cash, end of period		**$ 4,914**	$ 1,248	**$ 4,914**	$ 1,248
Supplemental information:					
Cash interest paid		**299**	-	**723**	152
Cash income taxes paid		**452**	12	**625**	79

See accompanying notes to these unaudited consolidated financial statements.

1. Reporting Entity

Touchstone Exploration Inc. (the "Company") 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 listed on the Toronto Stock Exchange ("TSX") and on the AIM market of the London Stock Exchange ("AIM") under the symbol "TXP".

2. Basis of Preparation and Statement of Compliance

These unaudited interim consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016. Unless otherwise stated, amounts presented in these financial statements are rounded to thousands of Canadian dollars and tabular amounts are stated in thousands of Canadian dollars.

These financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Summary of Significant Accounting Policies" of the Company's audited consolidated financial statements for the year ended December 31, 2016. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous financial year, except as noted in Note 3 "Accounting Policies". There have been no significant changes to the use of estimates or judgments since December 31, 2016.

At December 31, 2016, the audited consolidated financial statements included the accounts of the Company and its wholly owned subsidiaries, including Archon Technologies Ltd. Effective January 1, 2017, Archon Technologies Ltd. amalgamated with Touchstone Exploration Inc. All intercompany transactions have been eliminated upon consolidation between the Company and its subsidiaries in these financial statements.

These financial statements were authorized for issue by the Board of Directors on November 13, 2017.

3. Accounting Policies

(a) Segment reporting

Effective January 1, 2017, the Company's operations were viewed as a single operating segment by the chief operating decision makers of the Company for the purpose of resource allocation and assessing operational performance. Accordingly, certain reclassification adjustments have been made to the comparative period to conform to the current presentation.

(b) Accounting standards adopted

There were no new or amended accounting standards or interpretations adopted by the Company during the nine months ended September 30, 2017.

(c) Standards issued but not yet adopted

Revenue Recognition

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.

The Company has performed a preliminary assessment of its underlying crude oil contracts and does not expect that the adoption of IFRS 15 will have a material impact on its financial statements. The Company plans to adopt the standard for its year ended December 31, 2018.

Financial Instruments

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 standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The Company has performed a preliminary assessment and does not anticipate any material changes in the carrying values of the Company's financial instruments because of the adoption of IFRS 9. The Company plans to adopt IFRS 9 on a retrospective basis on January 1, 2018.

Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases* and requires entities to recognize lease assets and lease obligations on the statement of financial position. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded.

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. The standard may be applied retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

The Company plans to apply IFRS 16 on January 1, 2019 and is currently evaluating the impact of the standard on its financial statements. Although the transition approach on adoption has not yet been determined, it is anticipated that the adoption of IFRS 16 will have a material impact on the Company's consolidated statements of financial position.

4. Exploration Assets

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

Balance, January 1, 2016	**$**	**1,654**
Additions		4,076
Dispositions		(60)
Impairment		(5,040)
Transfer from held for sale		1,413
Effect of change in foreign exchange rates		(185)
Balance, December 31, 2016	**$**	**1,858**
Additions		910
Impairment		(638)
Effect of change in foreign exchange rates		(161)
Balance, September 30, 2017	**$**	**1,969**

During the three and nine months ended September 30, 2017, $4,000 and $35,000 (2016 - $40,000 and $174,000) of general and administrative expenses were capitalized to exploration assets, respectively. During the three and nine months ended September 30, 2017, the Company incurred $122,000 and $599,000 (2016 - $563,000 and $790,000) in accrued lease expenses and letter of credit holding costs relating to its East Brighton property, respectively. These costs were impaired given the property's estimated recoverable amount was $nil. An additional $39,000 in corporate exploration property lease expenses were incurred and impaired during the nine months ended September 30, 2017 (2016 - $nil).

5. Property and Equipment

		Petroleum assets		Corporate assets		Total
Cost:						
Balance, January 1, 2015	**$**	**167,202**	**$**	**7,221**	**$**	**174,423**
Additions		4,656		138		4,794
Dispositions		-		(5,011)		(5,011)
Effect of change in foreign exchange rates		(12,241)		-		(12,241)
Balance, December 31, 2016	**$**	**159,617**	**$**	**2,348**	**$**	**161,965**
Additions		7,531		112		7,643
Effect of change in foreign exchange rates		(12,945)		-		(12,945)
Balance, September 30, 2017	**$**	**154,203**	**$**	**2,460**	**$**	**156,663**
Accumulated depletion, depreciation and impairments:						
Balance, January 1, 2015	**$**	**102,064**	**$**	**1,720**	**$**	**103,784**
Depletion and depreciation		4,852		190		5,042
Impairments		47		-		47
Dispositions		-		(144)		(144)
Decommissioning obligation change in estimate		349		-		349
Effect of change in foreign exchange rates		(7,471)		-		(7,471)
Balance, December 31, 2016	**$**	**99,841**	**$**	**1,766**	**$**	**101,607**
Depletion and depreciation		3,244		139		3,383
Effect of change in foreign exchange rates		(8,039)		-		(8,039)
Balance, September 30, 2017	**$**	**95,046**	**$**	**1,905**	**$**	**96,951**

	Petroleum assets	Corporate assets	Total
Net book values:			
Balance, December 31, 2016	$ 59,776	$ 582	$ 60,358
Balance, September 30, 2017	**59,157**	**555**	**59,712**

As at September 30, 2017, $58,349,000 in future development costs were included in Trinidad production asset cost bases for depletion calculation purposes (December 31, 2016 - $70,870,000). During the three and nine months ended September 30, 2017, $208,000 and $611,000 in general and administrative expenses were capitalized to property and equipment, respectively (2016 – $211,000 and $726,000). During the three and nine months ended September 30, 2017, $5,000 and $23,000 in share-based compensation expenses were capitalized to property and equipment, respectively (2016 – $13,000 and $49,000).

Lease operatorship agreements

The Company's Lease Operating Agreements ("LOAs") in respect of its four core properties (Coora 1, Coora 2, WD-4 and WD-8) with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"), expire on December 31, 2020, with the Company holding a five-year renewal option upon reaching agreement regarding the proposed work program and financial obligations. The practice in Trinidad is for extensions to be issued in most cases on terms substantially similar to those in effect at the time. Presently, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020 (see note 14). Under the LOAs, a breach of the minimum production levels does not constitute a breach provided the minimum work obligations have been completed.

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.

Based on correspondence and quarterly lease operatorship reviews to date, Petrotrin has not taken the position that there is 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. The Company has been advised by its legal counsel that the risk of the loss of the LOAs for an allegation of noncompliance is extremely remote. 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.

The Company fulfilled its 2016 and 2017 work commitments on its Coora 1 and WD-4 properties by drilling four approved wells in 2017. On November 13, 2017, the Company's Board of Directors approved the drilling of two well locations on the Coora 2 property and two well locations on the WD-8 property. Touchstone expects to commence operations in December 2017 which upon completion will satisfy the associated 2016 and 2017 work commitments.

Exploration and production licences

The Company's Fyzabad and Palo Seco exploration and production agreements with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") contain no major work obligations or covenants but expired on August 19, 2013. The Company is currently negotiating licence

renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licences will not be renewed. During the three and nine months ended September 30, 2017, production volumes produced under expired MEEI production licences represented 4.2% and 4.7% of total production, respectively (2016 – 5.7% and 5.4%). As at September 30, 2017, the net book value of the properties operating under expired MEEI production licenses was $8,755,000, representing 14.7% of the Company's total property and equipment balance (December 31, 2016 – $9,837,000 and 16.3%, respectively).

Private lease agreements

The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, the Company is continuing to recognize revenue on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the revenue has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. During the three and nine months ended September 30, 2017, production volumes produced under expired Trinidad private lease agreements represented 3.1% and 3.0% of total production, respectively (2016 – 3.2% and 2.6%).

6. Restricted cash and cash equivalents

The Company has United States dollar ("US$") denominated cash collateralized letters of credit that secure long-term work obligations on its production and exploration concessions. A reconciliation of the long-term restricted cash and cash equivalents balance is set forth below:

	US$	$
Balance, January 1, 2016	**$ -**	**$ -**
Additions	6,299	8,457
Interest	2	3
Effect of change in foreign exchange rates	-	1
Balance, December 31, 2016	**$ 6,301**	**$ 8,461**
Letter of credit reduction	(3,858)	(5,144)
Interest	18	23
Effect of change in foreign exchange rates	-	(271)
Balance, September 30, 2017	**$ 2,461**	**$ 3,069**

On March 14, 2017, the Company received formal approval to reduce the letter of credit issued to the MEEI in connection with East Brighton property exploration work commitments from US$6,000,000 to US$2,150,000. The funds were released to the Company on March 30, 2017.

Subsequent to September 30, 2017, Export Development Canada ("EDC") provided the Company's bank with a performance security guarantee to support the full amount of the Company's East Brighton letter of credit (see note 15).

7. Term Loan and Associated Liabilities

On November 23, 2016, the Company completed an arrangement for a $15,000,000, five-year term loan from a Canadian investment fund. The term loan replaced the Company's former bank loan, which was discharged.

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 also granted the lender a 1% gross overriding royalty on petroleum sales from current Company land holdings in Trinidad, which are payable until November 23, 2021 regardless of any repayment or prepayment of the term loan. The Company may prepay any principal portion of the term loan after May 23, 2018 and has the option to negotiate a buyout 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, using a discount rate of 12%. 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 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 following is a continuity schedule of the term loan and associated liabilities balance from inception to September 30, 2017:

	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**
Accretion	451	-	451
Payments	-	(227)	(227)
Balance, September 30, 2017	**$ 13,747**	**$ 973**	**$ 14,720**

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 September 30, 2017 was as follows:

Covenant	Covenant threshold	Estimated position at September 30, 2017
Cash reserves	> $5,000,000	**$5,233,000**
Net funded debt to equity ratio[2]	< 0.50 times	**0.36 times[1]**
EBITDA[3] for the four fiscal quarters ending September 30, 2017	> $2,500,000	**$4,717,000[1]**

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

As at September 30, 2017, the Company's cash balance per its bank statements was $5,233,000 versus $4,914,000 on the statement of financial position. The lender used the Company's bank statement values in the cash reserves covenant calculation and determined that no breach occurred as at September 30, 2017.

8. 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 environmental regulations. 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 licences, 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 recorded as a long-term asset included in property equipment. The Company and the relevant Trinidad government entity must agree on the budget and site to reclaim prior to using the abandonment fund.

As of September 30, 2017, the Company historically remitted $735,000 of abandonment fund payments, and $225,000 in short-term fund obligations were included in accounts payable and accrued liabilities (December 31, 2016 - $697,000 and $328,000, respectively). As at September 30, 2017, the Company estimated the total undiscounted cash flows required to settle its decommissioning obligations to be approximately $19,187,000 (December 31, 2016 - $20,664,0000). September 30, 2017 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, 2016 – 5.8% and 4.8%, respectively).

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. The following table summarizes the Company's decommissioning obligation provision:

Balance, January 1, 2016	**$**	**16,987**
Dispositions		(4,028)
Liabilities incurred		1
Accretion expense		378
Change in estimates		4,367
Effect of change in foreign exchange rates		(922)
Balance, December 31, 2016	**$**	**16,783**
Liabilities incurred		144
Accretion expense		116
Change in estimates		(11)
Effect of change in foreign exchange rates		(1,349)
Balance, September 30, 2017	**$**	**15,683**
Non-current		15,458
Current (included in accounts payable)		225
Total decommissioning obligation	**$**	**15,683**

9. Shareholders' Capital

(a) Issued and outstanding common shares

	Number of shares		Amount
Balance, January 1, 2016	**83,087,143**	**$**	**169,950**
Exercise of incentive share options	50,000		45
Balance, December 31, 2016	**83,137,143**	**$**	**169,995**
Issued pursuant to private placement	20,000,000		777
Balance, September 30, 2017	**103,137,143**	**$**	**170,772**

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

(b) Private placement

On June 26, 2017, the Company completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the AIM admission, the Company placed an additional 20,000,000 common shares at a price of 7.25 pence sterling ($0.12) for gross proceeds of £1,450,000 ($2,446,000). Following the private placement, the Company had 103,137,143 common shares outstanding.

Total fees incurred from the private placement were $1,669,000, which included brokerage commissions and legal, accounting and corporate finance advisory fees. Net proceeds of the private placement were $777,000.

(c) 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. The following table summarizes the share options outstanding at the end of the respective periods:

	Number of share options		Weighted average exercise price
Outstanding, January 1, 2016	**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**
Granted	1,466,300		0.14
Forfeited	(330,000)		0.72
Outstanding, September 30, 2017	**6,778,340**	**$**	**0.50**
Exercisable, September 30, 2017	**3,900,979**		**0.72**

During the three and nine months ended September 30, 2017, the Company granted nil and 1,466,300 share options to directors and employees, respectively (2016 – 20,000 and 1,578,800). The weighted average fair value of options granted during the three and nine months ended September 30, 2017 was $nil and $0.08 per option, respectively, as estimated on the date of each grant using the Black-Scholes option pricing model (2016 – $0.13 and $0.13 per option).

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 have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant. The following table summarizes the incentive share options outstanding at the end of the respective periods:

	Number of incentive share options		**Weighted average exercise price**
Outstanding, January 1, 2016	**298,125**	**$**	**0.06**
Exercised	(50,000)		0.05
Forfeited	(120,625)		0.06
Outstanding, December 31, 2016	**127,500**	**$**	**0.06**
Forfeited	(12,500)		0.10
Outstanding and exercisable, September 30, 2017	**115,000**	**$**	**0.06**

During the three and nine months ended September 30, 2017, the Company recorded share-based compensation expenses of $33,000 and $133,000 (2016 – $58,000 and $159,000) in the consolidated statement of earnings, respectively, as a result of the vesting of outstanding options and additional share options granted in 2017.

10. Net Finance Expenses

	Three months ended September 30,				**Nine months ended September 30,**			
		2017		2016		**2017**		2016
Interest income	**$**	**(34)**	$	(25)	**$**	**(68)**	$	(86)
Interest expense on bank loan		**-**		-		**-**		120
Interest expense on term loan		**303**		-		**898**		-
Interest (recovery) expense on taxes		**(2)**		(1,081)		**599**		(465)
Finance fees and other		**-**		99		**-**		260
Net finance expenses	**$**	**267**	$	(1,007)	**$**	**1,429**	$	(171)

11. Loss per Common Share

	Three months ended September 30,				**Nine months ended September 30,**			
		2017		2016		**2017**		2016
Net loss	**$**	**(1,203)**	$	(702)	**$**	**(4,600)**	$	(5,699)
Weighted number of average common shares outstanding:								
Basic and diluted		**103,137,143**		83,137,143		**90,243,370**		83,116,705
Basic and diluted loss per share	**$**	**(0.01)**	$	(0.01)	**$**	**(0.05)**	$	(0.07)

There was no dilutive impact to the weighted average number of common shares for the three and nine months ended September 30, 2017 and 2016, 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.

12. 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. 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 $3,501,000 was included in accounts receivable as at September 30, 2017 (December 31, 2016 - $1,880,000). The aging of accounts receivable as at September 30, 2017 and December 31, 2016 was as follows:

	September 30, 2017	December 31, 2016
Not past due	**$ 4,597**	$ 3,373
Past due greater than 90 days	**4,566**	5,436
Total accounts receivable	**$ 9,163**	$ 8,809

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 further 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 September 30, 2017 were as follows:

	Undiscounted amount	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**
Accounts payable and accrued liabilities	$ 11,472	$ 11,472	$ -	$ -
Income taxes payable	2,829	2,829	-	-
Term loan	15,000	-	5,670	9,330
Total financial liabilities	**$ 29,301**	**$ 14,301**	**$ 5,670**	**$ 9,330**

(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.

The Company had no commodity risk management contracts in place as at or during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, the Company recorded a net loss of $1,970,000 related to commodity risk management contracts. The Company's commodity price contracts were liquidated on June 2, 2016.

To manage commodity price risk, the Company has reduced its operating and administrative cost structure. The Company may reduce capital expenditures, issue new equity or seek additional sources of debt should forward commodity pricing materially decrease. The Company will continue to monitor forward commodity prices and may enter into commodity based risk management contracts in the future to reduce the volatility of petroleum revenues and protect future development capital programs.

(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 gains or 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 nine months ended September 30, 2017.

13. 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 trailing twelve month funds flow from operations at or below a level of 3.0 to 1. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Net debt is a non-IFRS measure calculated as working capital less long-term portions of undiscounted interest bearing financial liabilities. Working capital is calculated as current assets less current liabilities as they appear on the consolidated statements of financial position. Net debt is used by management as a key measure to assess the Company's liquidity.

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	**September 30, 2017**	December 31, 2016
Working capital surplus		**$ (402)**	$ (846)
Undiscounted term loan balance		**15,000**	15,000
Net debt		**$ 14,598**	$ 14,154
Shareholders' equity		**29,600**	36,234
Net debt plus equity		**$ 44,198**	$ 50,388
Trailing twelve months funds flow from operations[1]		**$ 2,571**	$ 6,117
Net debt to funds flow from operations	**< 3.0 times**	**5.7**	2.3
Net debt to net debt plus equity	**< 0.4 times**	**0.3**	0.3

[1] Calculated as funds flow from operations from October 1, 2016 to September 30, 2017.

14. Commitments

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under exploration licence and production agreements with the MEEI and various lease commitments for office space and equipment. As at September 30, 2017, the Company's estimated contractual capital requirements over the next three years and thereafter were as follows:

	Total	**2017**	**2018**	**2019**	**Thereafter**
Operating agreements	$ 7,907	$ 48	$ 6,797	$ 572	$ 490
Exploration agreements	14,256	260	1,971	6,245	5,780
Office leases	1,391	87	428	309	567
Equipment leases	640	59	215	196	170
Total minimum payments	**$ 24,194**	**$ 454**	**$ 9,411**	**$ 7,322**	**$ 7,007**

Under the terms of its operating agreements, the Company must fulfill minimum work obligations on an annual basis over the specific licence term. In total, the Company is obligated to drill 12 wells and perform 18 heavy workovers prior to the end of 2021. As of September 30, 2017, four wells and 13 workovers have been completed with respect to these obligations. The Company failed to drill four wells that were required in 2016, two of which were drilled during the nine months ended September 30, 2017 (see note 5).

Under the terms of its exploration licences, the Company must drill five wells prior to the end of December 31, 2020, none of which have been completed as of September 30, 2017.

The Company has provided US$299,000 in cash collateralized guarantees to Petrotrin to support its operating agreement work commitments. As at September 30, 2017, the Company provided a cash collateralized US$2,150,000 letter of credit to the MEEI to support exploration work commitments on its East Brighton offshore concession (see note 6).

15. Subsequent Events

(a) Capital lease

Effective October 1, 2017, the Company entered into a five-year contractual agreement to lease its four service rigs and ancillary equipment to a third party. The lease arrangement also includes the Company's coil tubing unit that was previously leased on May 1, 2015. The lease arrangement will be accounted for as a finance lease, and the carrying value of the equipment will be reclassified from property and equipment to other assets on the statement of financial position.

(b) Letters of credit

On November 9, 2017, EDC provided the Company's bank with a performance security guarantee to support the Company's US$2,150,000 letter of credit provided to the MEEI related to the exploration work commitments on its East Brighton property. Prior to the guarantee, the letter of credit was collateralized with cash and classified as long-term restricted cash on the consolidated statement of financial position (see note 6).