Touchstone Exploration Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2023 and 2022

Management's Report

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements and for the consistency therewith of all other financial and operating data presented in year-end regulatory filings. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

Management is responsible for the integrity and objectivity of the financial information. Management has established and continuously monitors systems of internal control over financial reporting to provide reasonable assurance regarding the reliability of Touchstone Exploration Inc.'s financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS Accounting 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 responsibilities primarily through its Audit Committee, which is composed entirely of independent directors. The Audit Committee meets regularly with Management and with the external auditors to discuss the internal controls over 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 thereon. The Audit Committee also considers the independence of the external auditors and reviews their fees. 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.

The consolidated financial statements have been audited on behalf of the shareholders by KPMG LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized and to facilitate the preparation of relevant, reliable, and timely information. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the criteria established in "*Internal Control - Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded that Touchstone Exploration Inc.'s internal control over financial reporting was effective as of December 31, 2023.

(signed) *"Paul R. Baay"*
Paul R. Baay
President, Chief Executive Officer and Director

(signed) *"Scott Budau"*
Scott Budau
Chief Financial Officer

Calgary, Alberta
March 20, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Touchstone Exploration Inc.

Opinion

We have audited the consolidated financial statements of Touchstone Exploration Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2023 and December 31, 2022
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved plus probable petroleum and natural gas reserves on property, plant and equipment ("PP&E")

Description of the matter

We draw attention to note 3, note 5, note 8 and note 9 to the financial statements. The Entity uses estimated proved plus probable petroleum and natural gas reserves to deplete its petroleum and natural gas development assets included in PP&E, to assess for indicators of impairment on the Entity's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGUs.

The Entity has $108,148,000 of PP&E as of December 31, 2023.

The Entity identified indicators of impairment for the Coho, Coora, and Fyzabad CGUs at December 31, 2023 and performed impairment tests to estimate the recoverable amount of each of these CGUs. The Entity recorded an aggregate impairment expense of $2,413,000 related to the Coho and Fyzabad CGUs and an impairment reversal of $13,865,000 associated with the Coora CGU for the year ended December 31, 2023.

The estimated recoverable amount of each CGU involves significant estimates including:

- The estimate of proved plus probable petroleum and natural gas reserves and the related future cash flows
- The discount rates.

The Entity depletes its petroleum and natural gas development assets using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable petroleum and natural gas reserves, taking into account forecasted future development costs.

Depletion and depreciation expense on petroleum and natural gas development assets was $5,595,000 for the year ended December 31, 2023, a portion of which related to depletion.

The estimate of proved plus probable petroleum and natural gas reserves and the related future cash flows includes significant assumptions related to:

- Forecasted oil and natural gas prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages an independent qualified reserves evaluator to estimate proved plus probable petroleum and natural gas reserves and the related future cash flows.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved plus probable petroleum and natural gas reserves on PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved plus probable petroleum and natural gas reserves and the related future cash flows and the discount rates. Additionally, the assessment of the recoverable amount for impairment requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

With respect to the estimate of proved plus probable petroleum and natural gas reserves and the related future cash flows at December 31, 2023:

- We evaluated the competence, capabilities and objectivity of the independent qualified reserves evaluator engaged by the Entity
- We compared forecasted oil and natural gas prices to those published by other independent qualified reserves evaluators
- We compared the 2023 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved petroleum and natural gas reserves and the related future cash flows to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2023 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the discount rate by comparing the discount rate to market and other external data
- Assessing the reasonableness of the Entity's estimate of the recoverable amount by comparing the Entity's estimate to market metrics and other external data.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is David Yung.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 20, 2024

Touchstone Exploration Inc.
Consolidated Balance Sheets
Stated in thousands of United States dollars

As at	Note	**December 31, 2023**	December 31, 2022
Assets			
Current assets			
Cash		**8,186**	16,335
Accounts receivable	6	**12,852**	7,487
Inventory		**91**	129
Prepaid expenses		**764**	1,342
Assets held for sale	8	**677**	1,122
		22,570	26,415
Exploration and evaluation assets	7	**5,030**	51,352
Property, plant and equipment	8	**108,148**	67,162
Restricted cash	13	**785**	1,021
Other assets	10	**334**	481
Abandonment fund	14	**2,081**	1,446
Total assets		**138,948**	147,877
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	**15,013**	12,737
Income taxes payable	15	**240**	1,014
Current portion of bank debt	13	**13,000**	6,000
Liabilities associated with assets held for sale	8	**1,898**	1,672
		30,151	21,423
Lease liabilities	12	**2,888**	1,373
Bank debt	13	**14,977**	20,962
Decommissioning liabilities	14	**9,733**	11,182
Deferred income taxes	15	**21,433**	14,557
Total liabilities		**79,182**	69,497
Shareholders' equity			
Shareholders' capital	16	**114,965**	114,635
Contributed surplus		**6,166**	4,905
Other comprehensive loss		**(13,124)**	(13,517)
Deficit		**(48,241)**	(27,643)
Total shareholders' equity		**59,766**	78,380
Total liabilities and shareholders' equity		**138,948**	147,877

Commitments and contingencies (Note 22)
Subsequent events (Note 25)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed) *"John D. Wright"*
John D. Wright
Chair of the Board of Directors and Director

(signed) *"Stanley T. Smith"*
Stanley T. Smith
Chair of the Audit Committee and Director

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

	Note	Year ended December 31, 2023	2022
Revenue			
Petroleum and natural gas sales	17	**48,098**	42,944
Less: royalties		**(12,173)**	(14,641)
Petroleum and natural gas revenue, net of royalties		**35,925**	28,303
Other revenue		**64**	42
Total revenue		**35,989**	28,345
Expenses			
Operating	24	**9,705**	9,022
General and administration	24	**9,451**	7,775
Net finance	18	**2,453**	3,042
Net (gain) loss on asset dispositions	7,8	**(800)**	726
Foreign exchange gain	20	**(196)**	(333)
Equity-based compensation	16	**1,243**	1,341
Depletion and depreciation	8	**6,009**	4,333
Impairment	9	**21,389**	195
Other	19	**(552)**	794
Total expenses		**48,702**	26,895
(Loss) earnings before income taxes		**(12,713)**	1,450
Provision for income taxes			
Current expense	15	**1,106**	4,648
Deferred expense (recovery)	15	**6,779**	(1)
Total income tax expense		**7,885**	4,647
Net loss		**(20,598)**	(3,197)
Currency translation adjustments		**393**	(298)
Comprehensive loss		**(20,205)**	(3,495)
Net loss per common share			
Basic and diluted	16	**(0.09)**	(0.01)

See accompanying notes to these consolidated financial statements.

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

		Year ended December 31,	
	Note	**2023**	2022
Shareholders' capital			
Balance, beginning of year		**114,635**	101,757
Private placements, net of fees	16	**-**	12,269
Equity-based settlements	16	**330**	609
Balance, end of year		**114,965**	114,635
Contributed surplus			
Balance, beginning of year		**4,905**	3,466
Equity-based settlements	16	**(120)**	(215)
Equity-based compensation expense	16	**1,243**	1,341
Equity-based compensation capitalized	7,8	**138**	313
Balance, end of year		**6,166**	4,905
Other comprehensive loss			
Balance, beginning of year		**(13,517)**	(13,219)
Other comprehensive income (loss)		**393**	(298)
Balance, end of year		**(13,124)**	(13,517)
Deficit			
Balance, beginning of year		**(27,643)**	(24,446)
Net loss		**(20,598)**	(3,197)
Balance, end of year		**(48,241)**	(27,643)

See accompanying notes to these consolidated financial statements.

Touchstone Exploration Inc.
Consolidated Statements of Cash Flows
Stated in thousands of United States dollars

	Note	Year ended December 31, 2023	2022
Operating activities			
Net loss		**(20,598)**	(3,197)
Items not involving cash from operations:			
Net (gain) loss on asset dispositions	7,8	**(800)**	726
Unrealized foreign exchange gain	20	**(194)**	(288)
Equity-based compensation expense	16	**1,243**	1,341
Depletion and depreciation expense	8	**6,009**	4,333
Impairment expense	9	**21,389**	195
Other	24	**(80)**	561
Deferred income tax expense (recovery)	15	**6,779**	(1)
Decommissioning expenditures	14	**(18)**	(130)
Funds flow from operations		**13,730**	3,540
Net change in non-cash operating working capital	24	**(987)**	2,212
Cash from operating activities		**12,743**	5,752
Investing activities			
Exploration and evaluation expenditures	7	**(17,638)**	(9,788)
Property, plant and equipment expenditures	8	**(1,311)**	(1,542)
Abandonment fund expenditures	14	**(626)**	(160)
Proceeds from asset dispositions	7,8	**250**	1,346
Net change in non-cash investing working capital	24	**(1,790)**	(6,332)
Cash used in investing activities		**(21,115)**	(16,476)
Financing activities			
Changes in restricted cash	13	**236**	157
Net advance (repayment) of bank debt	13	**1,000**	(3,000)
Net finance lease payments	10,12	**(692)**	(206)
Issuance of common shares, net of fees	16	**210**	12,663
Other liability payments		**(469)**	(573)
Net change in non-cash financing working capital	24	**(155)**	11
Cash from financing activities		**130**	9,052
Decrease in cash		**(8,242)**	(1,672)
Cash, beginning of year		**16,335**	17,936
Impact of foreign exchange on foreign denominated cash balances		**93**	71
Cash, end of year		**8,186**	16,335
Supplementary information for cash from operating activities:			
Interest paid in cash	13	**2,241**	2,273
Income taxes paid in cash	15	**1,880**	3,886

See accompanying notes to these consolidated financial statements.

1. Nature of Business

Touchstone Exploration Inc. and its subsidiaries (collectively, "Touchstone" or the "Company") are engaged in the business of petroleum and natural gas exploration, development, acquisition and production. The Company is currently active in the Republic of Trinidad and Tobago ("Trinidad").

Touchstone Exploration Inc. is incorporated under the laws of Alberta, Canada with its head and principal office located at 4100, 350 7th Avenue SW, Calgary, Alberta, Canada T2P 3N9. Touchstone's common shares are listed on the Toronto Stock Exchange ("TSX") and on the AIM market of the London Stock Exchange ("AIM") under the symbol "TXP".

2. Basis of Preparation

These consolidated financial statements (the "financial statements") have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS").

Unless otherwise stated, amounts presented in these financial statements are denominated in United States dollars ("$" or "US$"). The financial statements have been prepared on a historical cost basis, except those items that are presented at fair value as detailed in the accounting policies disclosed in Note 3 "Summary of Material Accounting Policies".

Touchstone's operations are viewed as a single operating segment by the chief operating decision makers of the Company for the purposes of resource allocation and assessing performance.

These financial statements were approved and authorized for issuance by Touchstone's Board of Directors (the "Board") on March 20, 2024.

3. Summary of Material Accounting Policies

The timely preparation of 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 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 "Use of Estimates, Judgements and Assumptions".

The accounting polices set forth below have been applied consistently to all periods presented in these financial statements by the Company and its subsidiaries.

Basis of consolidation

The financial statements include the accounts of Touchstone Exploration Inc. and its following subsidiaries:

Entity	Country of incorporation	Ownership *(%)*
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
Touchstone Renewables Ltd.	Trinidad	100

All inter-entity balances and transactions have been eliminated upon consolidation between Touchstone Exploration Inc. and its subsidiaries in these financial statements.

Joint arrangements

Touchstone may conduct its petroleum and natural gas activities through jointly controlled operations, and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby Touchstone has less than 100 percent working interest, the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks.

The Company's joint venture arrangement with Heritage Petroleum Company Limited ("Heritage") on the Ortoire block is considered a material jointly controlled arrangement. Touchstone has an 80 percent working interest in the block with Heritage holding the remaining 20 percent. Given both parties approve the operating and capital budgets, the Company has joint control over the relevant activities of this arrangement.

Foreign currency translation

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"). Touchstone has determined that the functional currency of the parent company is the Canadian dollar ("C$"); the functional currency of the Company's Barbadian entity is the US$; and the functional currency of each of its Trinidadian 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 the consolidated statements of earnings (loss) and comprehensive income (loss) ("statements of income").

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

- assets and liabilities for each consolidated balance sheet ("balance sheet") presented are translated at the reporting date closing rate;
- revenue and expenses and certain cash flow items for each period are translated at average monthly exchange rates (unless this is not a representative 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
- all resulting exchange differences are recognized in other comprehensive loss, a separate component of shareholders' equity.

Financial instruments

Classification and measurement of financial instruments

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instruments' classification, as described below.

- *Fair value through profit or loss*: Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately recognized on the statements of income. The Company does not have any financial instruments under this classification.

- *Amortized cost*: Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include cash, accounts receivable, restricted cash, accounts payable and accrued liabilities, income taxes payable, lease liabilities and bank debt.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. Expected credit losses exist if one or more loss events occur after initial recognition of the financial asset which has an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. Touchstone uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in general and administration expenses.

Derecognition of financial liabilities

If an amendment to a contract or agreement comprises a substantial modification, Touchstone will derecognize the existing financial liability and recognize a new financial liability, with the difference recognized as a gain or loss in the statements of income. To determine whether a modification is substantial, the Company performs quantitative and qualitative tests. Quantitatively, if the present value of the cash flows under the new terms is at least 10 percent different than the remaining cash flows of the original liability, the modification is deemed to be substantial. Qualitatively, the change is evaluated based on its impact to the economic risk associated with the liability and would be specific to the contract. If the modification results in the derecognition of a liability, any associated fees are recognized as part of the gain or loss. If the modification is not deemed to be substantial, any associated fees are adjusted against the liability's carrying amount and are amortized over the remaining term.

Fair value measurement

Fair value is the price that would be received when selling 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. All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using the following three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets used in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs which can be substantially observed or corroborated in the marketplace, including quoted forward price for commodities, time value and volatility factors.
- Level 3 - Valuations in this level are those with inputs that are not based on observable market data.

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

Exploration and evaluation assets

Expenditures incurred before the Company has obtained legal rights to explore an area are recognized in the statements of income as exploration and evaluation expenses.

Exploration and evaluation ("E&E") assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, exploration drilling, completion and production testing costs, directly attributable overhead and equity-based compensation expenses, and estimates of any decommissioning costs are capitalized and accumulated pending determination of technical feasibility and commercial viability. Technical feasibility and commercial viability of E&E assets are dependent upon the assignment of a sufficient amount of economically recoverable petroleum and natural gas reserves ("reserves") relative to the estimated potential resources available, available infrastructure to support commercial development, as well as obtaining the appropriate internal and external approvals. Assets classified as E&E may have sales of petroleum and natural gas products associated with production from test wells. These operating results, including attributable royalties and operating expenses, are recognized in the statements of income.

When a project classified as E&E is determined to be technically feasible and commercially viable, the relevant costs are transferred to property, plant and equipment ("PP&E") on the balance sheet. The assets are assessed for impairment prior to any such transfer, by comparing the carrying amount to the greater of the assets' fair value less cost of disposal or value in use. If a decision is made by Management not to continue an E&E project, the E&E carrying value is derecognized and expensed as impairment on the statements of income.

Property, plant and equipment

Items of PP&E, which currently include petroleum and natural gas development assets, right-of-use ("ROU") assets and corporate assets, are measured at cost less accumulated depletion and depreciation expense and accumulated impairment expense.

All costs directly associated with the acquisition and development of petroleum and natural gas properties are capitalized. Petroleum and natural gas development asset costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include transfers of E&E assets, property acquisitions, facilities, directly attributable overhead and equity-based compensation expenses, as well as land acquisition, decommissioning liabilities, geological and geophysical, and drilling, completion and production testing costs.

Petroleum and natural gas development assets are accumulated in cost centres at the cash-generating unit ("CGU") level. A CGU is a grouping of assets that generate cash flows independently of other assets held by the Company. Geography, product type, and internal management are key factors considered when grouping petroleum and natural gas development assets into CGUs. The Company depletes its petroleum and natural gas development assets using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves. Proved plus probable reserves are estimated annually by independent qualified reserves evaluators in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Estimated future development costs necessary to bring the reserves to production are included in the depletion calculation.

The Company operates under numerous production and exploration leases with varying expiry dates. Under its lease operating agreements with Heritage, the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment assessment and depletion purposes, the Company assumes that all relevant agreements will be renewed in accordance with any renewal options.

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

Impairment of non-financial assets

Property, plant and equipment

PP&E assets are grouped into CGUs for the purposes of assessing impairment. CGUs are reviewed at each reporting date for indicators of potential impairment and, in the case of previously impaired CGUs, reversal of impairment. If such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount, defined as the greater of the CGU's fair value less costs of disposal and its value in use. Any excess carrying value over the estimated recoverable amount is recognized in the statements of income as impairment expense.

If there is an indicator that a previously recognized impairment expense may no longer exist or may have decreased, the estimated recoverable amount of the relevant CGU is calculated and compared against the carrying amount. A previous impairment expense is reversed to the extent that the CGU's estimated recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated depletion, if no impairment had been recognized. A reversal of impairment is recognized in the statements of income against impairment expense.

Fair value less costs to sell is estimated using the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less any 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. In assessing value in use, estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Value in use is computed by reference to the present value of the related future cash flows expected to be derived from estimated proved plus probable reserves.

Exploration and evaluation assets

E&E assets are assessed for impairment at the area level and are reviewed at each reporting date for indicators of potential impairment or, in the case of previously impaired E&E assets, reversals of impairment. An impairment expense on E&E assets is recognized if the carrying value of the E&E assets exceed the recoverable amount. Similarly, a previously recorded impairment may be reversed if the recoverable amount of the relevant E&E asset is greater than the carrying amount. E&E asset impairment expenses or reversals are recognized in the statements of income as impairment expense or impairment reversal, respectively.

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 development or 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 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. Certain events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year.

Immediately before E&E and PP&E assets are classified as held for sale, they are assessed for indicators of impairment and are measured at the lower of their carrying amount and estimated recoverable amount, with any impairment expense recognized in the statements of income. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the balance sheet. Assets held for sale are not depleted or depreciated.

Dispositions

Gains or losses on disposal of assets are determined as the difference between the net proceeds from disposal and the carrying amount of the net assets held for sale and are recognized in the statements of income.

Exchanges of assets are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured, in which case the acquired assets are measured at the carrying value of the assets disposed.

Lease arrangements

The Company assesses whether an arrangement is a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

When Touchstone is a party to a lease arrangement as the lessee, leases are recognized as a ROU asset and a corresponding lease liability on the balance sheet on the date that the leased asset becomes available for use.

ROU assets and lease liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments which may include fixed payments, variable lease payments based on an index or a rate, amounts expected to be payable under residual value guarantees, and payments to exercise an extension or termination option if the Company is reasonably certain to exercise either option. The future payments are discounted using the interest rate implicit in the lease or, when that rate cannot be readily determined, Touchstone's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the lease liability and finance expenses. Finance expenses are recognized on the statements of income over the lease term.

ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. ROU assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

Lease liabilities and ROU assets are remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase extension or termination option.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the statements of income on a straight-line basis over the lease term.

As lessor

Where Touchstone acts as the lessor in a lease arrangement, the Company assesses at inception whether the lease is a finance lease or an operating lease. Leases where the Company transfers substantially all of the risk and rewards incidental to ownership of the underlying asset are classified as finance leases. Under a finance lease, Touchstone records the current portion of the finance lease in accounts receivable and the non-current portion in other assets. Finance interest income related to the lease is recognized using an approach that equals 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 the statements of income over the lease term against net finance expenses. The Company records lease payments received under operating leases as other revenue on a straight-line basis over the lease term.

Bank debt

The Company's bank debt contains a term loan facility and a revolving loan facility that may be renewed on an annual basis. The term loan facility was initially measured at fair value, net of all transaction fees, and is subsequently measured at amortized cost using the effective interest rate method. The discount on the term loan facility is unwound using the effective interest rate method to the face value at maturity and is expensed to net finance expenses on the statements of income. The revolving loan facility is measured at amortized cost using the effective interest rate method.

Provisions

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

A provision for an onerous contract is recognized when the expected economic benefits to be derived by Touchstone from the contract are lower than the unavoidable cost of meeting the obligations in the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost during the remaining term of the contract. Before a provision is established, the Company first recognizes any impairment expense on any assets associated with the onerous contract.

Decommissioning liabilities

Provisions for abandonment and reclamation obligations associated with Touchstone's E&E and PP&E assets are recognized as decommissioning liabilities. Decommissioning liabilities are measured at the present value of Management's best estimate of expenditures required to settle the liability at the end of the related assets' useful life at the balance sheet reporting date. On at least a quarterly basis, Management reviews these estimates, and any changes, if any, are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. Capitalized costs included in PP&E balances are depleted based on a unit-of-production basis consistent with the underlying assets. The long-term liability is increased in each reporting period with the passage of time, and the associated accretion expense is recognized in the statements of income in net finance expenses. Periodic revisions to the liability-specific risk-free discount rate, estimated timing of cash flows, or to the estimated undiscounted cost can also result in an increase or decrease to the decommissioning liability and the related asset. Actual costs incurred upon settlement of the obligations are recognized against the provision to the extent of the liability recognized.

With respect to decommissioning liabilities associated with the Company's production licences with Heritage, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a specific well in comparison to the well's cumulative historical production. Touchstone is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum and natural gas operations conducted on its properties under licences with the Government of Trinidad and Tobago Ministry of Energy and Energy Industries ("MEEI") and private landowners.

Revenue recognition

The Company principally generates revenue from the sale of commodities, which include crude oil, natural gas and natural gas liquids. Revenue associated with the sale of commodities is recognized when control of the commodity is transferred to the buyer, the significant risks and rewards of ownership of the commodity is transferred to the buyer, and Touchstone has the present right to payment.

Touchstone also generates revenue from gathering and selling third-party products through its infrastructure, which is recognized as other revenue in the statements of income.

Equity-based compensation plans

The Company has a stock option plan for its Board members and certain employees. In 2023, Touchstone adopted an omnibus incentive compensation plan primarily to allow for a variety of equity-based awards that provide the Company with the ability to grant different types of incentives to directors and employees including stock options, restricted share units and performance share units.

Compensation expense associated with stock option awards is determined based on the fair value of the award at grant date, as measured using the Black-Scholes option-pricing model and is recognized over the period the awards vest with a corresponding increase in contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of options that vest. When equity-settled awards are exercised, the consideration received, and the associated amounts previously recorded as contributed surplus are reclassified to shareholders' capital.

Income taxes

Provision for, or recovery of, income tax comprises current and deferred tax and is recognized in the statements of income, except to the extent that it relates to items recognized directly in equity, in which case the related income tax is also recorded in equity.

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

Deferred income tax is recognized using the balance sheet 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 income taxes are not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and loss or for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the income 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 by the reporting date.

Deferred income tax assets and liabilities are presented as non-current. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to set off the recognized amounts, and the intent is to either settle on a net basis or to realize the assets and settle the liabilities simultaneously. A deferred income tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Per share information

Basic per share information is computed by dividing net earnings (loss) attributable to shareholders by the weighted average number of common shares outstanding during the period.

The treasury-stock method is used to determine the diluted per share amounts, whereby any proceeds from stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding for the period is then adjusted by the net change.

4. Changes to Accounting Policies

New Accounting Policies

Disclosure of Accounting Policies

The Company adopted *Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Material Judgements)* which were effective for annual reporting periods beginning on or after January 1, 2023. The amendment required companies to disclose material rather than significant accounting policies and includes guidance around defining materiality in this context. The amendments did not have a material impact on the Company's disclosures of accounting policies or measurement, recognition or presentation of any items within these financial statements.

Future Accounting Pronouncements

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1") to clarify requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. Both amendments are effective for annual periods beginning on or after January 1, 2024. Touchstone will adopt the pronouncements on January 1, 2024 and each is not expected to have a material impact on the Company's financial statements.

5. Use of Estimates, Judgements and Assumptions

The timely preparation of financial statements in conformity with IFRS requires Management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. These estimates, judgments and assumptions are subject to change, and actual results could differ from those estimated, and those differences could be material. 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 financial statements are discussed below.

Climate reporting regulations

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance and climate reporting, the International Sustainability Standards Board ("ISSB") issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable.

On June 26, 2023, the ISSB released two standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The Canadian Sustainability Standards Board has been formed to support the adoption of international sustainability standards in Canada, which will include decisions about adoption and effective dates of IFRS S1 and IFRS S2. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters*. The cost to comply with these standards and others that may be developed or evolved over time have yet to be quantified by the Company and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

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. 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.

Petroleum and natural gas reserves

There are a number of inherent uncertainties associated with estimating proved plus probable reserves. Reserve estimates are based on a number of significant assumptions, such as engineering and geological data, forecasted oil and natural gas price estimates, forecasted production volumes, and the timing and amount of forecasted royalty, operating and future development costs, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing as of December 31, 2023 and 2022, which could differ significantly from future periods. The estimate of reserves and the related cash flows are evaluated by independent qualified reserves evaluators at least annually in accordance with NI 51-101.

Petroleum and natural gas investments

The Company applies judgment when classifying the nature of petroleum and natural gas investments as E&E or PP&E and when determining whether capitalization of the initial costs of these investments is appropriate. The Company uses historical drilling results, project economics, resource quantities, estimated operating expenses and future development costs to make judgments about future events and circumstances.

Determination of cash-generating units

Determination of what constitutes a CGU is subject to Management's judgement. The recoverability of petroleum and natural gas development asset carrying values included in PP&E are assessed at the CGU level, and the asset composition of a CGU can directly impact the recoverability of the assets included therein. Geological formation, shared infrastructure and marketing arrangements, product type, geographic location, and internal management are key factors considered when grouping Touchstone's petroleum and natural gas development assets into CGUs.

Recoverability of asset carrying values

Management applies judgement in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The key input estimates the Company applies in determining the recoverable amount of assets include estimates of proved plus probable reserves and the related future cash flows therefrom, forecasted production volumes, forecasted oil and natural gas prices, forecasted royalty, operating and future development costs, forecasted income tax expenses, forecasted inflation rates, and discount rates.

In estimating the recoverable amount of E&E assets, Management factors in future development plans, licence expiries, and required regulatory approvals into the relevant asset assessment. Where applicable, the Company uses proved plus probable reserves to assess certain E&E assets for impairment prior to being transferred to PP&E as estimated by the Company's independent qualified reserves evaluator. E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the products are technically feasible and commercially viable. This assessment requires significant Management judgement, as E&E assets are subject to continuous internal review to confirm the ongoing intent to establish the technical feasibility and commercial viability of a project.

The recoverable amounts of Touchstone's PP&E CGUs are estimated based on value in use calculations using discounted after-tax cash flows derived from the Company's proved plus probable reserves as estimated by the Company's independent qualified reserves evaluator. The reserve evaluation is based on an estimated reserve life up to a maximum of 50 years. Key input estimates used in the determination of related future cash flows from proved plus probable reserves are set forth below.

- *Proved plus probable reserves and forecasted production volumes*: Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forecasted oil and natural gas price estimates, forecasted operating costs, required forecasted future development costs or recovery rates may change the economic status of reserves and may result in revisions to reserves estimates. Discounted future cash flow models consider development plans approved by Management and reasonable assumptions that a market participant would apply in establishing a development plan for the assets.
- *Forecasted oil and natural gas prices*: Forecasted product pricing estimates are used in the discounted future cash flow models. These prices are adjusted for consideration stipulated in contracts with customers. Commodity prices have experienced increased volatility in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, expected future demand, economic and geopolitical factors.
- *Forecasted royalty costs, operating costs, general and administration costs and income tax expenses*: Estimates of these inputs are based on historical results and estimates regarding inflation over the forecast periods. Forecasted income tax calculations are based on the laws that have been enacted or substantively enacted for the appropriate cash flow streams.
- *Forecasted future development costs and inflation rates*: Forecasted future development costs are estimated based on expected future costs of wells and facilities and estimates regarding inflation over the forecast periods. There also exists uncertainty regarding the estimated timing of capital projects, as the Company has significant development opportunities in several properties, and the ultimate pace of development is controlled to meet future capital expenditure and liquidity targets.
- *Discount rate*: The discount rates used to calculate the net present value of future cash flows are based on estimates of an approximate industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Depletion of petroleum and natural gas development assets

Depletion of petroleum and natural gas development assets is determined based on proved plus probable reserves as well as forecasted future development costs estimated by the Company's independent qualified reserves evaluator.

Exploration and evaluation assets

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of petroleum and natural gas products is technically feasible and commercially viable. Determining whether sufficient progress has been made is a judgemental area, and it is possible to have E&E assets classified as such for several years while activities are being conducted or the Company is seeking regulatory and internal approvals for development plans. E&E assets are subject to ongoing Management review to confirm the intent to establish technical feasibility and commercial viability of a discovery. This assessment includes many changing factors, including reserves, project economics, expected capital expenditures and production costs, access to infrastructure, obtaining and the timing of receiving required regulatory approvals, and potential infrastructure construction and expansions. Furthermore, the transfer of E&E assets to PP&E is based on Management's judgement of technical feasibility and commercial viability.

Decommissioning liabilities

The provision for abandonment and reclamation obligations associated with Touchstone's E&E and PP&E assets is based on numerous assumptions and judgements, including ultimate remediation plans, settlement amounts, historical third-party production data, inflation factors, risk-free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. Actual costs and timing of cash outflows could differ from estimates because of changes in laws and regulations and market conditions. Additionally, further discovery, analysis of site conditions, and changes in technology could also cause estimates to differ from actual costs.

Lease arrangements

Management applies judgment in reviewing each of its contractual arrangements to determine whether they contain a lease. Leases that are recognized are subject to further Management judgment and estimation in various areas specific to the contractual arrangements, including lease terms and discount rates. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Where the discount rate implicit in a lease cannot be readily determined, the rate is estimated using Touchstone's incremental borrowing rate. This represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with comparable payment terms and security in a similar economic environment.

Provisions

The determination of provisions involves Management judgements about the probability of outcomes of future events and estimates on timing and amount of expected future cash flows. Such disclosure could relate to predicted outcomes of ongoing legal matters, ongoing or completed asset dispositions, and current regulatory processes.

Equity-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 stock options is measured using the Black-Scholes option pricing model. The measurement inputs to this model, including expected volatility, weighted average expected life of the instruments, expected dividends, risk-free interest rate (based on Government of Canada bonds) and expected forfeitures, rely on Management's judgements. Forfeitures are estimated through the vesting period based on future expectations and are adjusted upon actual vesting and forfeitures.

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 income tax assets. Income tax filings are subject to subsequent government audits and reassessments and changes in facts, circumstances, and interpretations of the standards may result in a material change in the Company's provision for income taxes.

6. Financial Assets and Credit Risk

Credit risk is the risk of a financial loss to the Company if a partner or counterparty to a product sales contract, financial instrument, jointly controlled operation or other financial transaction fails to meet its contractual obligations. As at December 31, 2023, Touchstone was exposed to credit risk with respect to its finance lease receivable (included in other assets on the balance sheet) and accounts receivable balances.

The credit risk associated with Touchstone's December 31, 2023 finance lease receivable balance of $350,000 is considered negligible as the assets are secured by the underlying equipment, with ownership transferring to the counterparties subsequent to receipt of the final lease payments (refer to Note 10).

Credit risk is considered to be low for the Company's accounts receivable, as Touchstone's credit exposure typically pertains to monthly commodity sales and joint interest billings due from Trinidad government owned petroleum and natural gas entities, and value added taxes ("VAT") due from the Trinidad government. Petroleum and natural gas billings are typically collected within one month of production, with approximately 50 percent of the Company's credit exposure as at December 31, 2023 attributed to accrued revenue for December 2023 production volumes.

The following tables disclose the composition and aging of Touchstone's accounts receivable balance as at December 31, 2023 and 2022.

($000's)	**December 31, 2023**	December 31, 2022
Petroleum and natural gas sales	**6,424**	2,403
Joint interest	**702**	478
VAT	**5,058**	4,190
Other	**668**	416
Accounts receivable balance	**12,852**	7,487

($000's)	**December 31, 2023**	December 31, 2022
Current (less than 30 days)	**7,880**	3,398
31-60 days	**302**	293
61-90 days	**308**	307
Past due (greater than 90 days)	**4,362**	3,489
Accounts receivable balance	**12,852**	7,487

As at December 31, 2023 and 2022, Touchstone determined that the average expected credit loss on its accounts receivables was $nil. The Company believes that the accounts receivable balances that are past due are collectible, as they solely represent VAT amounts due from the Trinidad government. Although the timing of settlement is uncertain, Touchstone has not historically experienced any collection issues. Subsequent to December 31, 2023, approximately $1,507,000 in past due VAT was collected.

7. Exploration and Evaluation Assets

($000's)	Year ended December 31, 2023	2022
Balance, beginning of year	**51,352**	50,760
Additions	**18,199**	10,383
Transfer to PP&E	**(31,803)**	(7,915)
Dispositions	**-**	(2,046)
Impairment expense (Note 9)	**(32,747)**	(90)
Effect of change in foreign exchange rates	**29**	260
Balance, end of year	**5,030**	51,352

During the year ended December 31, 2023, $656,000 of direct and attributable overhead charges were capitalized to E&E assets (2022 - $926,000).

Transfers to PP&E

Upon first production in September 2023, the Company transferred $32,204,000 of E&E costs related to its Cascadura field to PP&E. Immediately prior to transferring the asset to PP&E, Touchstone performed the required impairment test and determined that the recoverable amount of the asset exceeded its carrying value, resulting in no impairment expense recognized.

Touchstone transferred $7,915,000 of E&E costs related to its Coho field to PP&E upon first production in October 2022. No impairment expense was recognized in connection with the transfer.

Disposition

In conjunction with initial Coho production in October 2022, the Company sold a gathering line tying in the Coho natural gas facility to a third-party natural gas processing facility to the Trinidad state owned natural gas company for cash proceeds of $1,200,000. A net $846,000 loss on asset dispositions was recognized during the year ended December 31, 2022.

8. Property, Plant and Equipment

($000's)	Petroleum and natural gas development assets	Right-of-use assets	Corporate assets	Total
Cost				
Balance, January 1, 2022	142,894	2,950	2,396	148,240
Additions	1,533	7	94	1,634
Transfer from E&E assets (Note 7)	7,915	-	-	7,915
Change in decommissioning asset (Note 14)	528	-	-	528
Foreign exchange translation	829	(20)	(135)	674
Balance, December 31, 2022	**153,699**	**2,937**	**2,355**	**158,991**
Additions	**1,079**	**2,934**	**273**	**4,286**
Transfers from (to) E&E assets (Note 7)	**32,204**	**(401)**	**-**	**31,803**
Change in decommissioning asset (Note 14)	**(269)**	**-**	**-**	**(269)**
Reclassified as assets held for sale	**(677)**	**-**	**-**	**(677)**
Foreign exchange translation	**810**	**22**	**69**	**901**
Balance, December 31, 2023	**186,846**	**5,492**	**2,697**	**195,035**

($000's)	Petroleum and natural gas development assets	Right-of-use assets	Corporate assets	Total
Accumulated depletion, depreciation and impairment				
Balance, January 1, 2022	84,668	409	1,888	86,965
Depletion and depreciation	4,106	81	146	4,333
Foreign exchange translation	661	(10)	(120)	531
Balance, December 31, 2022	**89,435**	**480**	**1,914**	**91,829**
Depletion and depreciation	**5,595**	**241**	**173**	**6,009**
Impairment reversal (Note 9)	**(11,326)**	**-**	**-**	**(11,326)**
Foreign exchange translation	**325**	**5**	**45**	**375**
Balance, December 31, 2023	**84,029**	**726**	**2,132**	**86,887**
Carrying amounts				
Balance, December 31, 2022	64,264	2,457	441	67,162
Balance, December 31, 2023	**102,817**	**4,766**	**565**	**108,148**

$105,252,000 of future development costs were included in petroleum and natural gas development asset cost bases for depletion calculation purposes for the year ended December 31, 2023 (2022 - $71,638,000). During the year ended December 31, 2023, $309,000 of direct and attributable overhead charges were capitalized to PP&E (2022 - $474,000).

Dispositions

The following table specifies the carrying values that were classified as held for sale as at December 31, 2023 and 2022.

($000's)	**December 31, 2023**	December 31, 2022
PP&E	**677**	1,091
Abandonment fund (Note 14)	**-**	31
Assets held for sale	**677**	1,122
Decommissioning liabilities (Note 14)	**(1,898)**	(1,672)
Liabilities associated with assets held for sale	**(1,898)**	(1,672)
Net liabilities held for sale	**(1,221)**	(550)

At December 31, 2023, Touchstone classified assets and associated liabilities associated with a non-core property to held for sale given the initial stage of an asset swap with a third party is expected to close in 2024. Prior to the transfer, the Company performed the required impairment test and determined that the fair value of the CGU exceeded its carrying value, resulting in no impairment expense recognized.

Touchstone executed definitive sales and purchase agreements with a third party to dispose of three non-core licences for aggregate consideration of $350,000 in 2021. Two of the property sales closed on April 30, 2022, with a net $85,000 gain on asset dispositions recorded during the year ended December 31, 2022. The final property disposition closed on May 31, 2023, and the Company recognized a net $800,000 gain on asset dispositions during the year ended December 31, 2023.

Private lease agreements

Touchstone is operating under a number of private lease agreements which have expired and are currently being renewed. Based on legal opinions received, the Company is continuing to recognize petroleum and natural gas sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the year ended December 31, 2023, production volumes produced under expired private lease agreements represented 1.3 percent of annual Company production (2022 - 3.8 percent).

9. Impairment

Exploration and evaluation assets

E&E asset impairment expense for the years ended December 31, 2023 and 2022 by area are disclosed in the following table.

Area *($000's)*	**Year ended December 31,**	
	2023	2022
Cory Moruga	**66**	195
Ortoire	**32,649**	-
E&E asset impairment expense	**32,715**	195

The Cory Moruga block is considered a non-core property with a fair value of $nil. The net $66,000 impairment expense recorded during the year ended December 31, 2023 reflected $98,000 in licence financial obligations, slightly offset by a decrease of $32,000 in decommissioning assets based on updates in long-term inflation estimates that decreased corresponding decommissioning liabilities (2022 - $90,000 and $105,000 increase, respectively).

As a result of allocating future capital spending to align with the Company's long-term priorities and the results of production tests which deemed the Royston-1X well uneconomic, indicators of impairment were noted within the Ortoire E&E asset. The Company performed an impairment test that concluded that the recoverable amount of the asset was not sufficient to support its carrying value, which resulted in an aggregate pre-tax impairment expense of $32,649,000 recorded at December 31, 2023.

Property, plant and equipment

The following table discloses PP&E impairment expenses and reversal recorded during the year ended December 31, 2023 by CGU. No impairment expenses or reversals were recognized during the year ended December 31, 2022.

CGU *($000's)*	**Impairment expense (reversal)**
Coho	**143**
Coora	**(13,865)**
Fyzabad	**2,270**
Net PP&E impairment reversal	**(11,452)**

At December 31, 2023, the Company identified indicators of impairment for three petroleum and natural gas development asset CGUs due to material decreases in assigned reserves volumes. Based on the results of impairment tests conducted, the recoverable amounts for the Coho and Fyzabad CGUs were not sufficient to support their carrying values, and the recoverable amount of the Coora CGU was greater than its carrying value. As a result, Touchstone recognized an aggregate pre-tax impairment expense of $2,413,000 related to the Coho and Fyzabad CGUs and a pre-tax impairment reversal of $13,865,000 associated with the Coora CGU at December 31, 2023.

In addition, the Company recorded an impairment expense of $126,000 related to slow moving oilfield capital inventory not assigned to a specific CGU at December 31, 2023 (2022 - $nil).

The impairment tests conducted at December 31, 2023 for the respective CGUs concluded the following recoverable amounts and resulting pre-tax impairment expenses and reversals recorded during the year ended December 31, 2023.

CGU *($000's)*	**Carrying value**[(1)]	**Recoverable amount**	**Impairment expense (reversal)**
Coho	3,734	3,669	143
Coora	6,582	12,821	(13,865)
Fyzabad	2,051	1,029	2,270

Note:
(1) Net of associated deferred tax liabilities.

Calculating CGU recoverable amounts involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. The estimated recoverable amounts as of December 31, 2023 were determined using value in use calculations incorporating discounted after-tax cash flows of proved plus probable reserves using forward crude oil and natural gas prices and cost estimates as assessed by the Company's independent qualified reserves evaluator. Discounted future cash flows for each CGU were determined by applying a 20 percent after-tax discount rate (approximately 57 percent pre-tax discount rate).

At December 31, 2023, the recoverable amounts of the three CGUs were calculated using the following forward benchmark commodity prices adjusted for commodity differentials specific to the CGU as estimated by the Company's independent qualified reserves evaluator effective January 1, 2024. The prices and costs subsequent to 2033 have been adjusted for inflation at an annual rate of 2 percent to the end of the CGUs reserves life.

	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Brent crude oil *($/bbl)*	78.00	79.18	80.36	81.79	83.41	85.09	86.79	88.52	90.29	92.10
Henry Hub natural gas *($/MMBtu)*	2.75	3.64	4.02	4.10	4.18	4.27	4.35	4.44	4.53	4.62
Inflation rates *(% / year)*	-	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

The value in use calculations used to determine the recoverable amounts of Touchstone's CGUs at December 31, 2023 were classified as Level 3 fair value measurements as certain key assumptions were not based on observable market data, but rather, Management's best estimates. Changes in any of the key judgments, such as a revision in reserves, changes in forecasted commodity prices and inflation rates, operating costs, future development costs, or the discount rate would impact the estimated recoverable amounts, and any resulting impairment expense would affect comprehensive loss. The following table demonstrates the sensitivity of the pre-tax impairment expense amounts by CGU to reasonably possible changes in key assumptions inherent in the December 31, 2023 impairment tests.

CGU *($000's)*	**Decrease in discount rate of 1%**	**Increase in discount rate of 1%**	**Increase in commodity price of 10%**	**Decrease in commodity price of 10%**
Coho	(143)	382	(143)	627
Coora	(644)	1,212	(644)	8,289
Fyzabad	(49)	47	(342)	651
(Decrease) increase in impairment expense / reversal	**(836)**	**1,641**	**(1,129)**	**9,567**

10. Other Assets

The following table sets forth the components of other assets as at December 31, 2023 and 2022.

($000's)	**December 31, 2023**	December 31, 2022
Long-term prepaid deposits	**39**	24
Finance lease receivable	**295**	457
Other assets balance	**334**	481

Effective March 1, 2021, the Company entered into separate arrangements to lease its oilfield service rigs and swabbing units to third-party service providers. Principal payments commenced in March 2021, and the Company continues to hold title to the assets until all principal payments have been collected. The lease arrangements were classified as finance leases, as substantially all of the risks and rewards incidental to ownership of the underlying assets are held by the lessees.

The following table details the movements of the Company's finance lease receivable during the years ended December 31, 2023 and 2022.

($000's)	**Year ended December 31,**	
	2023	2022
Balance, beginning of year	**534**	738
Interest income	**43**	63
Payments received	**(228)**	(239)
Lease modification	**-**	(33)
Effect of change in foreign exchange rates	**1**	5
Balance, end of year	**350**	534
Current (included in accounts receivable)	**55**	77
Non-current (included in other assets)	**295**	457
Finance lease receivable balance	**350**	534

11. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Touchstone actively manages its liquidity risk through cash and debt management strategies such as continuously monitoring actual and forecasted cash and working capital balances and cash flows from operating, investing and financing activities, ensuing compliance with bank debt covenants, and seeking opportunities to expand its existing bank debt or to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle financial obligations as they come due.

At December 31, 2023, the Company had a working capital deficiency and obtained a waiver from its lender with respect to a covenant violation (see Note 13). Subsequent to December 31, 2023, Touchstone and its lender entered into a binding term sheet, subject to customary closing conditions and a material adverse change clause, which is expected to provide an addition $13 million of bank debt capacity (see Note 25). If the Company had an adverse outcome to closing this financing, it would be required to seek alternative sources of financing to manage liquidity.

The Company's principle near-term development plan is strategically balanced between maintaining base commodity production levels and increasing cash flow generation via development activities. The Company will take a measured approach to future developmental and exploration capital expenditures to manage financial liquidity while proceeding with this plan. Touchstone will continue to actively monitor its liquidity to ensure that cash flows, potential credit facility capacity and working capital are adequate to support current and future financial liabilities, as well as the Company's near-term capital programs and future work commitments.

Refer to Note 13 "Bank Debt ", Note 21 "Capital Management" and Note 22 "Commitments and Contingencies" for further details regarding the Company's debt structure and capital management objectives and policies. The following table sets forth estimated undiscounted cash outflows and financial maturities of Touchstone's financial liabilities as at December 31, 2023.

($000's)	Undiscounted cash outflows(1)	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities(2)	**13,573**	13,573	-	-
Income taxes payable (Note 15)	**240**	240	-	-
Lease liabilities(3) (Note 12)	**5,604**	1,746	1,634	2,224
Bank debt(3)(4) (Note 13)	**31,235**	14,665	13,492	3,078
Total financial liabilities	**50,652**	**30,224**	**15,126**	**5,302**

Notes:
(1) The undiscounted cash outflows equal their carrying values, with the exception of lease liabilities and bank debt principal.
(2) Excludes the current portion of lease liabilities.
(3) Includes the notional interest and principal payments.
(4) Subsequent to December 31, 2023, the Company and its lender executed a binding term sheet providing for an aggregate $13 million increase in bank debt capacity which will modify the estimated payment schedule disclosed above (refer to Note 25).

12. Lease Liabilities

Touchstone is a party to lease arrangements for a drilling rig, office facilities, vehicles and equipment. Lease agreements are negotiated on an individual basis and contain a wide range of varying terms and conditions. The lease contracts are effective for periods of nine months to nine years, and discount rates used in calculating the present values of lease payments during the year ended December 31, 2023 were between 5 and 10 percent. The following table provides a continuity of the Company's lease liabilities for the years ended December 31, 2023 and 2022.

($000's)	Year ended December 31,	
	2023	2022
Balance, beginning of year	**2,255**	2,648
Additions	**2,934**	7
Interest expense	**287**	242
Repayments	**(1,164)**	(624)
Effect of change in foreign exchange rates	**16**	(18)
Balance, end of year	**4,328**	2,255
Current (included in accounts payable and accrued liabilities)	**1,440**	882
Non-current	**2,888**	1,373
Lease liabilities balance	**4,328**	2,255

During the year ended December 31, 2023, the Company entered into a minimum five-year lease for additional office space in Trinidad as well as various motor vehicle leases with four-year terms, resulting in a combined $2,934,000 lease liability and associated ROU asset recognized.

The following table details the undiscounted cash flows which include both principal and interest components of the Company's lease liabilities as at December 31, 2023 and 2022.

($000's)	December 31, 2023	December 31, 2022
Less than one year	**1,746**	1,055
1 to 3 years	**1,634**	1,258
Thereafter	**2,224**	268
Undiscounted cash flows related to lease liabilities	**5,604**	2,581

Payments recognized in the financial statements relating to short-term leases during the year ended December 31, 2023 were $441,000 (2022 - $504,000). These arrangements primarily consisted of leases for motor vehicles and well service equipment, which were recognized in operating expenses in the statements of income. Variable lease payments of $126,000 not included in the calculation of the Company's lease liabilities during the year ended December 31, 2023 were recognized in general and administration expenses in the statements of income (2022 - $100,000).

13. Bank Debt

On May 25, 2023 Touchstone's indirect wholly owned Trinidadian subsidiary entered into a second amended and restated loan agreement with its existing Trinidad based lender providing for a $7,000,000 revolving loan facility in addition to the existing $30,000,000 term loan facility (the "Second Amended Loan Agreement").

The revolving loan facility matures on May 30, 2024 and may be extended by additional periods of up to one year by agreement between the parties. The revolving loan bears interest at a rate of 7.29 percent for the initial year and is reset annually if extended. Outstanding principal may be repaid at any time, on or before the maturity date without penalty and any amounts repaid may be redrawn at any time. The $7,0000,000 revolving loan facility was fully drawn as of December 31, 2023, and the Company incurred $114,000 in related debt issuance costs included in net finance expenses during the year ended December 31, 2023.

The term loan facility matures on June 15, 2027 and bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. As at December 31, 2023, the principal balance of the term loan facility was $21,000,000, with fourteen equal and consecutive quarterly principal payments of $1,500,000 outstanding.

The following table details the movements of the Company's bank debt balance for the years ended December 31, 2023 and 2022.

($000's)	**Term loan facility**	**Revolving loan facility**	**Bank debt**
Balance, January 1, 2022	29,896	-	29,896
Payments	(3,000)	-	(3,000)
Accretion	66	-	66
Balance, December 31, 2022	**26,962**	**-**	**26,962**
Payments	**(6,000)**	**-**	**(6,000)**
Advances	**-**	**7,000**	**7,000**
Accretion	**15**	**-**	**15**
Balance, December 31, 2023	**20,977**	**7,000**	**27,977**
Current	**6,000**	**7,000**	**13,000**
Non-current	**14,977**	**-**	**14,977**
Bank debt balance	**20,977**	**7,000**	**27,977**

Touchstone's bank debt is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of the Trinidad subsidiary and its wholly owned Trinidad exploration and production subsidiary.

The Second Amended Loan Agreement contains industry standard representations and warranties, undertakings, events of default, and the following financial covenants, which are applicable on a consolidated basis and evaluated on an annual basis.

Financial covenant description	Limit	Year ended December 31, 2023
Net senior funded debt[(1)] to trailing annual EBITDA[(2)]	2.50 times	**1.10**
Net senior funded debt to book value of equity[(3)]	0.70 times	**0.19**
Debt service coverage[(4)]	Minimum of 2.50 times	**1.80**

Notes:
(1) "Net senior funded debt" is defined in the Second Amended Loan Agreement as all obligations for senior secured and unsecured borrowed money which bear interest less restricted and unrestricted cash balances. Lease liabilities are excluded from the calculation of net senior funded debt.
(2) "EBITDA" is defined in the Second Amended Loan Agreement as earnings (loss) before interest expenses, income tax expenses, all non-cash items including depreciation and amortization, and losses attributable to extraordinary and non-recurring items.
(3) "Book value of equity" is defined in the Second Amended Loan Agreement as shareholders' capital, contributed surplus and retained earnings or deficit excluding increases and decreases in retained earnings from E&E asset and PP&E impairments or reversals and excluding payments of dividends.
(4) "Debt service coverage" is defined in the Second Amended Loan Agreement as the ratio of trailing annual EBITDA plus restricted and unrestricted cash balances to the total of bank debt interest expense due for the future annual period and scheduled principal payments in respect of outstanding bank debt principal for the future annual period.

As at December 31, 2023, the Company was compliant with all covenants provided for in the Second Amended Loan Agreement aside from the debt service coverage financial covenant. Touchstone breached the debt service coverage covenant due to the $7 million principal amount of the revolving facility included as a future payment in the 2024 annual period. However, the parties have the option to renew the revolving loan facility prior to May 30, 2024. Prior to December 31, 2023, Touchstone received a waiver from its lender for the anticipated breach confirming that the breach was waived and would not be enforced as an event of default.

Subsequent to December 31, 2023, the Company and its lender executed a binding term sheet providing for a $13 million increase in borrowing capacity (refer to Note 25).

Pursuant to the Seconded Amended Loan Agreement, Touchstone must at all times maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments related to the term loan facility. Accordingly, the Company classified $785,000 of cash as long-term restricted cash as at December 31, 2023 (2022 - $1,021,000).

14. Decommissioning Liabilities and Abandonment Fund

Touchstone's decommissioning liabilities were calculated 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. Payments to settle the obligations occur over the operating lives of the underlying assets forecasted to be from nine to sixteen years, with the majority of the costs estimated to be incurred subsequent to 2031. The liabilities are expected to be financed from the related abandonment funds and the Company's internal resources available at the time of settlement.

Pursuant to Heritage and MEEI production and exploration licences and agreements, the Company is obligated to remit payments into various abandonment funds based on production. Touchstone remits $0.25 per barrel equivalent of products sold, and the funds shall be used for the future abandonment of wells in the related licenced area. As at December 31, 2023, the Company classified $2,081,000 of accrued or paid fund contributions as non-current abandonment fund assets (2022 - $1,446,000).

The Company has estimated the net present value of the cash flows required to settle its decommissioning liabilities to be $9,733,000 as at December 31, 2023 based on an inflation adjusted undiscounted future liability of $14,910,000 (2022 - $11,182,000 and $17,920,000, respectively). Decommissioning liabilities were estimated as at December 31, 2023 using a weighted average long-term risk-free rate of 5.3 percent and a long-term inflation rate of 2.1 percent (2022 - 5.3 percent and 2.4 percent, respectively).

The following table summarizes the movements of Touchstone's estimated decommissioning liability provision during the years ended December 31, 2023 and 2022.

($000's)	**Year ended December 31,**	
	2023	2022
Balance, beginning of year	**11,182**	10,012
Liabilities incurred from development activities	**480**	268
Liabilities settled	**(18)**	(130)
Accretion expense	**257**	222
Revisions to estimates	**(317)**	732
Reclassified as liabilities associated with assets held for sale (Note 8)	**(1,898)**	-
Effect of change in foreign exchange rates	**47**	78
Balance, end of year	**9,733**	11,182

15. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2023 and 2022 were a combined rate of 55 percent of taxable income. The following table is a reconciliation of income tax (recovery) expense calculated by applying the applicable aggregate Trinidad statutory petroleum tax rate to net (loss) earnings before income tax expense.

($000's unless otherwise stated)	**Year ended December 31,**	
	2023	2022
Net (loss) earnings before income tax expense	**(12,713)**	1,450
Trinidad statutory combined income tax rate	**55.0%**	55.0%
Expected income tax (recovery) expense at statutory tax rate	**(6,992)**	798
Effect on income tax resulting from:		
Supplemental petroleum tax	**105**	1,560
Change in income tax assets not recognized	**13,654**	(389)
Income tax rate differential	**428**	(973)
Effect of change in foreign exchange rates and other	**690**	3,651
Income tax expense	**7,885**	4,647

The Company's net deferred income tax liability solely relates to its Trinidad operational entities. The following table details the components of the net deferred income tax liability for the years ended December 31, 2023 and 2022.

($000's)	**December 31, 2023**	December 31, 2022
Deferred income tax liabilities		
PP&E in excess of income tax basis	**31,273**	23,602
Other	**241**	248
Deferred income tax assets		
Decommissioning liabilities	**(683)**	(672)
Lease liabilities	**(1,747)**	(988)
Non-capital losses	**(304)**	(1,455)
Intercompany interest	**(7,347)**	(6,178)
Net deferred income tax liability	**21,433**	14,557

The December 31, 2023 net deferred income tax liability increased by $6,876,000 from December 31, 2022, with $97,000 and $6,779,000 of deferred income tax expenses recognized though equity and comprehensive loss, respectively (2022 - $108,000 expense recognized through equity and a $1,000 recovery recognized through comprehensive loss).

The following table sets forth the components of Touchstone's unrecognized deductible temporary differences as at December 31, 2023 and 2022.

($000's)	**December 31, 2023**	December 31, 2022
E&E assets	**(3,686)**	(49,906)
PP&E	**(14,399)**	5,253
Loss carry forwards	**126,354**	130,721
Decommissioning liabilities	**10,390**	11,632
Other	**9,293**	10,220
Unrecognized deductible temporary differences	**127,952**	107,920

The following table sets forth the Company's estimated income tax losses as at December 31, 2023 and 2022.

($000's)	**December 31, 2023**	December 31, 2022
Trinidad PPT losses	**40,596**	42,728
Trinidad corporate tax losses	**440**	1,029
Canada non-capital losses	**85,458**	89,608

Trinidadian PPT losses and corporate tax losses may be carried forward indefinitely to reduce the taxes in future years. PPT losses can only be utilized to shelter a maximum of 75 percent of income subject to PPT per annum. A deferred tax asset has not been recognized with respect to PPT losses in the amount of $40,215,000 and Trinidad corporate income tax losses of $60,000 as it was not considered probable that the benefit of the respective losses would be realized at December 31, 2023 (2022 - $40,402,000 and $56,000, respectively). Similarly, the benefit of the Canadian non-capital losses was not recognized as at December 31, 2023 and 2022.

The following table is a continuity schedule of the Company's current income tax payable for the years ended December 31, 2023 and 2022.

($000's)	**Year ended December 31,**	
	2023	2022
Balance, beginning of year	**1,014**	236
Current income tax expenses:		
Petroleum profit tax / unemployment levy	**526**	1,058
Supplemental petroleum tax	**234**	3,422
Corporate income tax / other	**346**	168
Income tax payments	**(1,880)**	(3,886)
Income tax receipts	**-**	12
Effect of change in foreign exchange rates	**-**	4
Balance, end of year	**240**	1,014

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of income tax matters under review, and Touchstone believes that the provision for income taxes is adequate.

16. Shareholders' Capital

Issued and outstanding common shares

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The holders of the common shares are entitled to one vote in respect of each common share held at all meetings of shareholders and the rights to any dividends declared.

	Number of shares	Shareholders' capital *($000's)*
Balance, January 1, 2022	210,731,727	101,757
Issued pursuant to private placements, net of fees	19,924,400	12,269
Equity-based settlements	2,381,099	609
Balance, December 31, 2022	**233,037,226**	**114,635**
Equity-based settlements	**1,175,500**	**330**
Balance, December 31, 2023	**234,212,726**	**114,965**

Private placements

On December 13, 2022, the Company completed a private placement directed toward Canadian investors, whereby gross proceeds of $5,778,000 were raised by way of issuing 8,704,400 common shares at a price of C$0.90 per common share. Fees incurred from the private placement were $434,000, which included brokerage commissions, legal and advisory fees, resulting in net proceeds of $5,344,000.

In connection with the Canadian private placement, Touchstone completed a private placement on December 14, 2022 directed toward United Kingdom investors, raising gross proceeds of $7,483,000 by issuing 11,220,000 common shares at a price of 54.5 pence sterling (approximately C$0.90) per common share. Share issuance costs of $558,000 were incurred, resulting in net proceeds of $6,925,000.

Equity compensation plans

Touchstone has a stock option plan (the "Legacy Plan") pursuant to which options to purchase common shares of the Company were granted by the Board to directors, officers and employees of Touchstone. Touchstone adopted an omnibus incentive compensation plan (the "Omnibus Plan"), which was approved by the Company's shareholders on June 29, 2023. The Omnibus Plan was adopted by the Board primarily to allow for a variety of equity-based awards that provide the Company with the ability to grant different types of incentives to directors, officers, employees and consultants including stock options, restricted share units and performance share units. No additional stock options will be granted under the Legacy Plan, and all outstanding stock options previously issued pursuant to the Legacy Plan will continue to be governed by such plan and will continue to vest in accordance with their existing vesting schedules.

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

As of December 31, 2023, the Company solely had stock option awards outstanding under its equity compensation plans. The aggregate number of common shares reserved for issuance under the Legacy Plan and the Omnibus Plan at any time is limited to 10 percent of the Company's issued and outstanding common shares. As of December 31, 2023, aggregate stock options outstanding represented 6.1 percent of Touchstone's outstanding common shares (2022 - 5.1 percent).

The following table summarizes changes in outstanding stock options and the related weighted average exercise prices for the years ended December 31, 2023 and 2022.

	Number of stock options	Weighted average exercise price *(C$)*
Issued and outstanding, January 1, 2022	11,233,334	0.72
Granted	3,338,000	1.43
Exercised	(2,381,099)	0.21
Forfeited	(261,800)	1.47
Issued and outstanding, December 31, 2022	**11,928,435**	**1.00**
Granted	**3,644,000**	**1.15**
Exercised	**(1,175,500)**	**0.24**
Forfeited	**(69,000)**	**1.42**
Issued and outstanding, December 31, 2023	**14,327,935**	**1.10**
Exercisable, December 31, 2023	**7,523,605**	**0.90**

The following table sets forth outstanding stock options and their weighted average remaining life as at December 31, 2023.

Range of exercise price per common share *(C$)*	Number of stock options outstanding	Weighted average remaining term *(years)*	Number of stock options exercisable	Weighted average remaining term *(years)*
0.23	2,048,100	0.3	2,048,100	0.3
0.48	2,251,835	1.3	2,251,835	1.3
1.15 to 1.38	3,952,000	4.6	195,668	2.8
1.42 to 1.62	3,282,000	3.3	1,109,666	3.3
1.73 to 2.07	2,794,000	2.4	1,918,336	2.4
0.23 to 2.07	**14,327,935**	**2.7**	**7,523,605**	**1.6**

During the year ended December 31, 2023, the Company recorded equity-based compensation expenses of $1,243,000 (2022 - $1,341,000).

The weighted average fair value of stock options granted during the year ended December 31, 2023 was C$0.55 per option as estimated on the date of each grant using the Black-Scholes option pricing model (2022 - C$0.75 per option). The weighted average assumptions used in the Black-Scholes model to determine the fair value of the stock options granted for the years ended December 31, 2023 and 2022 are set forth in the table below.

Assumption	Year ended December 31, 2023	2022
Grant date share price *(C$)*	**1.15**	1.43
Exercise price *(C$)*	**1.15**	1.43
Risk-free interest rate *(percent)*	**4.5**	2.6
Expected life *(years)*	**3.0**	3.0
Volatility *(percent)*	**69.0**	80.0
Expected annual dividends *(C$)*	**-**	-
Expected forfeiture rate *(percent)*	**5.0**	5.0

Weighted average common shares

The following table sets forth the details of weighted average common shares used in calculating net loss per common share during the years ended December 31, 2023 and 2022.

	Year ended December 31, 2023	2022
Weighted average common shares outstanding - basic	**233,487,066**	213,210,555
Dilutive impact of equity-based compensation	**-**	-
Weighted average common shares outstanding - diluted	**233,487,066**	213,210,555

There was no dilutive impact to the weighted average number of common shares for the year ended December 31, 2023, as approximately 3.4 million stock options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (2022 - 4.8 million).

17. Petroleum and Natural Gas Sales

Touchstone derives its primary revenue from contracts with Trinidad government-owned entities through the transfer of commodities invoiced at the end of each month. The following table sets forth petroleum and natural gas sales by product type for the years ended December 31, 2023 and 2022.

($000's)	Year ended December 31, 2023	2022
Crude oil	**29,232**	41,830
Natural gas liquids	**5,434**	-
Natural gas	**13,432**	1,114
Petroleum and natural gas sales	**48,098**	42,944

At December 31, 2023, accounts receivable from petroleum and natural gas sales were $6,424,000 related to December 2023 production (2022 - $2,403,000).

18. Net Finance Expenses

($000's)	Year ended December 31, 2023	2022
Interest income	**(58)**	(34)
Finance lease interest income (Note 10)	**(43)**	(63)
Lease liability interest expense (Note 12)	**287**	242
Bank debt interest expense (Note 13)	**2,221**	2,316
Debt issuance expense (Note 13)	**114**	-
Accretion on decommissioning liabilities (Note 14)	**257**	222
Other	**(325)**	359
Net finance expenses	**2,453**	3,042

19. Other Expenses

During the year ended December 31, 2022, the Company recorded $794,000 in aggregate costs related to an oil spill that occurred as a result of vandalism in June 2022. For the year ended December 31, 2023, Touchstone received insurance proceeds of $552,000 relating to the incident.

20. Financial Instruments and Market Risk Management

Financial instruments

As of December 31, 2023, the Company's financial instruments included cash, accounts receivable, restricted cash, finance lease receivable (included in other assets on the balance sheet), accounts payable and accrued liabilities, income taxes payable, lease liabilities and bank debt.

The carrying values of Touchstone's cash, accounts receivable, accounts payable and accrued liabilities and income taxes payable as of December 31, 2023 approximate their fair values due to the short-term nature of these instruments. There were no transfers between levels in the fair value hierarchy for the years ended December 31, 2023 and 2022.

Market risk management

The Company is exposed to certain financial risks inherent in the international oil and natural gas industry including, but not limited to, commodity price risk, foreign exchange rate risk, credit risk (refer to Note 6) and liquidity risk (refer to Note 11). The risk exposures are proactively reviewed by Touchstone, and Management seeks to mitigate these risks through various business processes and controls. Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board to establish risk management guidelines to be used by Touchstone.

Commodity price risk

Touchstone's operational and financial results are largely dependent on the commodity prices received from crude oil, natural gas liquids and natural gas production. Movements in crude oil and liquids pricing could have a significant positive or negative effect on the Company's comprehensive income (loss) and cash flows. Touchstone does not currently hedge this risk given that over 50 percent of its forecasted petroleum and natural gas sales is expected to be derived from natural gas production governed by a fixed price contract through October 2027. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of crude oil and liquids sales and protect future development and exploration capital programs.

For the year ended December 31, 2023, with all other variables held constant, a 10 percent increase or decrease in the realized pricing received from crude oil and liquids production volumes would have resulted in an approximate $166,000 decrease or $2,415,000 decrease in comprehensive loss, based on the effects of supplemental petroleum profit taxes (2022 - $2,181,000 increase and $1,122,000 decrease, respectively).

Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. Touchstone's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum and natural gas sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency risk through collecting and paying foreign currency denominated balances in a timely fashion. Touchstone does not hedge its foreign exchange risk.

As the Company operates in Trinidad, fluctuations in the exchange rate between the TT$ and the US$ could have a significant effect on financial results. Although the sales prices of crude oil and liquids production are determined by reference to US$ denominated benchmark prices, the majority of the invoices for such sales are paid in TT$, exposing Touchstone to foreign exchange risk. To mitigate this risk, the Company attempts to match revenues received in TT$ by entering into contracts denominated and payable in TT$ when possible. In addition, Touchstone has US$ denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT$ is informally pegged to the US$ and all natural gas and natural gas liquids sales are denominated and payable in US$.

The Company has further foreign exchange exposure on cash balances denominated in C$ and pounds sterling, head office costs denominated and payable in C$, and costs denominated and costs payable in pounds sterling required to maintain its AIM listing. Any material movements in the C$ to US$ and the pound sterling to US$ exchange rates may result in unanticipated fluctuations or have a material effect on Touchstone's reporting results.

For the year ended December 31, 2023, with all other variables held constant, a 5 percent change in the C$ to US$ and TT$ to US$ exchange rates would have resulted in an approximate $193,000 increase or decrease in comprehensive loss (2022 - $691,000). Increases or decreases in the foreign exchange rates applicable to TT$, C$ and pounds sterling dollar-denominated receivables and payables would have resulted in an approximate $175,000 increase or decrease in comprehensive loss for the year ended December 31, 2023 (2022 - $51,000).

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect comprehensive income (loss) and cash flows. The Company's revolving loan facility is subject to interest rate risk given the interest rate is set on an annual basis if extended by both parties. The interest rate from May 30, 2023 to May 29, 2024 is 7.29 percent.

For the year ended December 31, 2023, with all other variables held constant, a 50 basis point increase or decrease in the interest rate applicable to the Company's revolving loan facility would have resulted in an approximate $24,000 increase or decrease in comprehensive loss. As at December 31, 2022, the Company did not hold any variable interest rate debt.

21. Capital Management

Touchstone actively manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. Touchstone considers its capital structure to include shareholders' equity, working capital and bank debt. The Company's long-term goal is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only cash flows from operations. Exploration and development activities will be financed with a combination of cash flows from operations and other sources of capital. Touchstone uses share equity and bank debt as its primary sources of capital.

Touchstone considers funds flow from operations to be a key measure of capital management and operating performance as it demonstrates the Company's ability to generate the funds necessary to finance capital expenditures and repay debt. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds flow from operations provides a useful measure of the Company's ability to generate cash that is not subject to short-term movements in non-cash operating working capital.

Management monitors working capital, net debt and managed capital as part of the Company's capital structure to evaluate its true debt and liquidity position and to manage capital and liquidity risk. Working capital is calculated by subtracting current liabilities from current assets as they appear on the balance sheet. Net debt is calculated by summing the Company's working capital and the principal (undiscounted) long-term amount of senior secured debt and is most directly comparable to total liabilities disclosed in the Company's balance sheet. Management defines managed capital as the sum of net debt and shareholders' equity.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of two times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices. Touchstone also monitors its capital management through the net debt to managed capital ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to managed capital at a ratio of less than 0.4 to 1.

Working capital, net debt, managed capital, net debt to funds flow from operations ratio and net debt to managed capital ratio are considered non-IFRS capital management measures and ratios and therefore may not be comparable to similar measures presented by other companies. Touchstone's internal capital management calculations for years ended December 31, 2023 and 2022 are set forth in the following table.

($000's)	**Target measure**	**December 31, 2023**	December 31, 2022
Current assets		**(22,570)**	(26,415)
Current liabilities		**30,151**	21,423
Working capital deficit (surplus)		**7,581**	(4,992)
Principal non-current balance of bank debt		**15,000**	21,000
Net debt		**22,581**	16,008
Shareholders' equity		**59,766**	78,380
Managed capital		**82,347**	94,388
Annual funds flow from operations		**13,730**	3,540
Net debt to funds flow from operations ratio	At or < 2.0 times	**1.64**	4.52
Net debt to managed capital ratio	< 0.4 times	**0.27**	0.17

22. Commitments and Contingencies

Touchstone has contractual obligations in the normal course of business which include minimum work obligations under various operating agreements with Heritage, exploration and commitments under its Cory Moruga and Ortoire block exploration and production licences with the MEEI, and various lease commitments (refer to Note 12). The following table sets forth the Company's estimated minimum contractual payments as at December 31, 2023.

($000's)		**Estimated payments due by year**			
	Total	**2024**	**2025**	**2026**	**Thereafter**
Operating agreements	**25,486**	11,555	6,006	285	7,640
Exploration agreements	**12,893**	5,299	278	5,400	1,916
Other commitments	**686**	190	208	196	92
Minimum payments	**39,065**	**17,044**	**6,492**	**5,881**	**9,648**

Pursuant to its operating agreements with Heritage, the Company is obligated to fulfill minimum work commitments on an annual basis over each licence term. With respect to these obligations, Touchstone is required to drill eight development wells and perform four heavy workover commitments in 2024.

Subsequent to December 31, 2023, the Company entered into an agreement to dispose of a non-core property to a third-party, which upon closing will reduce Touchstone's estimated operating agreement minimum payments disclosed in the table above by an aggregate $7,558,000, including three wells and three heavy workovers with estimated minimum payments of $4,327,000 in 2024 (see Note 25).

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

The Company may be involved in a limited number of legal claims arising in the normal course of operations. Such claims are not expected to have a material impact on Touchstone's results of operations or cash flows.

23. Related Parties

The Company's Corporate Secretary and former director is a senior partner of Touchstone's Canadian legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2023, $204,000 in legal fees and disbursements charged by Norton Rose Fulbright Canada LLP were incurred, of which $11,000 were included in accounts payable and accrued liabilities as at December 31, 2023 (2022 - $204,000 and $44,000, respectively).

Further, the Company's Trinidad-based director is a member of the board of directors of a private Trinidad engineering services company that occasionally provides oilfield supplies to Touchstone. For the year ended December 31, 2023, $13,000 in products were purchased from this company (2022 - $41,000). As at December 31, 2023, $2,000 was included in accounts payable and accrued liabilities (2022 - $16,000).

In 2023, a Trinidad charitable entity separate from the Company was established. The Company's Chief Executive Officer, Chief Financial Officer and its Trinidad-based director serve as independent board members of the entity. For the year ended December 31, 2023, the Company donated $16,000 to the charitable entity (2022 - $nil).

Touchstone has determined that the key management personnel of the Company is comprised of its directors and executive officers. The compensation of directors and executive officers is reviewed annually by the Board's independent Governance and Compensation Committee against industry practice for petroleum and natural gas companies of similar size and scope. The following table sets forth key management personnel compensation paid or payable during the years ended December 31, 2023 and 2022.

($000's)	**Year ended December 31,**	
	2023	2022
Salaries and benefits included in general and administration expenses	**1,244**	1,080
Director fees included in general and administration expenses	**381**	395
Equity-based compensation (Note 16)	**886**	1,034
Capitalized salaries, benefits and equity-based compensation (Note 16)	**107**	320
Key management compensation	**2,618**	2,829

24. Supplemental Disclosures

Presentation in the statements of income

Touchstone's statements of income are prepared primarily by nature of item, with the exception of employee compensation expense which are included in both operating expense and general and administration expense line items.

The following table details the amount of employee compensation expense included in operating and general and administration expense line items in the statements of income for the years ended December 31, 2023 and 2022.

($000's)	**Year ended December 31,**	
	2023	2022
Operating expense	**1,132**	1,101
General and administration expense	**4,552**	3,673
Employee compensation expenses	**5,684**	4,774

Presentation in the statements of cash flows

The following tables provide a breakdown of certain line items contained within the consolidated statements of cash flows.

Net change in non-cash working capital *($000's)*	**Year ended December 31, 2023**	2022
Source (use) of cash:		
Accounts receivable	**(5,365)**	59
Inventory	**38**	14
Prepaid expenses	**578**	(287)
Accounts payable and accrued liabilities	**2,276**	(3,263)
Income taxes payable	**(774)**	778
Transfer from other assets	**(22)**	(14)
Transfer to (from) non-current other liabilities	**836**	(533)
Transfer from non-current lease liabilities	**(557)**	(500)
Foreign exchange on working capital balances	**58**	(363)
Net change in non-cash working capital	**(2,932)**	(4,109)
Related to:		
Operating activities	**(987)**	2,212
Investing activities	**(1,790)**	(6,332)
Financing activities	**(155)**	11
Net change in non-cash working capital	**(2,932)**	(4,109)

Other non-cash items *($000's)*	**Year ended December 31, 2023**	2022
Lease modification (Note 10)	**-**	33
Accretion on bank debt (Note 13)	**15**	66
Accretion on decommissioning liabilities (Note 14)	**257**	222
Other	**(352)**	240
Other non-cash items	**(80)**	561

25. Subsequent Events

Bank Debt Amendment

On March 1, 2024, the Company and its lender executed a binding term sheet providing for a new $10 million five year term loan facility and increasing the current revolving loan facility from $7 million to $10 million. The term sheet is subject to customary conditions precedent and material adverse change clauses prior to the final agreement being executed. As of the date hereof, the parties are drafting a third amended and restated loan agreement and perfecting the revised security documents, following which the additional borrowing capacity will be effective.

Property Disposition

Subsequent to year-end, the Company entered an agreement with a third party to dispose its interest in the CO-2 block.

Corporate Information

Directors
John D. Wright
Chair of the Board

Jenny Alfandary
Paul R. Baay
Priya Marajh
Kenneth R. McKinnon
Peter Nicol
Beverley Smith
Stanley T. Smith
Harrie Vredenburg

Corporate Secretary
Thomas E. Valentine

Officers and Senior Executives
Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

Brian Hollingshead
Vice President Engineering and Business Development

Alex Sanchez
Vice President Production and Environment

Cayle Sorge
Vice President Finance

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Registered Office
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T2P 4H2

Operating Offices
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Fyzabad, Trinidad, W.I.

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

Stock Exchange Listings
Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

Banker
Republic Bank Limited
Port of Spain, Trinidad, W.I.

Auditor
KPMG LLP
Calgary, Alberta, Canada

Reserves Evaluator
GLJ Ltd.
Calgary, Alberta, Canada

Legal Counsel
Norton Rose Fulbright LLP
Calgary, Alberta, Canada
London, United Kingdom

Transfer Agent and Registrar
Odyssey Trust Company
Calgary, Alberta, Canada

Link Group
London, United Kingdom

UK Nominated Advisor and Joint Broker
Shore Capital
London, United Kingdom

UK Joint Broker
Canaccord Genuity
London, United Kingdom

UK Public Relations
FTI Consulting
London, United Kingdom