



**Touchstone Exploration Inc.**

**Consolidated Financial Statements**

**December 31, 2020**

## Management's Report

### To the Shareholders of Touchstone Exploration Inc.:

The Management of Touchstone Exploration Inc. has prepared the accompanying consolidated financial statements of Touchstone Exploration Inc. in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial and operating information presented throughout the regulatory filings is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the consolidated financial statements include estimates that are based on Management's informed judgments. Management has established systems of internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

The Board of Directors are responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises responsibilities primarily through its Audit Committee, which is comprised of three independent and financially literate directors. The Audit Committee meets regularly with Management and with the independent 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 Ernst and Young LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards.

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

*(signed)*  
Scott Budau  
Chief Financial Officer

Calgary, Alberta  
March 25, 2021

## Independent Auditor's Report

To the Shareholders of Touchstone Exploration Inc.:

### Opinion

We have audited the consolidated financial statements of Touchstone Exploration Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards ("IFRSs").

### 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 Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### Key audit matter

##### *Impairment of Property and Equipment*

As at December 31, 2020, the carrying value of property and equipment was \$43.0 million. For the year ended December 31, 2020, a net impairment charge of \$10.5 million was recorded with respect to the WD-4, WD-8 and Coora cash generating units ("CGUs") included within the total carrying value of property and equipment.

The Company's property and equipment and related impairment disclosures are included in Note 4 *Use of Estimates, Judgements and Assumptions*, Note 7 *Property and Equipment* and Note 8 *Impairments* of the consolidated financial statements. The recoverable amounts of the WD-4, WD-8 and Coora CGUs were determined by using the value-in-use method.

Auditing the estimated recoverable amounts of the

#### How our audit addressed the key audit matter

To test the Company's estimated recoverable amounts, we performed the following procedures, among others:

- Involved our valuation specialists to assess the methodology applied, and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, and Company and cash-flow specific risk premiums.
- Involved our valuation specialists to compare forecasted prices against third party reserve engineer data.
- Compared forecasted production against historically realized production.
- Compared forecasted price differentials against historically realized differentials.
- Assessed forecasted royalty, operating cost, and future development capital data by comparing them to historical performance.

## Key audit matter

## How our audit addressed the key audit matter

### *Impairment of Property and Equipment*

WD-4, WD-8 and Coora CGUs was complex due to the subjective nature of the various management inputs and assumptions. The principal judgement relates to management's estimates of future cash flows, discount rates and their ability to fund the future development capital. The WD-4, WD-8 and Coora CGUs future cash flows were mainly sensitive to assumptions in future oil prices, production volumes, royalties, operating costs and future development capital.

- Assessed the competence and objectivity of the Company's external reserve engineer.
- Tested the completeness and accuracy of the reserve engineer report by agreeing current year production, revenue, royalty, operating cost, and capital expenditure data to management's accounting records.
- Reviewed and evaluated management's assessment of the Company's ability to fund the development of its property and equipment as a whole when considering available cash flows and debt capacity.
- Evaluated the adequacy of the impairment note disclosure included in Note 8 of the accompanying consolidated financial statements in relation to this matter.

## Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 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 independent auditor's report is Janet Huang.

*(signed)* "Ernst & Young LLP"  
Chartered Professional Accountants

Calgary, Alberta  
March 25, 2021

**Touchstone Exploration Inc.**  
**Consolidated Statements of Financial Position**  
Stated in thousands of United States dollars

As at	Note	December 31, 2020	December 31, 2019
<b>Assets</b>			
Current assets			
Cash		\$ 24,281	\$ 6,182
Restricted cash	9	-	271
Accounts receivable	5	4,685	7,348
Crude oil inventory		92	71
Prepaid expenses		254	246
		29,312	14,118
Exploration assets	6	30,680	13,579
Property and equipment	7	43,016	55,730
Restricted cash	9	294	-
Other assets	10	24	496
Abandonment fund	15	1,226	1,125
<b>Total assets</b>		<b>\$ 104,552</b>	<b>\$ 85,048</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 16,379	\$ 13,928
Income taxes payable	16	-	1,329
		16,379	15,257
Lease liabilities	12	335	105
Term loan	13	7,176	13,966
Other liabilities	14	1,357	769
Decommissioning liabilities	15	11,919	11,547
Deferred income taxes	16	7,021	13,289
<b>Total liabilities</b>		<b>44,187</b>	<b>54,933</b>
<b>Shareholders' equity</b>			
Shareholders' capital	17	101,385	61,507
Contributed surplus		2,476	2,341
Accumulated other comprehensive loss		(13,331)	(14,598)
Accumulated deficit		(30,165)	(19,135)
<b>Total shareholders' equity</b>		<b>60,365</b>	<b>30,115</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 104,552</b>	<b>\$ 85,048</b>

Commitments and contingencies (note 21)

Subsequent event (note 24)

See accompanying notes to these consolidated financial statements.

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

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

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

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

Stated in thousands of United States dollars (except per share amounts)

	Note	Year ended December 31,	
		2020	2019
<b>Revenue</b>			
Petroleum sales		\$ 19,592	\$ 38,654
Less: royalties		(5,488)	(10,986)
Petroleum revenue		14,104	27,668
Loss on financial derivatives	19	-	(171)
Other income		121	72
		<b>14,225</b>	<b>27,569</b>
<b>Expenses</b>			
Operating	23	6,698	9,936
General and administration	23	5,574	5,935
Net finance	18	3,735	316
Foreign exchange loss	19	23	147
Equity-based compensation	17	302	169
Depletion and depreciation	7	3,504	5,171
Impairment	8	11,418	7,960
<b>Total expenses</b>		<b>31,254</b>	<b>29,634</b>
<b>Loss before income taxes</b>		<b>(17,029)</b>	<b>(2,065)</b>
<b>Provision for income taxes</b>			
Current expense	16	274	5,368
Deferred recovery	16	(6,273)	(1,813)
<b>Total income tax (recovery) expense</b>		<b>(5,999)</b>	<b>3,555</b>
<b>Net loss</b>		<b>(11,030)</b>	<b>(5,620)</b>
Currency translation adjustments		1,267	(171)
<b>Comprehensive loss</b>		<b>\$ (9,763)</b>	<b>\$ (5,791)</b>
<b>Net loss per common share</b>			
Basic and diluted	17	\$ (0.06)	\$ (0.04)

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

	Shareholders' capital	Contributed surplus	Accumulated other comprehensive loss	Accumulated deficit	Shareholders' equity
<b>As at January 1, 2019</b>	<b>\$ 56,987</b>	<b>\$ 2,172</b>	<b>\$ (14,427)</b>	<b>\$ (13,515)</b>	<b>\$ 31,217</b>
Comprehensive loss	-	-	(171)	(5,620)	(5,791)
Private placement, net of fees (note 17)	4,496	-	-	-	4,496
Equity-based settlements (note 17)	24	(23)	-	-	1
Equity-based compensation expense (note 17)	-	169	-	-	169
Capitalized equity-based compensation (notes 6 and 7)	-	23	-	-	23
<b>As at December 31, 2019</b>	<b>\$ 61,507</b>	<b>\$ 2,341</b>	<b>\$ (14,598)</b>	<b>\$ (19,135)</b>	<b>\$ 30,115</b>
Comprehensive loss	-	-	1,267	(11,030)	(9,763)
Private placements, net of fees (note 17)	39,236	-	-	-	39,236
Equity-based settlements (note 17)	642	(213)	-	-	429
Equity-based compensation expense (note 17)	-	302	-	-	302
Capitalized equity-based compensation (notes 6 and 7)	-	46	-	-	46
<b>As at December 31, 2020</b>	<b>\$ 101,385</b>	<b>\$ 2,476</b>	<b>\$ (13,331)</b>	<b>\$ (30,165)</b>	<b>\$ 60,365</b>

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,	
		2020	2019
<b>Cash provided by (used in) the following activities:</b>			
<b>Operating activities</b>			
Net loss		\$ (11,030)	\$ (5,620)
Items not involving cash from operations:			
Non-cash loss on financial derivatives	19	-	171
Unrealized foreign exchange (gain) loss	19	(50)	144
Equity-based compensation	17	302	169
Depletion and depreciation	7	3,504	5,171
Impairment	8	11,418	7,960
Other	23	2,392	658
Deferred income tax recovery	16	(6,273)	(1,813)
Funds flow from operations		263	6,840
Change in non-cash operating working capital	23	2,033	(1,215)
Costs related to financial derivatives	19	-	(171)
<b>Cash from operating activities</b>		<b>2,296</b>	<b>5,454</b>
<b>Investing activities</b>			
Change in restricted cash	9	271	-
Exploration asset expenditures	6	(17,861)	(10,113)
Property and equipment expenditures	7	(709)	(1,388)
Abandonment fund expenditures	15	(103)	(153)
Proceeds from asset disposition	7	163	38
Change in non-cash investing working capital	23	2,641	1,422
<b>Cash used in investing activities</b>		<b>(15,598)</b>	<b>(10,194)</b>
<b>Financing activities</b>			
Change in restricted cash	9	(294)	-
(Payment) advance of term loan	13	(7,633)	3,590
Production liability payments	14	(262)	(404)
Net finance lease payments	10,12	(107)	(194)
Issuance of common shares, net of fees	17	39,665	4,497
Change in non-cash financing working capital	23	(50)	14
<b>Cash from financing activities</b>		<b>31,319</b>	<b>7,503</b>
Increase in cash		18,017	2,763
Cash, beginning of year		6,182	3,554
Impact of foreign exchange on foreign denominated cash balances		82	(135)
<b>Cash, end of year</b>		<b>\$ 24,281</b>	<b>\$ 6,182</b>
The following are included in cash flow from operating activities:			
Interest paid in cash	13	\$ 1,407	\$ 905
Income taxes paid in cash	16	1,654	7,336

See accompanying notes to these consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

### 1. Reporting Entity

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

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

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

### 2. Basis of Preparation and Statement of Compliance

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

Unless otherwise stated, amounts presented in these financial statements are rounded to thousands of United States dollars ("\$" or "US\$"), and tabular amounts are stated in thousands of United States dollars. Certain reclassification adjustments have been made to these financial statements to conform to the current presentation. The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Significant Accounting Policies".

The 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 4 "Use of Estimates, Judgements and Assumptions".

These financial statements were approved by the Company's Board of Directors on March 25, 2021.

### 3. Significant Accounting Policies

The accounting policies set forth below have been applied consistently to all periods presented in these financial statements and have been applied consistently 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 Energy Inc.	Canada (Alberta)	100%
Touchstone Exploration (Barbados) Ltd.	Barbados	100%
Touchstone Exploration (Trinidad) Ltd.	Trinidad	100%
Primera Oil and Gas Limited	Trinidad	100%
Territorial Oilfield Management Services Limited	Trinidad	100%
Touchstone Renewables Ltd.	Trinidad	100%

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

### Joint arrangements

The Company may conduct its oil and gas activities through jointly controlled operations, and the financial statements reflect only the Company's proportionate interest in such activities. The Company does not have any joint arrangements that are currently individually material to the Company or that are structured through joint venture arrangements.

### 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"). The Company 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 income (loss) and comprehensive income (loss) ("statements of comprehensive income").

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

- assets and liabilities for each consolidated statement of financial position 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 accumulated other comprehensive income, a separate component of shareholders' equity.

### Business combinations

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration of acquisition given up is less than the fair value of the net assets received, the difference is recognized immediately in the statements of comprehensive income. If the consideration of acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the consolidated statements of financial position ("statements of financial position"). Acquisition costs incurred are expensed.

## **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. Measurement in subsequent periods depends 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 charged to the statements of comprehensive income. Financial instruments under this classification include financial derivatives and production liability.
- *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, restricted cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable, lease liabilities and term loan.
- *Fair value through other comprehensive income:* Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of income tax. The Company does not have any financial instruments under this classification.

### *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. The Company 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.

## **Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. To estimate the fair value of its financial instruments, the Company uses quoted market prices when available or third-party models and valuation methodologies that use observable market data. Fair value is measured using the assumptions that market participants would use, including transaction-specific details and non-performance risk.

The Company's financial derivatives are recorded and carried on the statements of financial position at fair value with actual amounts received or paid on the settlement of the financial derivative instrument recorded in the statements of comprehensive income. Forward commodity derivative contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price, using quoted market prices. Fair value less costs of disposal is also calculated at each reporting date to determine the recoverable amount of non-financial assets that are tested for impairment.

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.
- *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.

#### **Restricted cash**

The Company's restricted cash balances are held to collateralize bonds that provide credit support in respect of future work commitments associated with Trinidad development licences and a minimum cash reserve balance as stipulated in its June 2020 term loan agreement. Balances are classified as non-current assets if the associated bonds or loan agreement expire greater than one year from the reporting date.

#### **Crude oil inventory**

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

#### **Exploration assets**

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

Exploration assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, 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 exploration assets are dependent upon the assignment of a sufficient amount of economically recoverable 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 exploration may have sales of petroleum products associated with production from test wells, which are recognized in the statements of comprehensive income.

Non-producing assets classified as exploration assets are not depleted. When exploration assets are determined to be technically feasible and commercially viable, the relevant costs are transferred to property and equipment. The relevant assets are tested for impairment prior to any such transfer, by comparing the carrying amount to the greater of the relevant asset's fair value less cost of disposal or value in use. If a decision is made by Management not to continue an exploration asset project, all associated costs are charged to the statements of comprehensive income at that time.

### **Property and equipment**

Items of property and equipment, which currently include crude oil development and production assets, oilfield service equipment and corporate assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses.

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

Petroleum 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 assets into CGUs. CGUs are depleted using the unit-of-production method based upon estimated gross proved plus probable reserves, determined annually by independent professional engineers and calculated 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 into production are included in the depletion calculation.

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

Depreciation of oilfield service equipment and 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 and equipment*

Property and equipment are grouped into CGUs for the purposes of testing 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 comprehensive income as impairment expense.

Fair value less costs to sell is estimated 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 a post-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from proven plus probable reserves.

If there is an indicator that a previously recognized impairment loss may no longer exist or may have decreased, the estimated recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment loss 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 loss had been recognized. A reversal of impairment is recognized in the statements of comprehensive income against impairment expense.

#### *Exploration assets*

Exploration assets are assessed for impairment at the CGU level and are reviewed at each reporting date for indicators of potential impairment or, in the case of previously impaired exploration assets, reversals of impairment. An impairment loss on exploration assets is recognized if the carrying value of the assets exceed the estimated recoverable amount. Similarly, a previously recorded impairment loss may be reversed if the estimated recoverable amount of a particular CGU is greater than the carrying amount. Exploration asset impairment losses or reversals are recognized in the statements of comprehensive income as impairment expense.

#### **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 past one year.

Immediately before non-current 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 loss recognized in the statements of comprehensive income. Non-current assets held for sale and their associated liabilities are classified and presented in current assets and liabilities within the statements of financial position. Assets held for sale are not depleted, depreciated or amortized.

#### **Dispositions**

Gains or losses on disposal of assets are determined by comparing the net proceeds from disposal with the carrying amount of the assets held for sale and are recognized separately in the statements of comprehensive income.

#### **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 the Company is a party to a lease arrangement as the lessee, leases are recognized as a right-of-use ("ROU") asset and a corresponding lease liability on the statements of financial position 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 fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. The future payments are discounted using the interest rate implicit in the lease or, when that rate cannot be readily determined, the Company'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 charged to the statements of comprehensive income over the lease term.

Associated ROU assets are initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease payments made at or before the commencement date. ROU assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. ROU assets may be adjusted for certain remeasurements of the lease liability and impairment losses.

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 comprehensive income on a straight-line basis over the lease term.

*As lessor*

Where the Company 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 financing leases. Under a finance lease, the Company records the current portion of the finance lease in accounts receivable and the non-current portion in other assets. Finance 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 comprehensive income over the lease term. The Company records lease payments received under operating leases as other income on a straight-line basis over the lease term.

**Term loan**

The Company's term loan facilities are initially measured at fair value, net of all transaction fees. The term loan is subsequently recognized as other financial liabilities measured at amortized cost using the effective interest rate method. The discount on the term loan is unwound using the effective interest rate method to the face value at maturity and is expensed to net finance expenses on the statements of comprehensive income.

**Production liability**

The production liability granted in connection with the Company's former term loan is included in other liabilities on the statements of financial position. The liability is measured at fair value at each financial reporting date using internal forecasts of future petroleum production and forward



commodity strip pricing. The liability is reduced by actual amounts paid to the counterparty.

### **Provisions and contingent liabilities**

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

A provision for an onerous contract is recognized when the expected economic benefits to be derived by the Company 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 loss on any assets associated with the onerous contract.

A contingent liability is disclosed when the Company has a possible obligation arising from a past event whose existence will be confirmed by future events not wholly under its control, or when the Company has a present obligation that arises from past events that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

### **Decommissioning liabilities**

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property and equipment incurred upon the acquisition, construction, development and use of the asset. 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 as at the reporting date of the statements of financial position. On a periodic basis, Management reviews these estimates, and any changes are applied prospectively. The change in the fair value of the decommissioning liability is recognized as an increase or decrease in the liability, with a corresponding increase or decrease to the carrying amount of the related asset. Capitalized costs included in petroleum asset property and equipment are depleted based upon the unit-of-production method consistent with the underlying assets. The liability is increased in each reporting period with the passage of time, and the associated accretion charge is recognized in the statements of comprehensive income in net finance expenses. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

With respect to decommissioning liabilities associated with the Company's production leases 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. The Company is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum operations conducted on its Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") and private production and exploration agreements.

### **Decommissioning abandonment fund**

Pursuant to production and exploration licences with both Heritage and the MEEI, the Company is obligated to remit payments into abandonment funds based on production. The abandonment fund obligations are determined based on cumulative petroleum sales. As these funds are effectively a reimbursement right, there is no associated reduction to the decommissioning liability. Accrued obligations are recorded as a non-current asset as the funds must be used for the future abandonment of wells in the associated licenced area.

### **Revenue recognition**

The Company principally generates revenue from the sale of crude oil. Revenue associated with the sale of crude oil is measured based on the consideration specified in contracts with customers. Petroleum revenue is recognized when control is transferred from the Company to its customers, and the Company has the present right to payment. The transfer of control of crude oil coincides with title passing to the customer and the customer taking physical possession.

### **Equity-based compensation plans**

The Company's equity-based compensation plans include equity-settled awards. Compensation expense associated with equity-settled 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 share options 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 income tax and is recognized in the statements of comprehensive 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 tax is the expected tax payable on taxable income for the period, using enacted or substantively enacted tax rates at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred 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 tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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

### **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 share 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 is then adjusted by the net change.

#### **4. 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.

##### **Measurement uncertainty**

The outbreak of COVID-19 and subsequent measures intended to limit the pandemic have contributed to significant declines and volatility in global financial markets. The pandemic has adversely impacted global commercial activity and has substantially reduced worldwide demand for crude oil. As a result of declining crude oil prices, the Company's sales decreased, thereby reducing petroleum asset recoverable amounts, and ultimately increasing the Company's net loss recognized in 2020.

The scale and duration of these developments remain uncertain, and the full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus and its variants. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of these financial statements.

The outbreak and continuing volatile market conditions have increased the complexity of estimates, judgements and assumptions used to prepare these financial statements, particularly related to the recoverability of asset carrying values and the deferred income tax provision. Changes to any future assumptions could result in a material adjustment to the carrying amounts of assets and liabilities.

##### **Fair value of financial instruments**

The estimated fair value of financial instruments is reliant upon a number of estimated variables including forward commodity prices, foreign exchange rates and interest rates. 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 reserves and resources**

There are a number of inherent uncertainties associated with estimating crude oil and natural gas reserves and resources. Reserve and resource estimates are based on engineering data, estimated future commodity prices and inflation rates, expected future rates of production and the timing and amount of future operating and capital expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing as of December 31, 2020 and 2019, which could differ significantly from future periods. Reserves have been evaluated at December 31, 2020 and 2019 by the Company's independent qualified reserves evaluator in accordance with NI 51-101.

### **Determination of cash-generating units**

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

### **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 estimates the Company applies in determining the recoverable amount of assets normally include estimates of future commodity prices, inflation rates, quantity of reserves, expected production volumes, future operating and development costs, income taxes and discount rates.

In estimating the recoverable amount of exploration asset CGUs, Management factors in future development plans, lease expiries, and required regulatory approvals into the relevant CGU assessment. Where applicable, the Company incorporates net present value calculations of reserves and resources associated with certain evaluation assets as estimated by the Company's independent reserves evaluator. Exploration assets remain capitalized as long as sufficient progress is being made in assessing whether the petroleum products are technically feasible and commercially viable. This assessment requires significant Management judgement, as exploration assets are subject to continuous internal review to confirm the continued intent to establish the technical feasibility and commercial viability of a project.

The recoverable amounts of the Company's property and equipment CGUs are estimated based on value in use calculations using discounted after-tax cash flows derived from the Company's proved reserves during the first two years and proved plus probable oil reserves thereafter as estimated by the Company's independent 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 cash flows from petroleum reserves are set forth below.

- *Production and reserves:* Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in revisions to reserves estimates. Discounted 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.
- *Petroleum prices:* Forward petroleum pricing estimates are used in the discounted 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 and the continuing effects of COVID-19.
- *Royalty rates, 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. Income tax rates are based on the published statutory income tax rates for the appropriate cash flow streams.
- *Future development capital:* Future capital costs are estimated based on expected future costs of wells and projects 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 cash flows are based on estimates of an approximate industry peer group weighted average cost of capital, which factor in debt and equity weightings of comparable corporations. Changes in the general economic environment could result in significant changes to this estimate.

### **Depletion of petroleum assets**

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

### **Exploration assets**

Exploration assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of petroleum products is technically feasible and commercially viable. Determining whether sufficient progress has been made is a judgemental area, and it is possible to have evaluation assets classified as such for several years while activities are being conducted or the Company is seeking regulatory and internal approvals for development plans. Exploration 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 project economics, expected capital expenditures and production costs, access to infrastructure, obtaining and the timing of receiving required regulatory approvals, and potential infrastructure expansions.

### **Decommissioning liabilities**

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

### **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. Lease obligations are estimated using a discount rate equal to the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company's incremental borrowing rate 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.

### 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 share options is measured using a 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 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 tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and comprehensive income.

## 5. Financial Assets and Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. As at December 31, 2020, the Company was exposed to credit risk with respect to its accounts receivable.

The Company's credit exposure on accounts receivable typically pertains to accrued petroleum revenue for monthly production volumes sold to Heritage and value added taxes ("VAT") due from the Trinidad government. As at December 31, 2020, \$1,161,000 of petroleum sales was included in accounts receivable, representing approximately 25 percent of the Company's consolidated accounts receivable balance (2019 - \$2,074,000 and 28 percent, respectively). \$3,031,000 of the Company's consolidated accounts receivable was comprised of VAT as at December 31, 2020, which represented approximately 65 percent of the total balance (2019 - \$4,283,000 and 58 percent, respectively).

As at December 31, 2020, the Company determined that the average expected credit loss on the Company's accounts receivables was \$nil (2019 - \$nil). The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from the Trinidad government for VAT, and although the timing of settlement is uncertain, the Company has not historically experienced any material collection issues. The aging of accounts receivable as at December 31, 2020 and 2019 is disclosed in the following table.

Accounts receivable aging	December 31, 2020	December 31, 2019
Not past due	\$ 2,781	\$ 3,581
Past due (greater than 90 days)	1,904	3,767
<b>Balance</b>	<b>\$ 4,685</b>	<b>\$ 7,348</b>



**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2020 and 2019

**6. Exploration Assets**

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	\$ 13,579	\$ 3,644
Additions	17,909	10,191
Impairment (note 8)	(821)	(309)
Effect of change in foreign exchange rates	13	53
<b>Balance, end of year</b>	<b>\$ 30,680</b>	<b>\$ 13,579</b>

During the year ended December 31, 2020, \$666,000 of direct and attributable overhead charges were capitalized to exploration assets (2019 - \$227,000).

**7. Property and Equipment**

	Petroleum assets	ROU assets	Corporate assets	Total
<b>Cost</b>				
<b>Balance, January 1, 2019</b>	\$ 134,308	\$ -	\$ 1,817	\$ 136,125
Additions	2,324	1,194	-	3,518
Derecognition (note 12)	-	(830)	-	(830)
Decommissioning liability change in estimate (note 15)	2,422	-	-	2,422
Effect of change in foreign exchange rates	1,024	6	91	1,121
<b>Balance, December 31, 2019</b>	<b>\$ 140,078</b>	<b>\$ 370</b>	<b>\$ 1,908</b>	<b>\$ 142,356</b>
Additions	1,024	242	-	1,266
Decommissioning liability change in estimate (note 15)	496	-	-	496
Effect of change in foreign exchange rates	(188)	19	36	(133)
<b>Balance, December 31, 2020</b>	<b>\$ 141,410</b>	<b>\$ 631</b>	<b>\$ 1,944</b>	<b>\$ 143,985</b>
<b>Accumulated depletion, depreciation and impairment</b>				
<b>Balance, January 1, 2019</b>	\$ 71,538	\$ -	\$ 1,546	\$ 73,084
Depletion and depreciation	4,717	343	111	5,171
Impairment (note 8)	7,594	-	-	7,594
Derecognition (note 12)	-	(175)	-	(175)
Decommissioning liability change in estimate (note 15)	371	-	-	371
Effect of change in foreign exchange rates	499	6	76	581
<b>Balance, December 31, 2019</b>	<b>\$ 84,719</b>	<b>\$ 174</b>	<b>\$ 1,733</b>	<b>\$ 86,626</b>
Depletion and depreciation	3,270	169	65	3,504
Impairment (note 8)	10,623	-	-	10,623
Decommissioning liability change in estimate (note 15)	413	-	-	413
Effect of change in foreign exchange rates	(241)	8	36	(197)
<b>Balance, December 31, 2020</b>	<b>\$ 98,784</b>	<b>\$ 351</b>	<b>\$ 1,834</b>	<b>\$ 100,969</b>
<b>Carrying amounts</b>				
Balance, December 31, 2019	\$ 55,359	\$ 196	\$ 175	\$ 55,730
<b>Balance, December 31, 2020</b>	<b>\$ 42,626</b>	<b>\$ 280</b>	<b>\$ 110</b>	<b>\$ 43,016</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

As at December 31, 2020, \$59,064,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (2019 - \$67,134,000). During the year ended December 31, 2020, \$257,000 of direct and attributable overhead charges were capitalized to property and equipment (2019 - \$715,000).

### Property disposition

In December 2018, the Company completed the disposition of its Iacos crude oil property and related assets. The Company sold its 50 percent operating working interest in the property to the third-party partner for consideration of \$500,000. \$163,000 of the consideration was collected during the year ended December 31, 2020 (2019 - \$38,000), with the remaining deferred consideration balance of \$204,000 included in accounts receivable as at December 31, 2020.

### Lease operatorship agreements

In December 2020, the Company extended the terms of its lease operatorship agreements with Heritage governing its core Coora-1, Coora-2, WD-4 and WD-8 development blocks to March 31, 2021. The agreements were originally set to expire on December 31, 2020 and were extended under pre-existing terms and conditions while the Company and Heritage progress on negotiations regarding new ten-year lease agreements for each property. As at the date of these financial statements, the negotiation of the new form of LOA for each property has been concluded by the parties.

### Exploration and production licence

The Company's Palo Seco exploration and production agreement with the MEEI expired on August 19, 2013. The Company is currently negotiating an extension of the licence and has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be extended. During the year ended December 31, 2020, production volumes produced under the expired licence represented 0.6 percent of annual Company production (2019 - 0.6 percent).

### Private lease agreements

The Company 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 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 Company currently has no indication that any of the producing expired leases will not be renewed. 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, 2020, production volumes produced under expired private lease agreements represented 1.8 percent of annual Company production (2019 – 1.8 percent).

## 8. Impairments

### Exploration assets

The following table sets forth exploration asset impairment losses by CGU for the periods indicated.

CGU	Year ended December 31,	
	2020	2019
Cory Moruga	\$ 668	\$ 14
East Brighton	127	352
<b>Exploration asset impairment loss</b>	<b>\$ 795</b>	<b>\$ 366</b>



## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Impairment losses of \$668,000 were recorded during the year ended December 31, 2020 relating to the Company's non-operated Cory Moruga concession (2019 - \$14,000). The Company accrued historical lease rental charges based on updated information from the third-party operator, which were subsequently impairment given the property's estimated recoverable value was \$nil.

During the years ended December 31, 2020 and 2019, the Company incurred lease expenses relating to its East Brighton property. The lease costs were impaired given the associated licence expired in December 2020.

### Property and equipment

Property and equipment impairment losses for the years ended December 31, 2020 and 2019 by CGU are disclosed in the following table.

CGU	Year ended December 31,	
	2020	2019
Coora	\$ 4,268	\$ 2,966
WD-4	1,941	3,306
WD-8	4,298	1,322
Property and equipment inventory	116	-
<b>Property and equipment impairment loss</b>	<b>\$ 10,623</b>	<b>\$ 7,594</b>

#### 2020 Impairments

As a result of the onset of the COVID-19 pandemic, global crude oil oversupply and the resulting drastic decrease in forecast crude oil prices compared to those at December 31, 2019, indicators of impairment were identified for all petroleum asset CGUs at March 31, 2020. Based on the results of impairment tests conducted, the Company recognized aggregate impairment losses of \$19,215,000 on its Coora, WD-4 and WD-8 CGUs.

As at December 31, 2020, the Company identified indicators of impairment and impairment reversals related to all petroleum asset CGUs based on updated changes in future development plans along with significant crude oil price volatility throughout 2020 and continuing economic uncertainty surrounding the impact of COVID-19. The Company performed impairment tests on all CGUs, resulting in an aggregate impairment reversal of \$8,708,000. In addition, the Company recorded an impairment loss of \$116,000 related to oilfield inventory that was not assigned to a specific CGU during the year ended December 31, 2020.

The following table summarizes impairment reversals recorded based on the Company's December 31, 2020 impairment tests and estimated recoverable amounts as at December 31, 2020 by CGU.

CGU	Impairment reversal	Recoverable amount
Coora	\$ (2,672)	\$ 10,688
WD-4	(4,027)	11,886
WD-8	(2,009)	10,025

#### 2019 Impairments

On December 31, 2019, indicators of impairment were identified on the Coora, WD-4 and WD-8 CGUs related to the forecasted effects of future income tax changes and uncertainty regarding future strip pricing. Impairment tests were conducted on the properties, resulting in an aggregate impairment loss of \$7,594,000 recognized in the statement of comprehensive income.

**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2020 and 2019

*Property and equipment impairment key assumptions*

Calculating the recoverable amounts of the Company's CGUs involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. The estimated recoverable amounts as of December 31, 2020 were determined using value in use calculations incorporating discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates as assessed by the Company's independent reserves evaluator as at December 31, 2020 (considered level 3 inputs within the fair value hierarchy). The Company used the same approach for its impairment tests conducted on December 31, 2019 and March 31, 2020. Discounted future cash flows were determined by applying a 20 percent discount rate (2019 - 20 percent).

The following table details the forward pricing and forecasted inflation rates used in estimating the recoverable amounts of the Company's petroleum asset CGUs as estimated by the Company's independent reserves evaluator effective January 1, 2021.

Forecast year	West Texas Intermediate crude oil (\$/bbl)	Brent spot crude oil (\$/bbl)	Inflation rates (percent per year)
2021	48.00	50.75	0.0
2022	51.50	55.00	1.0
2023	54.50	58.50	2.0
2024	57.79	61.79	2.0
2025	58.95	62.95	2.0
2026	60.13	64.13	2.0
2027	61.33	65.33	2.0
2028	62.56	66.56	2.0
2029	63.81	67.81	2.0
Thereafter	+2.0% / year	+2.0% / year	2.0

Changes in any of the key judgments, such as a revision in reserves, changes in forecast commodity prices and inflation rates, operating and capital expenditures, or the discount rate would impact the estimated recoverable amounts. The following table demonstrates the sensitivity of the estimated recoverable amounts by CGU from possible changes in key assumptions inherent in the December 31, 2020 impairment tests.

CGU	Decrease in discount rate of 1%	Increase in discount rate of 1%	Increase in crude oil price of 10%	Decrease in crude oil price of 10%
Coora	\$ 640	\$ (592)	\$ 3,879	\$ (3,364)
WD-4	714	(660)	4,160	(3,720)
WD-8	733	(674)	3,566	(3,216)
<b>Increase (decrease) to recoverable amount</b>	<b>\$ 2,087</b>	<b>\$ (1,926)</b>	<b>\$ 11,605</b>	<b>\$ (10,300)</b>

**9. Restricted Cash**

On July 15, 2020, the Company provided \$589,000 to its lender in accordance with the terms of its term credit facility (see note 13). Upon a partial principal repayment of the term credit facility in December 2020, this balance was reduced to \$294,000 and was classified as non-current restricted cash on the December 31, 2020 statement of financial position.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

The following table summarizes the Company's restricted cash balances at the end of the respective periods.

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	\$ 271	\$ 271
Expiry of cash collateralized bonds	(271)	-
Cash reserves balance pursuant to term loan (note 13)	294	-
<b>Balance, end of year</b>	\$ 294	\$ 271
Current	\$ -	\$ 271
Non-current	294	-
<b>Restricted cash</b>	\$ 294	\$ 271

The Company previously had \$271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments that expired on December 31, 2020. The parties have completed negotiations regarding new operating agreements, and the Company will be required to provide aggregate guarantees of approximately \$508,000 to support the minimum work obligations subsequent to execution (see note 7).

### 10. Other Assets

Other asset composition	December 31, 2020	December 31, 2019
Long-term prepaid deposits	\$ 24	\$ 23
Long-term property disposition receivable (note 7)	-	234
Finance lease receivable	-	239
<b>Other assets</b>	\$ 24	\$ 496

The Company entered into a five-year, \$1,836,000 arrangement to lease its coil tubing unit, four service rigs and ancillary equipment to a third-party contractor on October 1, 2017 and amended the agreement on September 30, 2019 to exclude a service rig, reducing the principal balance by \$900,000. Effective September 1, 2020, the amended lease arrangement was terminated, with the equipment reverting to the Company (see note 24). The following table details the movements of the Company's finance lease receivable for the years ended December 31, 2020 and 2019.

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	\$ 376	\$ 1,447
Interest income	18	91
Payments	(109)	(262)
Lease modification	-	(900)
Lease termination	(285)	-
<b>Balance, end of year</b>	\$ -	\$ 376
Current (included in accounts receivable)	\$ -	\$ 137
Non-current	-	239
<b>Finance lease receivable</b>	\$ -	\$ 376

### 11. Financial Liabilities and Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. Although the effects of COVID-19 had a material effect on the Company's realized crude oil prices in 2020, the Company believes that future cash flows and debt capacity will

**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2020 and 2019

be adequate to meet financial obligations as they come due.

The Company manages liquidity risk by continuously monitoring actual and forecasted cash flows from operating, investing and financing activities and opportunities to withdraw from its existing debt facility or to issue additional equity. The Company's near-term development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities. The Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability.

Refer to Note 13 "Term Loan", Note 20 "Capital Management" and Note 21 "Commitments and Contingencies" for further details regarding the Company's debt structure and capital management objectives. The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at December 31, 2020.

	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	\$ 16,379	\$ 16,379	\$ -	\$ -
Lease liabilities (note 12)	447	66	127	254
Term loan principal (note 13)	7,500	-	2,250	5,250
Term loan interest (note 13)	2,405	589	1,060	756
Estimated production liabilities (note 14)	2,688	293	2,395	-
<b>Total financial liabilities</b>	<b>\$ 29,419</b>	<b>\$ 17,327</b>	<b>\$ 5,832</b>	<b>\$ 6,260</b>

**12. Lease Liabilities**

The Company is a party to lease arrangements for head office space, motor vehicles and office equipment. Lease agreements are negotiated on an individual basis and contain varying terms and conditions. The lease contracts are effective for periods of one to six years, and discount rates used in calculating the present values of lease payments during the year ended December 31, 2020 were between 5 and 10 percent. The following table provides a continuity of the Company's lease liabilities for the years ended December 31, 2020 and 2019.

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	\$ 335	\$ 1,352
Lease modifications	235	(670)
Interest expense	21	69
Payments	(222)	(432)
Effect of change in foreign exchange rates	14	16
<b>Balance, end of year</b>	<b>\$ 383</b>	<b>\$ 335</b>
Current (included in accounts payable and accrued liabilities)	\$ 48	\$ 230
Non-current	335	105
<b>Lease liabilities</b>	<b>\$ 383</b>	<b>\$ 335</b>

Effective July 1, 2020, an arrangement relating to head office space was amended and extended by a further five-year period. The lease amendment was considered a lease modification, with the remeasured lease liability and associated ROU asset balances each increasing by \$240,000.

On August 1, 2019, an arrangement relating to oilfield service equipment was amended and consequently was no longer considered a lease. Accordingly, the Company's lease liability of \$670,000 and the associated ROU asset of \$655,000 were derecognized, resulting in a \$15,000

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

non-cash gain recorded in net finance expenses. 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, 2020 and 2019.

	December 31, 2020	December 31, 2019
Less than one year	\$ 66	\$ 245
1 to 3 years	127	105
4 years	254	1
<b>Undiscounted cash flows related to lease liabilities</b>	<b>\$ 447</b>	<b>\$ 351</b>

Payments recognized in the financial statements relating to short-term leases during the year ended December 31, 2020 were \$187,000 (2019 - \$134,000). These arrangements consisted of leases of motor vehicles, which were recognized in operating expenses in the statements of comprehensive income. Variable lease payments of \$129,000 not included in the calculation of the Company's lease obligations during the year ended December 31, 2020 were recognized in general and administration expenses in the statements of comprehensive income (2019 - \$133,000).

### 13. Term Loan

The Company's indirect wholly owned Trinidadian subsidiary entered into a \$20 million, seven-year term credit facility arrangement (the "Term Loan") from a Trinidad based financial institution effective June 15, 2020 (the "Effective Date"). On the Effective Date, the Company withdrew \$15 million to satisfy the Company's obligations relating to prepaying the Company's C\$20 million Canadian based term loan (the "Retired Term Loan"). During the year ended December 31, 2020, the Company incurred \$180,000 in finance expenses and recorded a \$1,158,000 revaluation loss in connection with prepaying the Retired Term Loan.

The Term Loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The Term Loan bears a fixed interest rate of 7.85% per annum, compounded and payable quarterly. Principal payments commence two years from the Effective Date with twenty equal and consecutive quarterly principal repayments thereafter. Prepayments are permitted after one year with a 1.0% penalty and a 30-day notice period, and no penalty shall apply on principal repayments after three years. The Term Loan is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of the Trinidad subsidiary and its wholly owned Trinidad exploration and production subsidiary. The Term Loan contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be tested on an annual basis commencing with the year ended December 31, 2022. At all times the Company must maintain a cash reserves balance of not less than the equivalent of two future quarterly interest payments (see note 9).

On November 27, 2020, the Company and its lender executed an amending agreement to the Term Loan, allowing the Company to repay \$7.5 million of the \$15 million principal balance on December 15, 2020 for a reduced prepayment fee of \$19,000. Pursuant to the Term Loan Amending Agreement, the Company has the option to withdraw the remaining \$12.5 million available balance prior to one year from the Effective Date.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

	Retired Term Loan liability	Term Loan liability	Total
<b>Balance, January 1, 2019</b>	\$ 10,130	\$ -	\$ 10,130
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation gain	(656)	-	(656)
Accretion	384	-	384
Effect of change in foreign exchange rates	518	-	518
<b>Balance, December 31, 2019</b>	<b>\$ 13,966</b>	<b>-</b>	<b>\$ 13,966</b>
Advance, net of transaction fees	-	14,617	14,617
Payments	(14,750)	(7,500)	(22,250)
Revaluation loss on prepayment	1,158	-	1,158
Accretion	173	59	232
Effect of change in foreign exchange rates	(547)	-	(547)
<b>Balance, December 31, 2020</b>	<b>\$ -</b>	<b>\$ 7,176</b>	<b>\$ 7,176</b>

### 14. Other Liabilities

In connection with the inception of the Retired Term Loan, the Company granted its former lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2023. Upon repayment of the Retired Term Loan, the Company and the lender entered into an amended production payment agreement to continue the obligation under its previous terms and conditions. The production liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts (considered level 3 inputs within the fair value hierarchy).

The following table details the movements of the Company's production liability for the periods indicated.

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	\$ 989	\$ 733
Revaluation loss	759	622
Payments	(262)	(404)
Effect of change in foreign exchange rates	33	38
<b>Balance, end of year</b>	<b>\$ 1,519</b>	<b>\$ 989</b>
Current (included in accounts payable and accrued liabilities)	\$ 162	\$ 220
Non-current other liabilities	1,357	769
<b>Total production liability</b>	<b>\$ 1,519</b>	<b>\$ 989</b>

### 15. Decommissioning Liabilities and Abandonment Fund

The Company'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 one to nineteen years, with the majority of the costs estimated to be incurred subsequent to 2031. The liabilities are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Pursuant to Heritage and MEEI production and exploration licences and agreements, the Company is obligated to remit payments into abandonment funds based on production. The Company remits \$0.25 per barrel of crude oil sold, and the funds will be used for the future abandonment of wells in the related licenced area. As at December 31, 2020, the Company classified \$1,226,000 of accrued or paid fund contributions as non-current abandonment fund assets (2019 - \$1,125,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$11,919,000 as at December 31, 2020 based on an inflation adjusted future liability of \$18,982,000 (2019 - \$11,547,000 and \$27,153,000, respectively). The following table summarizes the Company's estimated decommissioning liability provision at the end of the respective periods.

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	\$ 11,547	\$ 8,915
Liabilities incurred	115	91
Accretion expense	297	372
Revisions to estimates	(25)	2,108
Effect of change in foreign exchange rates	(15)	61
<b>Balance, end of year</b>	\$ 11,919	\$ 11,547

In 2020, the Company incurred decommissioning liabilities of \$115,000 primarily based on exploration drilling (2019 - \$91,000). A further increase in Heritage related decommissioning obligations was driven by 2020 production, which increased the Company's proportionate working interest in future well abandonments.

December 31, 2020 decommissioning liabilities were estimated using a long-term risk-free rate of 4.9 percent and a long-term inflation rate of 1.8 percent (2019 - 5.5 percent and 3.3 percent, respectively). The revision in rates and timing of settlement estimates combined to reduce the estimated decommissioning liability by an aggregate \$25,000 during the year ended December 31, 2020 (2019 – net increase of \$2,108,000).

## 16. Income Taxes

The Trinidad statutory petroleum profit tax ("PPT") and unemployment levy for 2020 and 2019 were a combined rate of 55 percent of taxable income. The following table is a reconciliation of income taxes calculated by applying the applicable Trinidad statutory petroleum tax rate to net earnings before income tax expense.

	Year ended December 31,	
	2020	2019
Net loss before income taxes	\$ (17,029)	\$ (2,065)
Trinidad statutory rate	55.00%	55.00%
Expected income tax recovery at statutory rate	\$ (9,366)	\$ (1,136)
Effect on income tax resulting from:		
Supplemental petroleum tax	6	4,782
Deductible supplemental petroleum tax	(3)	(3,079)
Benefit of tax assets not recognized	1,014	(1,176)
Tax rate differential	2,543	3,889
Prior period adjustments and other	(193)	275
<b>Total provision for income taxes</b>	\$ (5,999)	\$ 3,555



## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

The net deferred income tax liability solely relates to the Company's Trinidad operations. The following table details the components of the liability for the years ended December 31, 2020 and 2019.

	December 31, 2019	Recognized in equity	Recognized in earnings (loss)	December 31, 2020
Property and equipment	\$ (21,766)	\$ 10	\$ 5,492	\$ (16,264)
Decommissioning liabilities	638	(1)	(58)	579
Term loan	-	-	(159)	(159)
Loss carry forwards	5,706	(12)	390	6,084
Other	2,133	(2)	608	2,739
<b>Net deferred income tax liability</b>	<b>\$ (13,289)</b>	<b>\$ (5)</b>	<b>\$ 6,273</b>	<b>\$ (7,021)</b>

The components of the Company's unrecognized deductible temporary differences as at December 31, 2020 and 2019 are detailed in the following table.

	December 31, 2020	December 31, 2019
Property and equipment and exploration assets	\$ (23,991)	\$ (16,479)
Loss carry forwards	110,154	98,920
Decommissioning obligations	10,867	10,387
Other	12,702	9,005
<b>Unrecognized deductible temporary differences</b>	<b>\$ 109,732</b>	<b>\$ 101,833</b>

The Company's December 31, 2020 net deferred tax liability includes an aggregate \$9,402,000 of deferred tax assets, which are reviewed at each reporting date to assess whether it is probable that the related tax benefit will be realized in the future (2019 - \$8,477,000). As at December 31, 2020, the Company estimated that future taxable income was sufficient to realize the deferred tax asset. The estimates used to determine future taxable income are subject to measurement uncertainty, and actual results could differ from estimates.

The following table sets forth the Company's estimated income tax losses as at December 31, 2020 and 2019.

	December 31, 2020	December 31, 2019
Trinidad PPT losses	\$ 34,146	\$ 27,422
Trinidad corporate tax losses	1,771	1,803
Canada non-capital losses	85,806	80,573

Trinidadian PPT losses and corporate tax losses may be carried forward indefinitely to reduce the taxes in future years. Effective January 1, 2020, 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 \$21,978,000 and Trinidad corporate losses of \$1,771,000 as it was not considered probable that the benefit of the respective losses would be realized at December 31, 2020 (2019 - \$16,011,000 and \$1,803,000, respectively). Similarly, the benefit of the Canadian non-capital losses was not recognized as at December 31, 2020 and 2019.



## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

The following table is a continuity schedule of the Company's current income tax payable for the years ended December 31, 2020 and 2019.

	Year ended December 31,	
	2020	2019
<b>Balance, beginning of year</b>	<b>\$ 1,329</b>	<b>\$ 2,730</b>
Current income tax expense	274	5,368
Income tax interest expense	-	655
Income tax payments	(1,654)	(7,336)
Reversal of income tax interest	-	(102)
Income tax refunds	4	1
Instalments reclassified to accounts receivable	49	-
Effect of change in foreign exchange rates	(2)	13
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ 1,329</b>

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

### 17. 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.

	Number of shares	Shareholders' capital
<b>Balance, January 1, 2019</b>	129,021,428	\$ 56,987
Issued pursuant to private placement, net of fees	31,666,667	4,496
Equity-based settlements	15,000	24
<b>Balance, December 31, 2019</b>	<b>160,703,095</b>	<b>\$ 61,507</b>
Issued pursuant to private placements, net of fees	46,791,866	39,236
Equity-based settlements	1,904,666	642
<b>Balance, December 31, 2020</b>	<b>209,399,627</b>	<b>\$ 101,385</b>

#### Private placements

On November 12, 2020, the Company completed a private placement directed toward United Kingdom and Canadian investors, whereby gross proceeds of \$30,385,000 were raised by way of issuing 24,291,866 common shares at a price of 95 pence sterling and C\$1.64 per common share. Fees incurred from the private placement were \$1,999,000, which included brokerage commissions and legal and corporate finance advisory fees, resulting in net proceeds of \$28,386,000.

The Company completed a private placement on February 26, 2020 directed toward United Kingdom investors, raising gross proceeds of \$11,654,000 by issuing 22,500,000 common shares at a price of 40 pence sterling (approximately C\$0.69) per common share. Share issuance costs of \$804,000 were incurred, resulting in net proceeds of \$10,850,000.

On February 26, 2019, the Company completed a private placement directed toward United Kingdom investors, whereby net proceeds of \$4,496,000 were raised by way of a placing of 31,666,667 new common shares at a price of 12 pence sterling (approximately C\$0.21) per common share.

**Notes to the Consolidated Financial Statements**  
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**Equity compensation plans**

*Share options*

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the grant date as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant.

	Number of share options	Weighted average exercise price
<b>Outstanding, January 1, 2019</b>	8,534,640	C\$ 0.44
Granted	2,550,000	0.23
Expired	(2,344,040)	0.87
<b>Outstanding, December 31, 2019</b>	<b>8,740,600</b>	<b>C\$ 0.26</b>
Granted	2,892,000	0.64
Exercised	(1,904,666)	0.30
Expired	(147,500)	2.10
Cancelled	(28,000)	0.42
<b>Outstanding, December 31, 2020</b>	<b>9,552,434</b>	<b>C\$ 0.34</b>
<b>Exercisable, December 31, 2020</b>	<b>4,425,503</b>	<b>C\$ 0.20</b>

The following table sets forth share options outstanding and the weighted average remaining life of the share options as at December 31, 2020.

Range of exercise price (C\$)	Number of share options outstanding	Weighted average remaining term (years)	Number of share options exercisable	Weighted average remaining term (years)
0.14 to 0.15	1,374,300	1.3	1,374,300	1.3
0.21 to 0.22	1,076,700	2.2	744,102	2.2
0.23 to 0.25	4,230,434	2.4	2,307,101	1.8
0.48	2,590,000	4.3	-	-
2.07 to 2.11	281,000	5.0	-	-
<b>0.14 to 2.11</b>	<b>9,552,434</b>	<b>2.8</b>	<b>4,425,503</b>	<b>1.7</b>

The weighted average fair value of share options granted during the year ended December 31, 2020 was C\$0.35 per option as estimated on the date of each grant using the Black-Scholes option pricing model (2019 - C\$0.13 per option). The weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted for the years ended December 31, 2020 and 2019 are set forth in the table below.

	Year ended December 31,	
	2020	2019
Grant date share price (C\$)	0.64	0.23
Exercise price (C\$)	0.64	0.23
Risk-free interest rate (percent)	0.5	1.6
Expected life of share options (years)	3.0	3.0
Expected volatility (percent)	88.9	86.9
Expected annual dividends (C\$)	-	-
Forfeiture rate (percent)	5.0	5.0

**Notes to the Consolidated Financial Statements**  
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*Incentive share options*

The Company formerly had an incentive share compensation option plan which provided for the grant of incentive share options to purchase common shares of the Company at a C\$0.05 exercise price. The Company terminated the incentive option plan effective February 26, 2021.

	Number of incentive share options	Weighted average exercise price
<b>Outstanding, January 1, 2019</b>	15,000	C\$ 0.10
Exercised	(15,000)	0.10
<b>Outstanding, December 31, 2019 and 2020</b>	-	-

The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10 percent of the issued and outstanding common shares. During the year ended December 31, 2020, the Company recorded equity-based compensation expenses of \$302,000 in relation to equity compensation plans (2019 – \$169,000).

**Weighted average common shares**

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

	Year ended December 31,	
	2020	2019
Weighted average common shares, basic	183,780,580	155,830,428
Dilutive impact of equity-based compensation	-	-
<b>Weighted average common shares, diluted</b>	<b>183,780,580</b>	<b>155,830,428</b>

There was no dilutive impact to the weighted average number of common shares for the year ended December 31, 2020, as 6.9 million share options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (2019 – 1.8 million).

**18. Net Finance Expenses**

	Year ended December 31,	
	2020	2019
Interest income	\$ (32)	\$ (96)
Lease liability interest expense (note 12)	21	69
Term loan interest expense (note 13)	1,151	954
Term loan revaluation loss (gain) (note 13)	1,158	(656)
Accretion on term loan (note 13)	232	384
Term loan finance expense (note 13)	199	-
Production liability revaluation loss (note 14)	759	622
Accretion on decommissioning liabilities (note 15)	297	372
Reversal of accrued income tax interest	-	(1,286)
Other (note 23)	(50)	(47)
<b>Net finance expenses</b>	<b>\$ 3,735</b>	<b>\$ 316</b>
Cash net finance expenses	\$ 1,343	\$ (342)
Non-cash net finance expenses	2,392	658
<b>Net finance expenses</b>	<b>\$ 3,735</b>	<b>\$ 316</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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In 2019, the Trinidad and Tobago government introduced a tax amnesty relating to certain taxes, including petroleum taxes and VAT, wherein historical interest amounts were waived on outstanding balances paid during the June through September 2019 period. As a result of principal payments made by the Company during the amnesty period, \$1,286,000 in previously accrued interest was reversed during the year ended December 31, 2019.

### 19. Financial Instruments and Market Risk Management

#### Financial instruments

At December 31, 2020, the Company's financial instruments include cash, restricted cash, accounts receivable, financial derivatives, accounts payable and accrued liabilities, income taxes payable, lease liabilities, term loan and production liabilities (included in other liabilities on the statements of financial position).

The Company's financial instruments that are carried at fair value on the statements of financial position include financial derivatives and production liabilities. The carrying values of the Company's accounts receivable, accounts payable and accrued liabilities and income taxes payable as at December 31, 2020 approximate their fair values due to the short-term nature of these instruments.

#### Market risk management

Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Company's Board of Directors to establish risk management guidelines to be used by Management. The risk exposures inherent in the movements of the price of crude oil and fluctuations in foreign exchange rates are proactively reviewed by the Company and may be managed through the use of derivative contracts as considered appropriate.

#### *Commodity price risk*

The Company's operational and financial results are largely dependent on the commodity prices received from petroleum production. Movement in commodity prices could have a significant positive or negative effect on the Company's net earnings and cash flows. To mitigate this risk, the Company maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. The Company's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases. The Company had no commodity-based risk management contracts in place as at or during the year ended December 31, 2020. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development and exploration capital programs.

In April 2019, the Company purchased crude oil put option contracts from a financial institution for 800 barrels per day at a strike price of Brent \$56.10 per barrel from June 1, 2019 to December 31, 2019 for an upfront cash premium of \$171,000. The monthly settled options expired out of the money throughout 2019, resulting in a derivative loss of \$171,000 recorded during the year ended December 31, 2019.

For the year ended December 31, 2020, with all other variables held constant, a 10 percent increase or decrease in the realized pricing received from crude oil would have resulted in an approximate \$298,000 increase or a \$609,000 decrease in net earnings (2019 - \$1,090,000 and \$1,090,000).

*Foreign currency risk*

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the TT\$ and the US\$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT\$. In addition, the Company has US\$ denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company has further foreign exchange exposure on cash balances denominated in Canadian dollars and pounds sterling, head office costs and production liabilities denominated and payable in Canadian dollars, 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 the Company's reporting results.

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the years ended December 31, 2020 and 2019. For the year ended December 31, 2020, with all other variables held constant, a 5 percent change in the US\$ to C\$ and US\$ to TT\$ exchange rates would have resulted in an approximate \$811,000 increase or decrease in net earnings (2019 - \$232,000).

*Interest rate risk*

Interest rate risk arises from changes in market interest rates that may affect net earnings and cash flows. As at December 31, 2020 and 2019, the Company did not hold any variable interest rate debt.

**20. Capital Management**

The Company's policy is to maintain a strong capital base to preserve investor, creditor, and market confidence and to sustain the future development of the business. The Company 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 funds flow from operations. Exploration activities and profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. The Company uses share equity and term debt as primary sources of capital.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of 2.0 times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1.

Net (surplus) debt is a Non-IFRS measure calculated by summing the Company's working capital and the principal (undiscounted) non-current amount of senior secured debt. Working capital is a Non-IFRS measure calculated as current assets minus current liabilities as they appear on the

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

statements of financial position. Net (surplus) debt is used by Management as a key measure to assess the Company's liquidity. Funds flow from operations is an additional IFRS measure included in the Company's consolidated statements of cash flows. Net (surplus) debt and funds flow from operations are not standardized measures and therefore may not be comparable to similar measures presented by other companies. The Company's internal capital management calculations for the years ended December 31, 2020 and 2019 are set forth in the table below.

	Target measure	December 31, 2020	December 31, 2019
Current assets		\$ (29,312)	\$ (14,118)
Current liabilities		16,379	15,257
Working capital (surplus) deficit		\$ (12,933)	\$ 1,139
Principal non-current balance of term loan		7,500	15,364
Net (surplus) debt		\$ (5,433)	\$ 16,503
Shareholders' equity		60,365	30,115
Net (surplus) debt plus equity		\$ 54,932	\$ 46,618
Trailing twelve-month funds flow from operations		\$ 263	\$ 6,840
<b>Net debt to funds flow from operations</b>	<b>at or &lt; 2.0 times</b>	<b>n/a</b>	<b>2.41</b>
<b>Net debt to net debt plus equity</b>	<b>&lt; 0.4 times</b>	<b>n/a</b>	<b>0.35</b>

### 21. Commitments and Contingencies

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under the Ortoire block exploration and production licence with the MEEI, and various lease commitments for office space and equipment. The following table sets forth the Company's estimated minimum contractual capital requirements as at December 31, 2020.

	Total	Estimated payments due by year			
		2021	2022	2023	Thereafter
Operating agreements	\$ 1,731	\$ 893	\$ 76	\$ 77	\$ 685
Exploration agreements	8,812	8,812	-	-	-
Other commitments	1,122	440	128	128	426
<b>Minimum payments</b>	<b>\$ 11,665</b>	<b>\$ 10,145</b>	<b>\$ 204</b>	<b>\$ 205</b>	<b>\$ 1,111</b>

Under the terms of its Heritage operating agreements, the Company must fulfill minimum work obligations on an annual basis over the specific licence term. With respect to these obligations, as at December 31, 2020, the Company had two shallow development wells and three heavy workovers to perform prior to the end of 2021.

The Company has completed negotiations regarding new ten-year lease operatorship agreements relating to its Coora-1, Coora-2, WD-4 and WD-8 development blocks with Heritage (see note 7). The arrangements include minimum work obligations for each property which are not disclosed in the table above. Similar to its previous agreements, the Company will also be required to provide guarantees to support the future minimum work obligations (see note 9).

The Company's Ortoire exploration and production licence, which was originally set to expire on October 31, 2020, was extended for an additional nine-month term through July 31, 2021. Pursuant to the licence amendment, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres, and the Company is required to drill an additional exploration well to a true vertical depth of 10,000 feet prior to June 2021. As at December 31, 2020, the Company drilled four of five minimum commitment wells and commenced planning the required seismic program obligation.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Subsequent to year-end, the Company entered into a minimum three-year drilling services contract with a third-party to supply a North American based drilling rig to Trinidad in late 2021. Pursuant to the contract, the Company is required to utilize the rig for a minimum of 120 days per annum over the initial three-year term and is obligated to pay for rig mobilization and demobilization costs.

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

### 22. Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2020, \$214,000 in legal fees charged by Norton Rose Fulbright Canada LLP were incurred, of which \$23,000 were included in accounts payable and accrued liabilities as at December 31, 2020 (2019 - \$94,000 and \$13,000, respectively).

The Company has determined that the key management personnel of the Company is comprised of its directors and executive officers. Key management personnel compensation paid or payable during the years ended December 31, 2020 and 2019 are disclosed below.

	Year ended December 31,	
	2020	2019
Salaries and benefits included in general and administration expenses	\$ 1,366	\$ 1,187
Director fees included in general and administration expenses	225	205
Equity-based compensation (note 17)	248	144
<b>Key management compensation</b>	<b>\$ 1,839</b>	<b>\$ 1,536</b>

### 23. Supplemental Disclosures

#### Presentation in the statements of comprehensive income

The Company's statements of comprehensive income are prepared primarily by nature of item, with the exception of employee compensation expense which is included in both operating 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 comprehensive income.

	Year ended December 31,	
	2020	2019
Operating	\$ 1,247	\$ 1,586
General and administration	3,357	3,349
<b>Employee compensation expenses</b>	<b>\$ 4,604</b>	<b>\$ 4,935</b>



**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2020 and 2019

**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.

<b>Net change in non-cash working capital</b>	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Source (use) of cash:		
Accounts receivable	\$ 2,663	\$ 4,545
Crude oil inventory	(21)	79
Prepaid expenses	(8)	11
Accounts payable and accrued liabilities	2,451	(2,334)
Income taxes payable	(1,329)	(1,401)
Transfer from other assets	(15)	(225)
Transfer from non-current other liabilities	63	(220)
Transfer from non-current lease liabilities	324	(194)
Foreign exchange on working capital balances	496	(40)
<b>Net change in non-cash working capital</b>	<b>\$ 4,624</b>	<b>\$ 221</b>
Related to operating activities	\$ 2,033	\$ (1,215)
Related to investing activities	2,641	1,422
Related to financing activities	(50)	14
<b>Net change in non-cash working capital</b>	<b>\$ 4,624</b>	<b>\$ 221</b>
<b>Other non-cash items</b>	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Term loan revaluation loss (gain) (note 13)	\$ 1,158	\$ (656)
Accretion on term loan (note 13)	232	384
Production liability revaluation loss (note 14)	759	622
Accretion on decommissioning liabilities (note 15)	297	372
Change in fair value of non-current accounts receivable (note 7)	(50)	(49)
Derecognition of lease liabilities (note 12)	(4)	(15)
<b>Other non-cash items</b>	<b>\$ 2,392</b>	<b>\$ 658</b>

**24. Subsequent Event**

Effective March 1, 2021, the Company entered into separate three-year arrangements to lease its oilfield service rigs and swabbing units to two third-party contractors. At December 31, 2020, the carrying value of the associated equipment was \$911,000. Given the lease arrangements transfer substantially all of the risk and rewards incidental to ownership of the underlying assets, they will be classified as financing leases.