

Touchstone Exploration Inc. Reports Third Quarter 2020 Results

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CALGARY, Nov. 13, 2020 - [Touchstone Exploration Inc.](#) ("Touchstone", "we", "our", "us" or the "Company") (TSX: TXP) (LSE: TXP) reports its unaudited financial and operating results for the three months ended September 30, 2020. Selected information is outlined below and should be read in conjunction with Touchstone's September 30, 2020 unaudited consolidated interim financial statements and related Management's Discussion and Analysis, both of which will be available on the Company's website (www.touchstoneexploration.com) and under the Company's profile on SEDAR (www.sedar.com). Unless otherwise stated, all financial amounts herein are rounded to thousands of United States dollars.

Third Quarter Highlights

- Delivered average daily crude oil production of 1,310 barrels per day ("bbls/d"), compared to 1,396 bbls/d in the second quarter of 2020 and 1,729 bbls/d in the third quarter of 2019. As expected and consistent with prior quarters, our crude oil production has reduced due to the ongoing impact of natural declines, reflecting a strategic focus on our Ortoire exploration program which has limited capital investment and reduced discretionary field maintenance expenditures.
- Invested \$5,758,000 in exploration activities, primarily focused on Chinook-1 drilling operations and surface facility equipment expenditures relating to Coho-1 tie-in operations.
- Generated funds flow from operations of \$192,000 and an operating netback of \$14.09 per barrel, representing increases from the second quarter of 2020 based on higher realized crude oil sales pricing.
- Continued to focus on discretionary cost reductions, with operating costs on a per barrel basis decreasing by 10 percent and general and administrative expenses declining by 9 percent relative to the third quarter of 2019.
- Recognized a net loss of \$703,000 (\$0.00 per share) compared to a net loss of \$1,053,000 (\$0.01 per share) in the third quarter of 2019 despite a 47 percent reduction in petroleum revenues between the corresponding periods.
- Maintained financial flexibility, exiting the quarter with cash of \$7,673,000 and raising gross proceeds of approximately \$30.3 million via a private placement completed on November 12, 2020.

Paul R. Baay, President and Chief Executive Officer, commented:

"The Board's focus remains on our Ortoire property where exploration activities to date have significantly exceeded expectations. Our base crude oil production continues to cover our operating costs, allowing us to direct our capital exclusively to our ongoing exploration program. The oversubscribed private placement completed post period end places us in a strong position to continue the execution of our Ortoire drilling, production testing and tie-in operations. We are currently drilling our fourth exploration well, Cascadura Deep-1, and we are in the process of finalizing a nine-month extension to the exploration phase of the Ortoire licence. Alongside this, we continue to negotiate a natural gas sales agreement with the National Gas Company of Trinidad and Tobago. I look forward to updating our shareholders as operations progress."

Third Quarter Summary and Outlook

Despite the ongoing challenges as a result of COVID-19, we continued to manage our business prudently during the quarter, achieving positive cash flows despite limited developmental capital activity since 2018 and progressing with our Ortoire exploration program while maintaining safe and reliable operations. Our investment focus remains on the Ortoire exploration block, as we spudded our third drilling prospect (Chinook-1) in the quarter which reached total depth in mid-October. We believe our operating and general and administrative ("G&A") cost reductions initiated in the second quarter of 2020 have enhanced our financial resilience and financial capability to maintain our base production and to deliver safe operations.

We remain focused on protecting the health of our employees and communities while ensuring a decisive

response for our investors. We will continue to follow the advice of public health officials in supporting our employees, their families and our business partners. Our objective remains to bring our two natural gas exploration discoveries onto production as soon as possible, which are expected to not only increase cash flow but insulate us from further crude oil price volatility from the continued effects of COVID-19. Drilling operations are ongoing at our Cascadura Deep-1 prospect, and we anticipate commencing production testing at our Chinook-1 discovery upon completion.

The rapid decline in oil prices had a negative impact on our cash flows during the nine months ended September 30, 2020 and our projections for the balance of the year. Ongoing weakness in commodity prices resulting from COVID-19 impacts on demand and market volatility may adversely affect our future financial and operational results. We continue to monitor the situation and economic environment, and we will continue to adapt our business operations and exploration program to ensure that we preserve and grow long-term shareholder value.

On the basis of the successful results from the first three Ortoire exploration wells, we undertook a private placement that closed on November 12, 2020 in order to support the completion of the initial phase of exploration work on the Ortoire block. The private placement raised gross proceeds of approximately \$30.3 million by way of a placing of 24,291,866 common shares at a price of 95 pence (C\$1.64). We believe this enhanced liquidity will allow us to continue with our exploration program at an optimal pace, with a focus on bringing our initial exploration discoveries onto production in 2021.

Financial and Operating Results Summary

	Three months ended September 30,		% change	Nine months ended September 30,		% change
	2020	2019		2020	2019	
Operating Highlights						
Average daily oil production ⁽¹⁾ (bbls/d)	1,310	1,729	(24)	1,431	1,871	(24)
Net wells drilled	-	0.8	n/a	-	0.8	n/a
Brent benchmark price (\$/bbl)	42.91	61.95	(31)	41.15	64.65	(36)
Operating netback ⁽²⁾ (\$/bbl)						
Realized sales price	39.20	56.67	(31)	38.54	58.21	(34)
Royalties	(11.17)	(16.61)	(33)	(10.82)	(16.32)	(34)
Operating expenses	(13.94)	(15.50)	(10)	(13.06)	(14.82)	(12)
	14.09	24.56	(43)	14.66	27.07	(46)
Financial Highlights						
(\$'000's except as indicated)						
Petroleum sales	4,725	9,011	(48)	15,178	29,734	(49)

Cash flow from (used in) operating activities	4,126	(1,205)	n/a	2,129	3,364	(37)
Funds flow from operations ⁽³⁾	192	1,082	(82)	999	4,822	(79)
Per share – basic and diluted ⁽²⁾⁽³⁾	0.00	0.01	(100)	0.01	0.03	(67)
Net loss	(703)	(1,053)	(33)	(12,685)	(2,071)	100
Per share – basic and diluted	(0.00)	(0.01)	(100)	(0.07)	(0.01)	100
Exploration capital expenditures	5,758	3,234	78	8,830	4,275	100
Development capital expenditures	211	517	(59)	523	1,231	(58)
Total capital expenditures	5,969	3,751	59	9,353	5,506	70
Working capital (surplus) deficit ⁽²⁾				(869)	805	n/a
Principal non-current balance of term loan				15,000	11,328	32
Net debt ⁽²⁾ – end of period				14,131	12,133	16

Share Information (000's)

Notes:

(1) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown since the Company's oil sales volumes typically represent blends of more than one type of crude oil.

(2) Non-GAAP financial measure that does not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable with the calculation of similar measures presented by other companies. See "Advisories: Non-GAAP Measures" for further information.

(3) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net loss excluding non-cash items. See "Advisories: Non-GAAP Measures" for further information.

In the third quarter of 2020, we invested \$5,758,000 in exploration activities, which were predominantly Chinook-1 drilling and Coho-1 tie-in expenditures. The Chinook-1 well reached its target depth on October 13, 2020, and we are awaiting regulatory approval to commence installation of the Coho-1 surface facility equipment and pipeline operations.

We conducted minimal developmental activity in the quarter, with average crude oil sales declining to 1,310 bbls/d, a 6 percent decrease relative to the 1,396 bbls/d produced in the second quarter of 2020 and a 24 percent reduction from 1,729 bbls/d produced in the third quarter of 2019. Our crude oil sales volumes have decreased due to the ongoing impact of natural declines associated with limited capital investment since the final two wells of the 2018 drilling program were brought onstream in January 2019. Further, since March 2020 we have deliberately reduced discretionary operating expenditures in response to lower crude oil pricing, focusing on performing well interventions on those deemed high priority. Development capital activity for the fourth quarter of 2020 is expected to be minimal as we continue to focus on our exploration program.

Financial results

We reported nominal funds flow from operations of \$192,000 in the third quarter of 2020 versus \$1,082,000 generated in the 2019 third quarter. The decrease reflected a 31 percent reduction in our average realized

crude oil prices as a result of the impact of the COVID-19 pandemic and a 24 percent decline in crude oil production from limited capital and operational investment.

We recorded a net loss of \$703,000 (\$0.00 per share) in the third quarter of 2020 versus a net loss of \$1,053,000 (\$0.01 per share) in the prior year equivalent quarter despite a 47 percent reduction in petroleum revenues over the equivalent period. The decrease in petroleum revenues was driven by a 24 percent decline in crude oil production, a 31 percent reduction in realized average crude oil pricing, and a corresponding 49 percent decrease in royalty expenses. We continued with our cost-saving initiatives in the third quarter, as quarterly operating costs decreased 32 percent and 10 percent on an absolute and per barrel basis from the third quarter of 2019. In addition, we reduced third quarter 2020 G&A expenses by 9 percent in comparison to the third quarter of 2019. Relative to the third quarter of 2019, current income tax expense decreased by \$1,146,000 or 95 percent, reflective of \$1,087,000 of supplemental petroleum taxes incurred in the prior year third quarter from higher realized crude oil pricing.

Touchstone exited the quarter with a working capital surplus of \$869,000, \$15 million withdrawn on our term credit facility and net debt of \$14,131,000. Our liquidity is augmented by \$5 million of undrawn credit capacity, as well as the net proceeds from the private placement that closed subsequent to quarter-end.

[Touchstone Exploration Inc.](#)

[Touchstone Exploration Inc.](#) is a Calgary, Alberta based company engaged in the business of acquiring interests in petroleum and natural gas rights and the exploration, development, production and sale of petroleum and natural gas. Touchstone is currently active in onshore properties located in the Republic of Trinidad and Tobago. The Company's common shares are traded on the Toronto Stock Exchange and the AIM market of the London Stock Exchange under the symbol "TXP".

Advisories

Non-GAAP Measures

This news release contains terms commonly used in the oil and natural gas industry, including funds flow from operations, funds flow from operations per share, operating netback, working capital and net debt. These terms do not have a standardized meaning prescribed under Generally Accepted Accounting Principles ("GAAP") or IFRS and may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash flow from operating activities, net earnings, net earnings per share, total assets, total liabilities, or other measures of financial performance as determined in accordance with GAAP. Management uses these Non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

Funds flow from operations is an additional GAAP measure included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. Touchstone considers funds flow from operations to be an important measure of the Company's ability to generate the funds necessary to finance capital expenditures and repay debt. The Company calculates funds flow from operations per share by dividing funds flow from operations by the weighted average number of common shares outstanding during the applicable period.

The Company uses operating netback as a key performance indicator of field results. Operating netback is presented on a total and per barrel basis and is calculated by deducting royalties and operating expenses from petroleum sales. If applicable, the Company also discloses operating netback both prior to realized gains or losses on derivatives and after the impacts of derivatives are included. Realized gains or losses represent the portion of risk management contracts that have settled in cash during the period, and disclosing this impact provides Management and investors with transparent measures that reflect how the Company's risk management program can impact netback metrics. The Company considers operating netback to be a key measure as it demonstrates Touchstone's profitability relative to current commodity prices. This measurement assists Management and investors with evaluating operating results on a historical basis.

The Company closely monitors its capital structure with a goal of maintaining a strong financial position in

order to fund current operations and the future growth of the Company. The Company monitors working capital and net debt as part of its capital structure to assess its true debt and liquidity position and to manage capital and liquidity risk. Working capital is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position. Net debt is calculated by summing the Company's working capital and the principal (undiscounted) non-current amount of senior secured debt.

Please refer to the Company's September 30, 2020 Management's Discussion and Analysis for reconciliations of Non-GAAP Measures contained herein to applicable GAAP measures.

Forward-Looking Statements

Certain information provided in this news release may constitute forward-looking statements and information (collectively, "forward-looking statements") within the meaning of applicable securities laws. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to assumptions, risks and uncertainties, many of which are beyond the control of the Company. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved.

Forward-looking statements in this news release may include, but is not limited to, statements relating to the Company's exploration plans and strategies, including anticipated drilling, timing, production testing, development of new oil and gas assets, and future oil and gas exploration and development; the Company's expenditure and capital structure for the current financial year and for the next financial year; the general impact of COVID-19 on the Company's business and measures taken in response thereto; uncertainty regarding COVID-19 and the impact it will have on future petroleum pricing, global financial markets and the Company's operations; and the sufficiency of resources and available financing to fund future capital expenditures and maintain financial liquidity. Although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because the Company can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions by their very nature, they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. Certain of these risks are set out in more detail in the Company's 2019 Annual Information Form dated March 25, 2020 which has been filed on SEDAR and can be accessed at www.sedar.com. The forward-looking statements contained in this news release are made as of the date hereof, and except as may be required by applicable securities laws, the Company assumes no obligation to update publicly or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.

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