

# Touchstone Exploration: Building a world-class oil and gas opportunity in Trinidad's Ortoire Block



# Encouraging early success at Ortoire

With a strong base of production in place, Touchstone Exploration (TSX:TXP & LSE:TXP) took a large leap forward on the exploration side of its operations in 2019 when it initiated drilling at its onshore Ortoire block in Trinidad. The company, which was Trinidad's most active onshore upstream operator in 2018, believes that the 35,786-acre block could contain huge turbidite-based oil and gas reservoirs that have not yet been explored fully.

Touchstone's belief was reinforced in January 2019 when GLJ Petroleum Consultants Ltd. ("GLJ") evaluated three prospects the company had identified on the Ortoire block. The consultant estimated that the trio could house total risked

recoverable contingent and prospective resources of up to 23,337Mboe (thousand barrels of oil equivalent) net. This equates to an NPV(10) of up to C\$302.6m, far in excess of Touchstone's £24.1m market cap in December 2019.

In November 2019, Touchstone revealed that production testing on its first Ortoire gas exploration well – Coho-1 – had far exceeded expectations, flowing an average rate of 17.5 million cubic feet per day (MMcf/d) with minimal water recovery. Following such an encouraging initial result, we have taken a deep dive into Touchstone's efforts across Ortoire Block and their potential for generating considerable shareholder returns.

## Touchstone Exploration one-year price chart



# Entering Ortoire

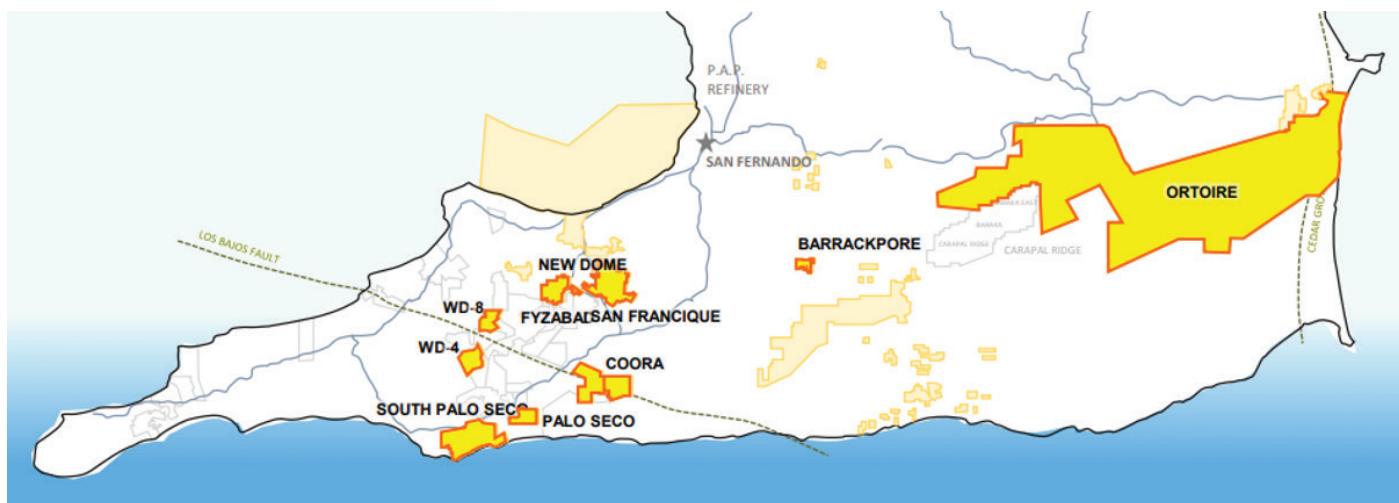
Ortoire is located on the east side of the island of Trinidad. It was drilled sporadically between the 1950s and 1970s, with efforts targeting the Herrera sands formation on which the licence area sits. However, these wells enjoyed varying degrees of success and the block's geology was generally viewed as tight and challenging. As such, limited development and exploration took place in the decades that followed.

Touchstone's entry into Ortoire came in 2014, when it took on operatorship and an 80pc stake from the Trinidad and Tobago government – whose state petroleum company (Heritage) continues to hold a 20pc position. As part of its deal, Touchstone – which is responsible for 100pc of Ortoire's initial exploration costs – took on a commitment to a six-year minimum exploration work program on the block. This would include technical reviews, an 85km 2D seismic program, and – critically – a four-well drilling program.

Touchstone's chief executive Paul Baay tells us that the organisation's initial interest in Ortoire came after it noticed similarities between the block and its existing assets elsewhere in Trinidad:

**“ We looked at a lot of the big regional seismic lines over our producing properties and saw that the same sort of hydrocarbon fairway extended from where we were enjoying development success to the east, which was only very sparsely drilled in the fifties and sixties. We didn't have to put in any money upfront, it was just a work commitment, so we wanted to look at developing what seemed like an exciting opportunity. ”**

## Location of the Ortoire block relative to Touchstone's other assets in Trinidad



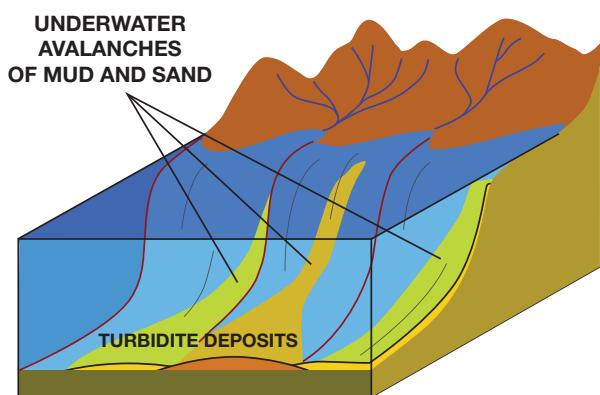
Source: Touchstone Exploration

# A Developing Opportunity

In the years since taking on Ortoire, Touchstone has become increasingly excited about the opportunity on offer. Following an extensive review of all of the historic data collected on Ortoire and its wells, it became clear to the company that the block's underlying Herrera sandstone reservoirs are, in fact, turbidite deposits. In short, turbidites are deep deposits formed by massive gravity flows down the offshore continental shelf and slope that, over time, can turn into vast hydrocarbon reserves.

Importantly in the case of Ortoire, oil and gas firms did not begin to focus on turbidites until the 1970s due to technological limitations. As such, the deposits have often been left untapped in previously explored areas, creating a substantial amount of new potential. Indeed, over the last 20 years alone, many of the world's largest hydrocarbon discoveries have been identified within turbidites in previously-well-explored areas like New Mexico and Scandinavia.

## Formation of a turbidite deposit

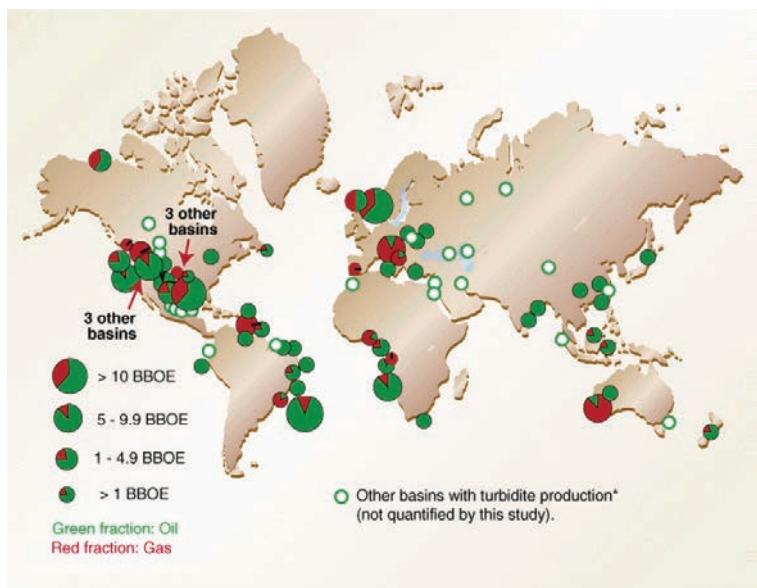


## An example of a turbidite sequence



Source: Wikipedia

## Turbidite reserves in 54 world basins



Source: Oil and Gas Journal

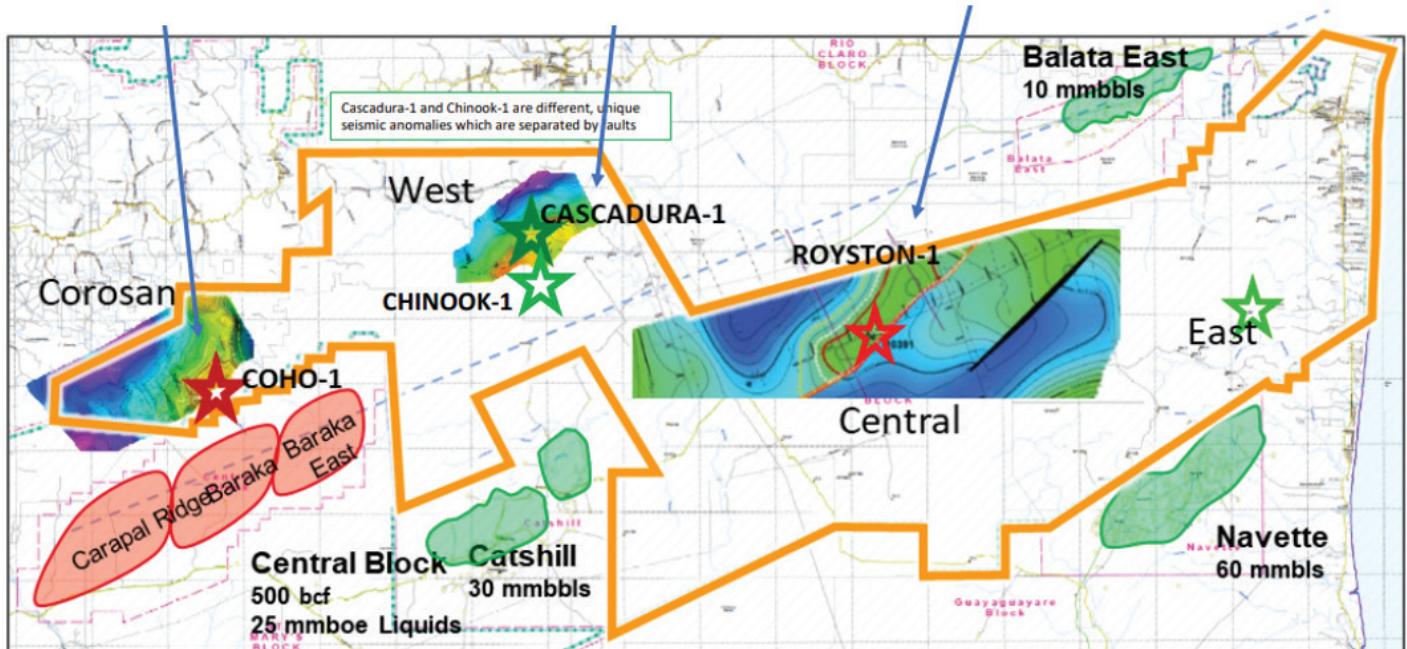
Given that much of the drilling activity at Ortoire pre-dates this ‘turbidite boom’, Touchstone believes that the block’s original operators may have overlooked its true potential. As such, it saw an opportunity in drilling down to previously-untested depths beneath the asset.

Alongside improvements in drilling technology, Ortoire received another large boost in 2000 when Trinidad and Tobago’s largest onshore discovery in 40 years was made just south of the block. The Carapal Ridge discovery, which tested at 62mmscfd, was particularly interesting to Touchstone because it shares geological similarities with many sections of Ortoire. Critically, this made the discovery, and – in turn – Trinidad’s 500bcf Central Block a key analogy to Touchstone’s Ortoire prospects. With oil major BG Group ceasing exploration at Carapal Ridge after taking it over as a producing asset, Baay says Touchstone has become the first firm to follow-up on the major discovery.

Touchstone has identified four general Ortoire prospects targeting turbidite fan sequences of the Herrera formation at depths between 6,000-11,500ft. Two of these – Corosan and Ortoire Central – are gas prospects, while the others – Ortoire West and Ortoire East – target oil.

Through its exploration work to date, Touchstone has identified four key initial drilling locations across these prospects. Coho will target gas in the Corosan prospect, Cascadura and Chinook will target oil in the Ortoire West prospect, and Royston will target gas in the Ortoire Central prospect. A number of additional exploration targets identified by the firm, including a deeper gas prospect at Corosan and several shallow oil prospects at Ortoire East, remain in inventory. They will be evaluated following the completion of Touchstone’s 2019 and 2020 exploration programme.

## Location map of the Ortoire prospects



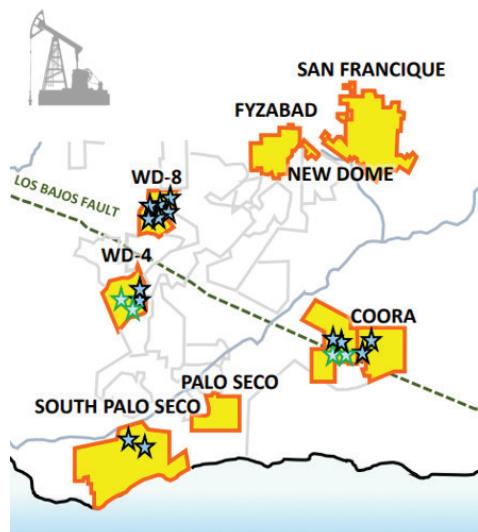
Source: Touchstone Exploration

# Two-pronged Approach to Ortoire's Development

Touchstone has taken a two-pronged approach to Ortoire's development since establishing its prospectivity. Critically, unlike many of its peers, it has opted to establish a strong baseline of production to fund exploration rather than seeking working capital solely from third parties and investors.

It has achieved this by drilling numerous wells and completing many workovers on its fields in west Trinidad, which include Coora-1, Coora-2, WD-4, and WD-8.

## Location of Touchstone's blocks on the west of Trinidad



Source: Touchstone Exploration

Notably, the firm became Trinidad's most active onshore upstream company in 2018 after drilling 11 wells and conducting 28 well recompletions in the year – passing its initial 2,000boepd production milestone on the way. Indeed, [in the first quarter of 2019](#), Touchstone's output even hit an average of 2,121boepd – an increase of more than a third on the equivalent period in 2018.

## An oil rig used to drill these blocks



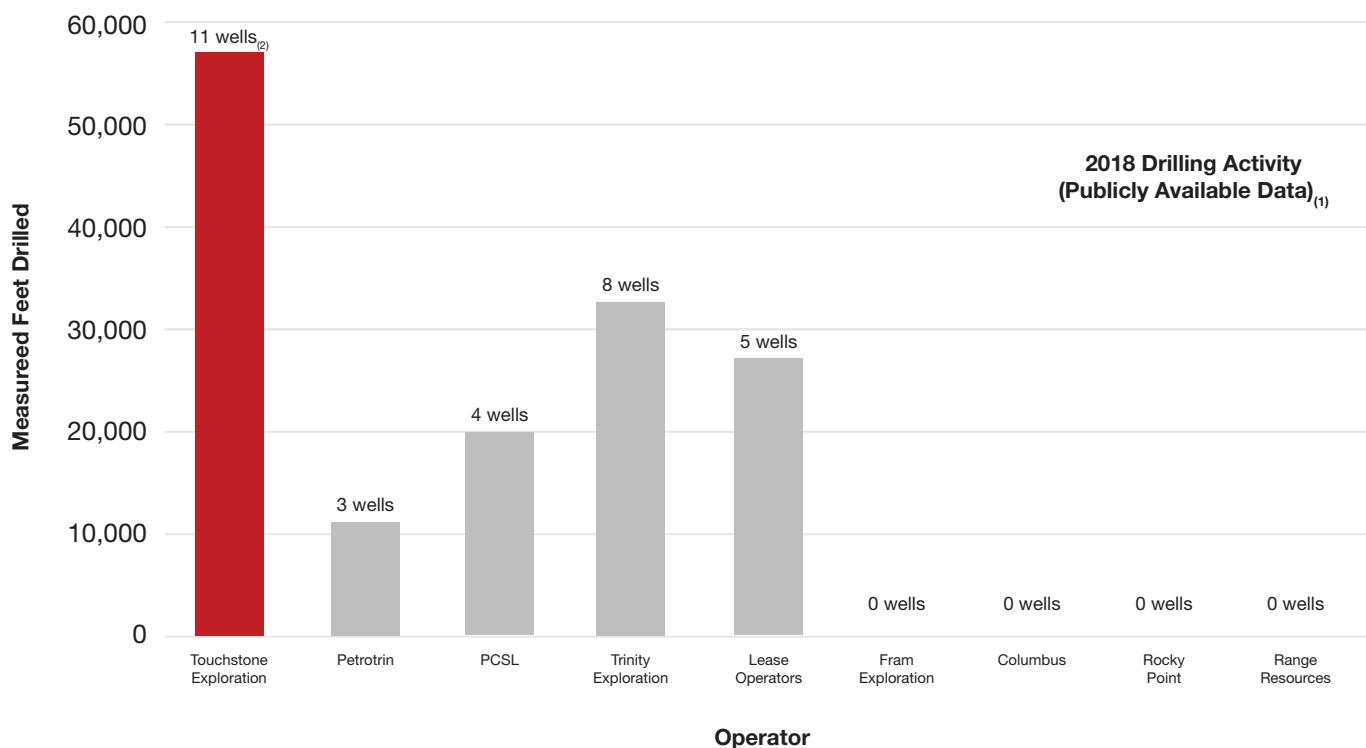
Source: Touchstone Exploration



It is worth noting that production fell to an average of 1,729bopd [in Q3 2019](#) (average of 1,871bopd for the nine months ended 30 September 2019). By October 2019, output had settled at 1,781bopd. Touchstone has previously put this down to a reduction in the initial ‘flush rates’ that buoyed new wells in Q1 2019, and its decision to take some wells offline for conversion to pump or recompletion over the period.

While building baseline production to an adequate level, Touchstone’s second stream of pre-exploration work has been more operational. On the regulatory side, the business has applied for and received four ‘certificates of environmental compliance’ (CECs) covering a total 14 drill locations on the Corosan, Royston and Ortoire West prospects. These 14 locations include four exploration wells and up to ten delineation and development wells.

## Touchstone’s Onshore Drilling in ft as compared to Peers in 2018



Source: *Touchstone Exploration*

Meanwhile, Touchstone [also commissioned](#) GLJ to complete an independent evaluation of three of its four Ortoire prospects. This work covered Corosan, Ortoire West, and Ortoire Central, reflecting the firm’s exploration priorities. GLJ’s work put the total risked recoverable volumes associated with these prospects, for the combination of prospective and contingent resources, at 9,237Mboe net to Touchstone in the best estimate case and 23,337Mboe in the high estimate case.

These figures equate to an NPV(10) of C\$108.3m in the best estimate case, and C\$302.5m in the high estimate case. Comparatively, Touchstone’s market cap sat at just over £24m in December 2019. Over the next two pages, we have broken down GLJ’s estimates for gross and net risked recoverable prospective and contingent resources (and associated NPVs). We have then included the combined totals that feature the figures just quoted.

# Risked Prospective Resources

**GLJ Petroleum Consultants' estimate of risked recoverable prospective resources (gross and net) and associated NPVs across three of Ortoire's prospects**

Product Type	Risked					
	Low Estimate <sup>(2)</sup>		Best Estimate <sup>(3)</sup>		High Estimate <sup>(4)</sup>	
	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>
Light & Medium Oil (Mbbl)	678	542	2,668	2,134	8,024	6,419
Residue Gas (MMcf)	6,250	5,000	27,184	21,747	71,895	57,516
Natural Gas Liquids (MMbbl)	146	117	783	626	2,543	2,034
Oil Equivalent (Mboe)	1,865	1,492	7,981	6,385	22,549	18,039

Net Present Values Before Income Taxes Discounted at (% per year) (C\$000's)	Risked		
	Low Estimate <sup>(2)</sup>	Best Estimate <sup>(3)</sup>	High Estimate <sup>(4)</sup>
0%	C\$25,338	C\$166,192	C\$582,224
5%	C\$16,442	C\$108,826	C\$342,549
10%	C\$10,765	C\$74,656	C\$220,087
15%	C\$7,009	C\$53,036	C\$149,907
20%	C\$4,452	C\$38,709	C\$106,561

# Risked Contingent Resources

**GLJ Petroleum Consultants' estimate of risked recoverable contingent resources (gross and net) and associated NPVs across three of Ortoire's prospects**

Product Type	Risked					
	Low Estimate <sup>(2)</sup>		Best Estimate <sup>(3)</sup>		High Estimate <sup>(4)</sup>	
	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>
Light & Medium Oil (Mbbl)	470	376	1,121	897	2,600	2,080
Residue Gas (MMcf)	7,780	6,224	12,569	10,055	19,153	15,322
Natural Gas Liquids (MMbbl)	104	83	349	279	830	664
Oil Equivalent (Mboe)	1,871	1,497	3,565	2,852	6,623	5,298

Net Present Values Before Income Taxes Discounted at (% per year) (C\$000's)	Risked		
	Low Estimate <sup>(2)</sup>	Best Estimate <sup>(3)</sup>	High Estimate <sup>(4)</sup>
0%	C\$18,634	C\$58,223	C\$150,696
5%	C\$13,634	C\$43,606	C\$108,593
10%	C\$10,056	C\$33,662	C\$82,517
15%	C\$7,426	C\$26,601	C\$65,029
20%	C\$5,449	C\$21,413	C\$52,635

Source: Touchstone Exploration

**GLJ Petroleum Consultants' estimate of risked recoverable prospective and contingent resources combined (gross and net) and associated NPVs across three of Ortoire's prospects**

Product Type	Risked					
	Low Estimate <sup>(2)</sup>		Best Estimate <sup>(3)</sup>		High Estimate <sup>(4)</sup>	
	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>	Gross	Net <sup>(1)</sup>
Light & Medium Oil (Mbbl)	1,148	918	3,789	3,031	10,624	8,499
Residue Gas (MMcf)	14,030	11,225	39,753	31,802	91,048	72,838
Natural Gas Liquids (MMbbl)	250	200	1,131	905	3,373	2,698
Oil Equivalent (Mboe)	3,736	2,989	11,546	9,237	29,171	23,337

Net Present Values Before Income Taxes Discounted at (% per year) (C\$000's)	Risked		
	Low Estimate <sup>(2)</sup>	Best Estimate <sup>(3)</sup>	High Estimate <sup>(4)</sup>
0%	C\$43,972	C\$224,414	C\$732,919
5%	C\$30,076	C\$152,432	C\$451,142
10%	C\$20,821	C\$108,318	C\$302,604
15%	C\$14,435	C\$79,637	C\$214,936
20%	C\$9,901	C\$60,121	C\$159,196

Source: Touchstone Exploration

GLJ also estimated pre-drill that the Coho and Cascadura prospects have contingent resources with an average chance of commerciality of 95pc while the Chinook and Royston prospects have prospective resources with an average chance of commerciality of 34pc. Of course, Coho has already been proven to be commercial, so this is encouraging validation of GLJ's model for the wider Ortoire Block.

Meanwhile, all four prospects share a 95pc chance of development. However, GLJ assigned a 36pc chance of discovery to the Chinook and Royston prospects while Coho and Cascadura were given a 100pc chance of discovery based on testing and/or production from offsetting wells.

A fifth, deep anomaly at Corosan – which is not part of Touchstone's initial, four-well exploration program - has prospective resources with an average chance of commerciality of 30pc, an average chance of development of 95pc, and an average chance of discovery of 32pc. Finally, GLJ's best estimate total undiscounted development costs for the reviewed Ortoire prospects came in at C\$147,501.

It is worth noting that Touchstone received another bonus in August 2019 [when a local article](#) posited that a private firm had enjoyed success at an exploration well on its Rio Claro Block directly to the north of Ortoire.

# A first big exploration win at the Ortoire Block – Coho-1 beats expectations

With a baseline of production in place and regulatory progress achieved, Touchstone began its Ortoire exploration programme [in August 2019](#) at Corosan. It kicked things off by spudding Coho-1, an exploration well targeting gas prospects in the Herrera at depths between 5,200ft and 8,500ft.

## The Corosan Prospect's Estimated Economics (only contingent Resources apply to the COHO-1 well/target)

<b>COROSAN PROSPECT<sup>(1),(2)</sup></b> Gross Company Working Interest 80%					
	Unrisked				Risked
	Low Estimate	Best Estimate	High Estimate	Chance of Commerciality	Best Estimate
<b>Recoverable Volumes</b>					
<b>Contingent Resources (Development Pending)</b>					
Residue (Natural) Gas (MMcf)	6,552	10,584	16,128	95%	10,055
Oil Equivalent (Mboe)	1,179	2,058	3,387	95%	1,955
<b>Prospective Resources (Prospect)</b>					
Residue (Natural) Gas (MMcf)	1,512	6,120	19,656	30%	1,860
Oil Equivalent (Mboe)	272	1,190	4,128	30%	362
<b>Net Present Values (C\$000's)</b>	(Contingent + Prospective Resources)				
5% Discount (NPV5)	\$11,079	\$43,446	\$126,747		\$31,700
10% Discount (NPV10)	\$9,030	\$36,381	\$102,896		\$26,579

<b>Future Development Capital (Unrisked)</b>	(Contingent + Prospective Resources)		
Estimated FDC (C\$000's)	\$8,816	\$8,816	\$8,816
Total Wells	2	2	2

<b>Production Potential (Unrisked)</b>	(Contingent + Prospective Resources)		
Years	8	9	14
Peak (boepd)	1,084	1,965	3,336

Coho-1 was designed to offset a well called Corosan-1, which was drilled down to 7,540ft by Vintage Petroleum in 2001 and tested natural gas in excess of 8 million cubic feet per day from the Upper Herrera zone. However, alongside this, Touchstone also set out to test a deeper and previously untested zone which was interpreted to be a repeat of the Herrera section down to a total depth of 8,560ft.

After spudding, Touchstone [announced that](#) the drilling of Coho-1 had completed successfully. Two sand packages with c.64ft of net gas pay were encountered in the Upper Herrera between 5,486ft and 5,782ft, correlating to the historic findings at Corosan-1.

However, wireline logging also indicated two previously untested prospective gas sand packages with 41ft of probable net gas pay in the Lower Herrera between 6,540ft and 7,240ft. Finally, logging also identified oil sands at 7,788ft. Although these are not believed to be commercially prospective, the firm said they prove the presence of hydrocarbons in a previously untested area-derisking future exploration opportunities.

Coho-1 was able to deliver huge amounts of value to Touchstone and its investors in November 2019 when the firm revealed that production testing on the well in the Herrera formation had far exceeded expectations. Touchstone, which rose by more than a fifth on the news, revealed that the average dry, sweet natural gas flow rate associated with the final period of testing was 17.5MMcf/d, with a peak rate of 19.8MMcf/d.

Meanwhile, over a 37-hour flowback and production testing period that was ongoing as of the release of the news, a total of 11.2MMcf of natural gas and 298 barrels of water were recovered. Water production averaged 23 barrels per MMcf of natural gas, significantly below Touchstone's expectations based on offset well data.

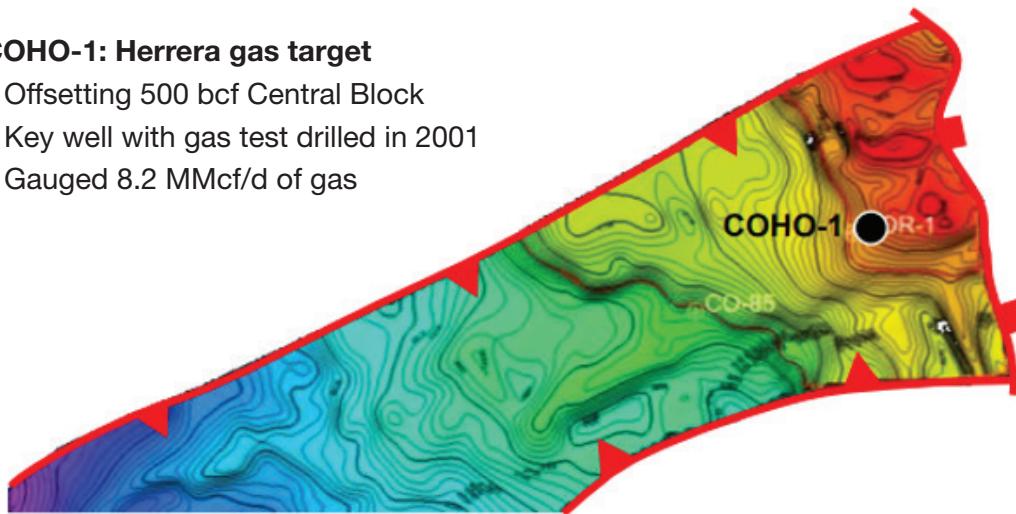
On the news, Baay said:

**“ These positive well test results represent a new era for Touchstone as we expect to add significant natural gas volumes to our production base. The results outline the opportunities that still exist for onshore Trinidad exploration and position Touchstone to become a top three onshore petroleum producer. It must also be noted that the Coho-1 well is in the smallest prospect of the Ortoire exploration program. The company will proceed to tie in the well through a 3-kilometre pipeline to an existing production facility that has capacity in excess of this well’s estimated production rates. We anticipate bringing the well on production during the first half of 2020. ”**

## COHO-1 summary and surface location

### COHO-1: Herrera gas target

- Offsetting 500 bcf Central Block
- Key well with gas test drilled in 2001
- Gauged 8.2 MMcf/d of gas



As Baay highlighted, Corosan is the smallest evaluated prospect in Ortoire's exploration inventory, with GLJ estimating Coho's unrisked contingent resources, net to Touchstone, at 2,058Mboe in the best estimate case and 3,387Mboe in the high estimate case. In other words, it accounts for just 15pc of Ortoire's total estimated recoverable resource volumes. However, in the wake of Coho-1's success, the asset's prospectivity should certainly not be overlooked, with further opportunity in the still untested deeper thrust sheet for which GLJ has assigned additional prospective resources.

Based upon GLJ's independent evaluation, which will soon be quantified by testing, there are three potential models in place to estimate Corosan's potential impact on Touchstone. These are:

- A low case with peak production reaching 1,084boepd and production spanning over eight years;
- A best case with peak production reaching 1,965boepd and production spanning over nine years; and
- A high case with peak production reaching 3,336boepd and production spanning over 14 years.

It is worth reiterating that these figures encompass the contingent resources being targeted by the Coho-1 well alongside the additional prospective resources that a future well will target at depth. When compared to the firm's latest production figures, the transformational growth opportunity offered by all three outcomes is clear.

Elsewhere, Baay says the presence of hydrocarbons in Herrera's turbidite sands confirms that Touchstone's geological model is correct, allowing it move on to its next targets with renewed confidence. Finally, with the drilling of Coho-1 costing just c.\$3m, he adds that the discovery validates Touchstone's belief that future wells can be drilled in a safe, timely, and cost-efficient manner:

**“ We chose to drill Coho-1 first for several reasons. Firstly, the area had already been tested for gas, which meant that we were drilling with a high chance of success. Secondly, we wanted to prove up the geological concept that these turbidites could produce and are gas charged at a deeper level. I think we have now done this. Finally, we were being told that it would cost us \$9-10m to drill these wells to the depths we were looking at. That would have made the economics a little bit thinner. In fact, we were able to drill it for \$3m, and we think we could shave even more money off that moving forward. For example, we were waiting five days for rig maintenance in the case of Coho-1. ”**



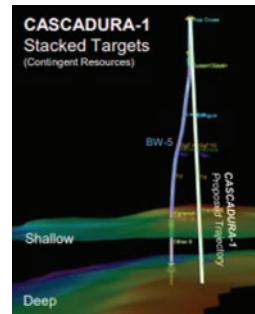
# Bigger Opportunities at Ortoire

With the wind in its sails after drilling Coho-1, Touchstone has moved from Corosan to its Cascadura oil prospect at Ortoire West, where some historic wells have enjoyed significant production. To recap, Cascadura is one of two individual fault block prospects at Ortoire West, offsetting Chinook.

In oil equivalent terms, Ortoire West is a much larger opportunity than the Corosan prospect. Indeed, GLJ sizes its combined contingent and prospective unrisked resources at 7,184Mboe (944Mboe contingent and 6,240Mboe prospective) in the best estimate case and 20,958Mboe (2,190Mboe contingent and 18,768 prospective) in the high estimate case.

To provide a true sense of scale, the NPV(10) for the opportunity's combined contingent and prospective resources sits at C\$108.9m in the best estimate case and C\$343.6m in the high estimate case (both net).

## The stacked targets at Cascadura-1



## The Ortoire West prospect's estimated economics

ORTOIRE WEST PROSPECT <sup>(1),(2)</sup> Gross Company Working Interest 80%					
	Unrisked				Risked
	Low Estimate	Best Estimate	High Estimate	Chance of Commerciality	Best Estimate
<b>Recoverable Volumes</b>					
<b>Contingent Resources (Development Pending)</b>					
Oil (Mbbls)	396	944	2,190	95%	897
Oil Equivalent (Mboe)	396	944	2,190	95%	897
<b>Prospective Resources (Prospect)</b>					
Oil (Mbbls)	1,584	6,240	18,768	34%	2,134
Oil Equivalent (Mboe)	1,584	6,240	18,768	34%	2,134
<b>Net Present Values (C\$000's)</b>					
(Contingent + Prospective Resources)					
5% Discount (NPV5)	\$24,814	\$165,662	\$558,064		\$67,160
10% Discount (NPV10)	\$14,738	\$108,909	\$343,604		\$44,184

<b>Future Development Capital (Unrisked)</b>	(Contingent + Prospective Resources)		
Estimated FDC (C\$000's)	\$54,030	\$111,333	\$202,117
Total Wells	15	38	67

<b>Production Potential (Unrisked)</b>	(Contingent + Prospective Resources)		
Years	17	25	36
Peak (boepd)	996	2,413	5,599

Source: Touchstone Exploration

Touchstone's first exploration well at Ortoire West – Cascadura-1 - will be drilled to a total depth of 8,170ft and is targeting two oil zones in the Herrera sands in a fault block separate from the Coho-1 discovery.

Baay tells us that the well, which was spud at the beginning of October 2019, intends to provide a vital, second proof of concept for Ortoire – that its geological model can produce oil as well as gas:

***“The well we are offsetting at Cascadura actually produced 27,000bbls of oil, so it should be quite low risk in the wider context of exploration wells. As with Coho-1, we want to drill deeper to previously untested depths, as we believe the historic operator only tapped into the top of the reservoir and a lot of the best reservoirs at Trinidad’s Central Block are actually at the middle or lower sections of the second thrust sheet.”***

The historical production offsetting Cascadura has given GLJ the confidence to assign high case unrisked contingent resources of 2,190Mboe to the well with a 95pc chance of commerciality. The remaining 18,768Mboe of high case prospective resources, which are interpreted to be in an offsetting but separate fault block expected to be evaluated by a future well called Chinook-1.

This has a 34pc chance of commerciality based upon a 95pc chance of development and 36pc chance of discovery.

With Royston, the potential prize on offer for Touchstone only increase further. For example, GLJ has allocated Ortoire Central unrisked prospective resources of 11,371Mboe in the best estimate scenario and 30,308Mboe in the high estimate case with a 34pc chance of commerciality. Meanwhile, the unrisked production potential for its contingent and prospective resources has been listed at:

- 30 year resource life with 6,374boepd peak production in the best estimate case; and
- 48 year resource life with 11,969boepd peak production in the high estimate case.

To reiterate, Touchstone's production sat at 1,781bopd in October 2019. Baay tells us he is particularly excited about the opportunity at Royston:

***“Royston is a much bigger operation – it is located about 11km from existing gas- so will take much longer to tie in. However, it is also a much bigger prize. I believe that it could present up to half a tcf of gas.”***



## The Ortoire Central prospect's estimated economics

ORTOIRE CENTRAL PROSPECT <sup>(1),(2)</sup> Gross Company Working Interest 80%					
	Unrisked				Risked
	Low Estimate	Best Estimate	High Estimate	Chance of Commerciality	Best Estimate
<b>Recoverable Volumes</b>					
<b>Contingent Resources (Development Pending)</b>					
Residue (Natural) Gas (MMcf)	-	-	-	-	-
Oil Equivalent (Mboe)	-	-	-	-	-
<b>Prospective Resources (Prospect)</b>					
Residue (Natural) Gas (MMcf)	13,277	58,147	150,703	34%	19,886
Oil Equivalent (Mboe)	2,537	11,371	30,308	34%	3,889
<b>Net Present Values (C\$000's)</b>					
(Contingent + Prospective Resources)					
5% Discount (NPV5)	\$26,479	\$156,644	\$438,824	34%	\$53,572
10% Discount (NPV10)	\$18,228	\$109,810	\$290,076	34%	\$37,555

<b>Future Development Capital (Unrisked)</b>	(Contingent + Prospective Resources)		
Estimated FDC (C\$000's)	\$12,005	\$18,522	\$25,019
Total Wells	2	4	6

<b>Production Potential (Unrisked)</b>	(Contingent + Prospective Resources)		
Years	23	35	46
Peak (boepd)	1,457	6,374	11,969

Source: Touchstone Exploration

Beyond the four initial wells that Touchstone is drilling to test the potential of the four Ortoire blocks, Baay says that there are numerous, additional follow-up wells to drill in the event of any discovery. Handily, he said these only offer the chance to increase the block's upside potential further:

**“Any discovery we make will lead to a number of follow-up wells as these are multi-well pools. For example, if we are successful at Cascadura and Chinook, then there are years of future drilling ahead of the Company to completely exploit these opportunities. Likewise, if we enjoy success at Royston, then I think we would need four wells to drain that pool. At Coho, we would probably need two or three well to drain the area and test the deeper prospects there. The engineering report evaluating the prospect noted that the best-case production upside is 16,000boepd from Ortoire. We are just at the start, but the world-class opportunity is clear.”**

# Ongoing Development Drilling in Trinidad

As it continues to develop Ortoire, Touchstone also plans to continue the development of its producing assets. The firm has not drilled any additional development wells in this area in 2019 because it has been maintaining a handle on working capital and net debt levels to facilitate exploration. However, Baay tells us that, over the long term, Touchstone plans to drill up to 15 wells a year across its blocks on the west of Trinidad.

Key to this, he says, has been the restructuring of Trinidad's state oil organisation. Formerly known as Petrotrin, the entity [announced in August 2018](#) that it would transfer its upstream assets to a newly-formed vehicle called the Heritage Petroleum Company in an effort to enhance profitability. Baay says that Heritage is working to develop and expand its existing joint venture relationships with operators in the Trinidad area, adding:

***“I believe that this will be highly beneficial for all operators in Trinidad as well as benefitting the country itself as the sustainable profitability of the state-owned company will enhance its standard of living and ensure the continued viability of its oil and gas-based economy. Once we know the precise terms of what Heritage is planning, we will work to develop our relationship and continue expanding our producing assets.”***



Finally, when it comes to financing drilling activity at both Ortoire and across the remainder of Trinidad, Baay tells us that Touchstone has several options beyond equity markets.

Thanks to the ongoing cashflow generated by its producing wells and the proceeds of a £3.8m placing completed at 12p a share in February 2019, the firm had cash of \$3.4m on its balance sheet as at 30 September 2019. Alongside this, the company is also owed approximately \$4m in value added tax from the Trinidad government, although it currently unclear exactly when this will be paid.

Touchstone also has an ongoing relationship with Canadian financier Crown Capital, which Baay says has been supportive in lending money for activities in the past. He went on to expand the point, saying:

***“We really have three levers that we can pull, we have existing cash flow, we can add to our existing loan, and, realistically, we are not going to be able to drill 15 follow up wells to fully develop Ortoire without some equity but that’s a different situation that we will need address some way into the future.”***

# Stars Aligning for 2020?

The successful production test results from Coho-1 are a true game-changer for Touchstone, and will likely have a significant, positive bearing on how the company's board decides to proceed on the Ortoire block in 2020. Prevailing weakness in the oil price is a factor to consider, but with its solid base of cash flow generation and access to several avenues of possible financing Touchstone now has a significant degree of optionality open to it as it pursues this large opportunity. Obviously, further positive results from Ortoire wells could also lead to a significant uplift in the company's market cap.

With further "blue sky" exploration drills in its warchest on this potentially "world class" block.

2020 could well prove to be the defining year in realising Touchstone's long-held ambition to become a much larger player in the Trinidad oil and gas space.



# Contact Us

To find out more please contact Ben:

**Email:** contact@valuethemarkets.com

**Telephone:** +44 (0) 208 226 5175

**Website:** www.valuethemarkets.com

Produced by



## Disclaimer

Author: Ben Turney & Daniel Flynn

- The Authors do not hold any position in the stock(s) and/or financial instrument(s) mentioned in the piece.
- ValueTheMarkets are not responsible for its content or accuracy and do not share the views of the author. News and research are not recommendations to deal, and investments may fall in value so that you could lose some or all of your investment. Past performance is not an indicator of future performance.

