



Touchstone Exploration Inc.

Management's Discussion and Analysis

December 31, 2016

Management's Discussion and Analysis For the year ended December 31, 2016

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. (the "Company" or "Touchstone") for the year ended December 31, 2016, with comparisons to the year ended December 31, 2015 is dated March 21, 2017 and should be read in conjunction with the audited consolidated financial statements as at and for the years ended December 31, 2016 and 2015. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results will be included in the Company's Annual Information Form, which will be filed on or before March 31, 2017 and may be accessed through the SEDAR website at www.sedar.com.

Tabular amounts herein are in thousands of Canadian dollars ("Cdn\$"), and amounts in text are rounded to thousands of Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes. Certain prior year amounts have been reclassified to conform to current year presentation. This MD&A contains forward-looking statements and non-GAAP measures. Readers are cautioned that the MD&A should be read in conjunction with Touchstone's disclosure under the headings "*Forward-looking Statements*," "*Non-GAAP Measures*," and "*Abbreviations*" included at the end of this MD&A.

About Touchstone Exploration Inc.

Touchstone is incorporated under the laws of Alberta, Canada with its head office located in Calgary, Alberta. The Company is an oil and gas exploration and production company active in the Republic of Trinidad and Tobago ("Trinidad"). Touchstone is one of the largest independent onshore oil producers in Trinidad, with assets in several large, high-quality reservoirs that have significant internally estimated total petroleum initially-in-place and an extensive inventory of low-risk development opportunities. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "TXP".

Touchstone's strategy is to leverage western Canadian enhanced oil recovery experience and capability to international onshore properties to create shareholder value. Jurisdictions will be targeted that have stable political and fiscal regimes coupled with large defined original oil in place.

2016 Fourth Quarter Highlights

- The Company completed a balance sheet restructuring that improved financial flexibility, allowing for a December 2016 recompletion program. Touchstone closed a \$15 million, five-year term loan with no mandatory repayments of principal until January 2019.
- Subsequent to December 31, 2016, the Company's cash collateralized US\$6,000,000 letter of credit related to the East Brighton exploration property was reduced to US\$2,150,000, resulting an increase of US\$3,850,000 in available cash.
- Achieved Trinidad quarterly average crude oil sales of 1,245 barrels per day, representing a decrease of 2% from the third quarter of 2016 and a decrease of 17% from the fourth quarter of 2016.
- Realized Trinidad operating netback before realized derivatives of \$23.40 per barrel, representing an increase of 20% from the third quarter of 2016 and an increase of 78% from the prior year comparative quarter.
- Generated funds flow from operations of \$353,000 (\$0.01 per basic share) compared to \$1,567,000 (\$0.02 per basic share) recognized in the prior quarter and \$1,408,000 (\$0.02 per basic share) recognized in the fourth quarter of 2015.
- The Company's exploration and development expenditures for the quarter were \$1,372,000. A total of eight well recompletions were performed.

2016 Annual Highlights

- Achieved Trinidad average oil sales of 1,301 barrels per day, representing a decrease of 19% from 2015 Trinidad annual average production.
- Reduced annual per barrel operating expenses by 19% or \$4.83 per barrel from 2015.
- Reduced gross annual general and administrative costs by \$4,183,000 or 35% from 2015.
- Realized Trinidad operating netback after realized derivatives of \$28.65 per barrel, representing an increase of 3% from the \$27.88 delivered in 2015.
- Generated funds flow from operations of \$6,117,000 (\$0.07 per basic share) compared to \$2,908,000 (\$0.04 per basic share) in 2015.
- Recorded a net loss of \$12,853,000 (\$0.15 per basic share) for the year ended December 31, 2016 compared to a net loss of \$22,147,000 (\$0.27 per basic share) in 2015. The net loss was primarily driven from net unrealized losses on derivative contracts and impairments related to exploration assets.
- The Company's annual exploration and development expenditures were \$3,881,000, with nine well recompletions and two fracture stimulations completed in the year.
- On February 1, 2016, disposed of the Kerrobert property and various undeveloped land rights for cash proceeds of \$650,000. Through the disposition, the Company reduced the production by 73 barrels per day and immediately eliminated operating losses associated with the property.
- Achieved proved plus probable reserves of 15,698 Mbbl, replacing 2016 production by 149% despite minimal development capital activity based on an independently evaluated reserves assessment prepared by GLJ Petroleum Consultants Ltd.
- Achieved 2016 annual finding and development costs of \$7.35 per barrel for proved reserves and \$6.00 per barrel for proved plus probable reserves including future development capital.

Financial and Operating Results Summary

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016 ²	2015
Operating				
Average daily oil production (<i>bbls/day</i>)				
Trinidad	1,245	1,498	1,301	1,600
Canada	-	73	-	156
Company total	1,245	1,571	1,301	1,756
Average realized sales prices before derivatives (<i>\$/bbl</i>)				
Trinidad	61.85	50.64	50.49	58.45
Canada	-	27.15	-	38.80
Company total	61.85	49.54	50.49	56.70
Operating netback ¹ (<i>\$/bbl</i>)				
Brent benchmark price	65.53	58.02	57.68	66.62
Discount	(3.68)	(8.48)	(7.19)	(9.92)
Realized sales price	61.85	49.54	50.49	56.70
Royalties	(18.56)	(15.60)	(14.32)	(17.33)
Operating expenses	(19.89)	(26.81)	(21.09)	(25.92)
Operating netback prior to derivatives	23.40	7.13	15.08	13.45
Realized gain on derivatives	-	16.25	13.57	9.64
Operating netback after derivatives	23.40	23.38	28.65	23.09
Financial (<i>\$000's except share and per share amounts</i>)				
Funds flow from operations	353	1,408	6,117	2,908
Per share – basic and diluted ¹	0.01	0.02	0.07	0.04
Net loss	(7,154)	152	(12,853)	(22,147)
Per share – basic and diluted	(0.09)	0.01	(0.15)	(0.27)
Capital expenditures				
Exploration	553	612	2,029	1,245
Property and equipment	819	578	1,852	3,572
Company total	1,372	1,190	3,881	4,817
Total assets – end of period			89,285	100,619
Net debt (surplus) ¹ – end of period			14,154	(987)
Weighted average shares outstanding				
Basic	83,137,143	83,087,143	83,121,842	83,080,417
Diluted	83,137,143	83,294,151	83,121,842	83,080,417
Outstanding shares - end of period			83,137,143	83,087,143

¹See "Non-GAAP Measures".

²Effective December 31, 2015 and closing on February 20, 2016, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Throughout 2016 Touchstone continued to follow a strategy of deploying exploration and development capital with financial discipline and focused on operations directly related to maintaining production from the Company's core Trinidad developmental properties. The Company completed a balance sheet restructuring in November 2016, replacing the former reserve-based bank loan with a \$15,000,000 five-year term loan that includes no mandatory repayments of principal until January 2019. With this improved financial flexibility, the Company immediately undertook an eight well recompletion program in December 2016 which increased production in excess of 100 barrels per day in January 2017.

Touchstone remained sensitive to the low commodity price environment, recompleting a total of nine wells, stimulating two wells, and deploying no drilling capital during the fiscal year. This prudent approach led to a 19% decrease in capital spending from 2015, with \$3,881,000 invested in 2016 versus \$4,817,000 in the prior year. Notwithstanding the Company's minimal capital and operational spending in 2016, annual crude oil production was 476,057 barrels, an average of 1,301 barrels per day. This represented a decrease of 19% from Trinidad average daily volumes delivered in 2015.

Trinidad realized 2016 pricing for crude oil was \$50.49 (US\$38.10) per barrel versus \$58.45 (US\$45.98) per barrel received in 2015. Total Trinidad based petroleum revenue decreased 30% based on decreases in production and realized prices. The Company generated \$6,462,000 in realized derivative gains in 2016 versus \$6,181,000 in 2015.

The Company executed on implementing various costs savings initiatives to reduce both operating costs and general administrative expenses. Touchstone undertook various operating cost efficiency projects in Trinidad which, combined with the Company's disposition of the cash flow negative Kerrobert property, resulted in annual operating expenses decreasing 40% from 2015. Through the reduction of staff and office space, as well as other cost-savings initiatives, general and administrative expenses decreased by 39% from 2015.

Funds flow from operations for the year ended December 31, 2016 was \$6,117,000 (\$0.07 per basic share) versus funds flow from operations of \$2,908,000 (\$0.04 per basic share) recognized in the prior year. Funds flow from operations increased from 2015 primarily from the cessation of Canadian based operating losses and a \$4,118,000 reduction in annual general and administrative expenses. Primarily due to a net loss on derivative contracts of \$1,970,000 and \$5,337,000 in exploration asset impairment charges, the Company recorded a net loss of \$12,853,000 (\$0.15 per basic share) during the year ended December 31, 2016.

Touchstone exited the year with a working capital surplus of \$846,000 and a \$15,000,000 principal term loan balance. In addition, the Company classified \$8,461,000 in cash used to collateralize letters of credit that secure future work obligations on Trinidad production and development contracts as long-term restricted cash. On March 14, 2017, the total restricted cash balance of US\$6,229,000 was formally reduced to US\$2,449,000, thereby providing the Company near term financial liquidity to commence a 24 recompletion and four well drilling program in 2017.

Reserves

The Company engaged GLJ Petroleum Consultants Ltd. ("GLJ") to provide an evaluation of the Company's proved and probable reserves as at December 31, 2016. The reserves estimates set forth below were based upon GLJ's reserve report dated March 17, 2017 (the "Reserves Report"). The reserves estimates were prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI – 51-101").

The Reserve Report estimates represent Touchstone's gross working interest reserves, which are the Company's interest before the deduction of royalties. Reserve estimates are based on forecast prices and costs at December 31, 2016. The recovery and reserve estimations of the Company's crude oil reserves provided herein are estimates only, and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein. Full

disclosure with respect to the Company's reserves as at December 31, 2016 will be included in the Company's Annual Information Form, which will be filed on or before March 31, 2017 and may be accessed through SEDAR see "Advisory on Reserves Information". The reserves tables below provide a summary of the Company's Trinidad crude oil reserves at December 31, 2016.

December 31, 2016 gross crude oil reserves^{1,2,3}

	Light and Medium Oil (Mbbbl)	Heavy Oil (Mbbbl)	Total Oil Equivalent (Mbbbl)
Proved			
Proved producing	3,955	651	4,606
Proved non-producing	735	213	948
Proved undeveloped	2,890	533	3,423
Total proved	7,580	1,397	8,977
Probable	5,914	808	6,722
Total proved plus probable	13,494	2,205	15,698

¹ Gross Reserves are the Company's working interest share of the remaining reserves before deduction of any royalties.

² Amounts may not add due to rounding.

³ See "Advisory on Reserves Information".

Reconciliation of changes in gross reserves^{1,2,3}

	Proved (Mbbbl)	Proved Plus Probable (Mbbbl)
December 31, 2015	8,815	15,465
Extensions and improved recovery	481	466
Technical revisions	190	276
Economic factors	(33)	(33)
Production	(476)	(476)
December 31, 2016	8,977	15,698
Reserves replacement ratio (%)	134	149

¹ Gross Reserves are the Company's working interest share of the remaining reserves before deduction of any royalties.

² Amounts may not add due to rounding.

³ See "Advisory on Reserves Information".

Capital efficiency

The efficiency of the Company's capital program for the year ended December 31, 2016 is summarized below:

	For Proved Reserves	For Proved Plus Probable Reserves
Capital expenditures (\$000's)		
Exploration capital expenditures ¹	1,823	1,823
Development capital expenditures ¹	842	842
	2,665	2,665
Change in future development costs ² (\$000's)	2,022	1,592
Total finding and development costs³	4,687	4,257
Total reserve additions³ (Mbbbl)	638	709
Finding and development costs³ (\$/bbl)	7.35	6.00

¹ Exploration and development capital excludes capitalized general and administration costs.

² Calculation includes changes in future development costs. Non-GAAP measure – see "Advisory on Reserves Information".

³ See "Advisory on Reserves Information".

Principal Properties

Effective December 31, 2016, the Company's principal land holdings were as follows:

Property	Working interest	Lease type	Gross acres	Working interest acres
Trinidad				
<i>Producing</i>				
Coora 1	100%	Lease Operatorship	1,230	1,230
Coora 2	100%	Lease Operatorship	469	469
WD-4	100%	Lease Operatorship	700	700
WD-8	100%	Lease Operatorship	650	650
New Dome	100%	Farmout Agreement	69	69
South Palo Seco	100%	Farmout Agreement	2,019	2,019
Barrackpore	100%	Freehold	478	478
Fyzabad	100%	Crown & Freehold	804	804
Icacos	50%	Freehold	1,960	980
Palo Seco	100%	Crown	499	499
San Francique	100%	Freehold	2,306	2,306
	91%		11,184	10,204
<i>Exploratory</i>				
Bovallius	100%	Freehold	976	976
Cory Moruga	16%	Freehold	11,969	1,939
East Brighton	70%	Crown	20,589	14,412
Moruga	100%	Freehold	3,300	3,300
New Grant	100%	Freehold	687	687
Ortoire	80%	Crown	44,731	35,785
Otaheite	100%	Freehold	935	935
Piparo	100%	Freehold	72	72
Rousillac	100%	Freehold	570	570
Siparia	50%	Freehold	160	80
St. John	100%	Freehold	408	408
	70%		84,397	59,164
	73%		95,581	69,368
Canada				
<i>Exploratory</i>				
Beadle	100%	Freehold	4,795	4,795
Druid	100%	Crown	8,641	8,641
Luseland	100%	Crown & Freehold	6,849	6,849
Winter	100%	Crown	11,323	11,323
	100%		31,608	31,608
Company total	79%		127,189	100,976

The Company's core producing properties are located onshore within Trinidad. All properties are operated by Touchstone with the exception of the Cory Moruga exploration block.

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert facility and associated mineral rights, as well as undeveloped acreages in Edam, Luseland and Unity. In addition to the mineral rights, the sale included all of the facilities, infrastructure, interests and decommissioning obligations related to the Kerrobert combustion project.

Trinidad Operating Agreements

In Trinidad, the Company operates under lease operatorship agreements (“LOAs”) and farmout agreements with the Petroleum Company of Trinidad and Tobago Limited (“Petrotrin”), state exploration and production licenses with the Trinidad and Tobago Minister of Energy and Energy Industries (“MEEI”), and private exploration and production agreements with individual landowners.

The Company’s LOAs initially expire on December 31, 2020, with Touchstone holding a five-year renewal option. Under these agreements, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020 (see the “*Contractual Obligations, Commitments and Guarantees*” section for further details). In 2016 the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 1, Coora 2 and WD-8 LOAs or the minimum work obligations specified in the WD-4 LOA. Although the LOAs provide that the minimum production levels are to be achieved on a best endeavors basis, the LOAs also describe the failure to achieve the minimum production levels or the failure to complete the work obligations as potentially constituting a material breach of the LOAs. As a result of this inconsistency, the Company sought legal advice regarding the effect of not meeting the production levels and not completing the work obligations.

On March 20, 2017, the Company received additional correspondence from Petrotrin requesting that, prior to April 20, 2017, the Company provide a proposal regarding the completion of the work obligations for both calendar years 2016 and 2017. The Petrotrin letters did not take the position that there was any breach of the LOAs. It is not anticipated that a default notice will be issued; however, in any event, the Company is only required to begin to rectify the breach within seven days from the date of receipt of such notice and the Company began that process in February 2017.

The Company was advised by its legal counsel that any risk to the Company’s operations under the LOAs is extremely remote. As such, no adjustments were made to the Company’s December 31, 2016 consolidated financial statements or Reserves Report. No assurance can be given that, if future breaches of these obligations occur, they will not result in a material adverse impact to the Company’s cash flows. As at December 31, 2016, the Company was in compliance with all other obligations under the LOAs.

The Company’s farmout agreements with Petrotrin initially expire on December 31, 2021. The Company holds a five-year renewal option, and the agreements are subject to five-year minimum work commitments. As at December 31, 2016 and as of the date of this MD&A, the Company is in compliance with all obligations associated with its farmout agreements.

The Company’s Fyzabad and Palo Seco agreements with the MEEI contain no major obligations but expired on August 19, 2013. The Company is currently negotiating license renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licenses will not be renewed. During the year ended December 31, 2016, the production volumes produced under expired MEEI production licenses represented 5.4% of total Trinidad segment production (2015 – 5.9%).

Touchstone is operating under a number of Trinidad freehold lease agreements which have expired and are currently being renegotiated. Based on legal opinions received, the Company is continuing to recognize revenue on the producing blocks as the Company is the operator. No title to the revenue has been disputed, and the Company is paying all associated royalties and taxes. The Company currently has no indication that any of the producing expired leases will not be renewed. During the year ended December 31, 2016, the production volumes produced under expired Trinidad freehold lease agreements represented 2.8% of total Trinidad segment production (2015 – 2.2%).

Economic Environment

Selected benchmark prices and exchange rates

Touchstone's 2016 financial and operating results were impacted by commodity prices and foreign exchange rates which are outlined below.

	Three months ended December 31,			Year ended December 31,		
	2016	2015	% change	2016	2015	% change
Brent average (US\$/bbl) ¹	49.11	43.56	13	43.67	52.29	(16)
Brent average (Cdn\$/bbl) ²	65.53	58.02	13	57.68	66.62	(13)
WTI average (US\$/bbl) ¹	49.10	41.92	17	43.28	48.63	(11)
WTI average (Cdn\$/bbl) ²	65.51	55.86	17	57.16	61.95	(8)
Cdn\$:US\$ average exchange rate ³	0.75	0.75	-	0.76	0.78	(4)
Cdn\$:TT\$ average exchange rate ³	5.03	4.77	6	5.01	4.98	1
US\$:TT\$ average exchange rate ³	6.71	6.37	5	6.63	6.36	4

¹Source: U.S. Energy Information Administration.

²Canadian reference prices are calculated using the Bank of Canada Cdn\$/US\$ noon day average on a daily basis.

³Source: Average of daily Bank of Canada nominal noon exchange rates.

Touchstone's crude oil realized price has historically correlated to the Brent benchmark price. In the fourth quarter of 2016 the US\$ Brent reference price averaged 7% higher than the third quarter of 2016 and 13% higher than the fourth quarter of 2015 as OPEC members and other countries agreed to production cuts. This is expected to help stabilize the global supply and demand imbalance and draw down excess global crude oil inventories.

The Canadian dollar remained range-bound relative to the United States dollar ("US\$") during the fourth quarter of 2016 averaging US\$0.75 (US\$/Cdn\$ - 1.33). In the fourth quarter of 2016 and relative to the US\$, the Trinidad and Tobago dollar ("TT\$") dollar depreciated 0.3% from the third quarter of 2016 and 5% from the fourth quarter of 2015. In April 2016, the Trinidad government publicly stated that they intended to intervene to defend and stabilize the TT\$, and would not allow the TT\$:US\$ exchange rate to fluctuate more than 7% from the rate that prevailed in September 2015. As of December 31, 2016, the Trinidad and Tobago dollar depreciated 6% relative to the United States dollar from September 30, 2015.

Fourth Quarter and Annual 2016 Financial and Operating Results

The Company's operations are conducted in Trinidad and Canada, which are the Company's reportable segments. Effective December 31, 2015, Touchstone disposed of the Kerrobert property, which was the Company's remaining Canadian segment producing asset. Accordingly, there was no Canadian segment production or related operating expenses recorded during the year ended December 31, 2016.

Production volumes

	Three months ended December 31,			Year ended December 31,		
	2016	2015	% change	2016	2015	% change
Trinidad						
Total oil production (bbls)	114,527	137,758	(17)	476,057	583,929	(18)
Average daily oil production (bbls/day)	1,245	1,498	(17)	1,301	1,600	(19)
Canada¹						
Total oil production (bbls)	-	6,741	(100)	-	57,007	(100)
Average daily oil production (bbls/d)	-	73	(100)	-	156	(100)
Company total						
Total oil production (bbls)	114,527	144,499	(21)	476,057	640,936	(26)
Average daily oil production (bbls/day)	1,245	1,571	(21)	1,301	1,756	(26)

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Production volumes by property

(bbls)	Three months ended December 31,			Year ended December 31,		
	2016	2015	% change	2016	2015	% change
Trinidad						
Coora 1	11,942	15,466	(23)	48,024	72,261	(34)
Coora 2	6,294	8,444	(25)	29,153	42,970	(32)
WD-4	41,438	52,780	(21)	181,254	205,243	(12)
WD-8	25,964	27,575	(6)	98,834	125,590	(21)
New Dome	1,928	1,740	11	7,408	5,603	32
South Palo Seco	688	827	(17)	2,194	2,867	(23)
Barrackpore	2,747	6,793	(60)	16,729	24,627	(32)
Fyzabad	14,105	15,246	(7)	59,284	71,013	(17)
Icacos	964	1,313	(27)	4,343	4,579	(5)
Palo Seco	1,367	1,532	(11)	5,508	6,718	(18)
San Francique	7,090	6,042	17	23,326	22,458	4
	114,527	137,758	(17)	476,057	583,929	(18)
Canada¹						
Kerrobert	-	6,741	(100)	-	53,967	(100)
Luseland	-	-	-	-	3,040	(100)
	-	6,741	(100)	-	57,007	(100)
Company total						
	114,527	144,499	(21)	476,057	640,936	(26)

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

During the three months and year ended December 31, 2016, crude oil production decreased 21% and 26% compared to the same periods of the prior year, respectively. The decreases reflected the disposition of Touchstone's non-core Canadian assets that were disposed throughout 2015 and the sale of Kerrobert which closed in 2016.

Trinidad fourth quarter and annual 2016 production decreased 17% and 18% from the comparative prior year periods based on natural declines with reduced capital activity. 2015 production included the benefits of Touchstone's 2014 drilling program, where 11 developmental wells were drilled and placed on production through January 2015.

Realized prices excluding derivative contracts

	Three months ended December 31,		%	Year ended December 31,		%
	2016	2015	change	2016	2015	change
US\$/bbl						
Trinidad	46.22	37.91	22	38.10	45.98	(17)
Cdn\$/bbl						
Trinidad	61.85	50.64	22	50.49	58.45	(14)
Canada ¹	-	27.15	(100)	-	38.80	(100)
Company total	61.85	49.54	25	50.49	56.70	(11)
Trinidad						
US\$ realized price discount as a % of Brent	6	13		13	12	
US\$ realized price discount as a % of WTI	6	10		12	5	

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Over the past five years, the Company's realized US\$ Trinidad crude oil prices historically averaged a 12% discount to Brent reference pricing. For the three months ended December 31, 2016, Touchstone's realized price differential to Brent narrowed to 6%, which offset wider differentials realized in the first half of 2016.

In the fourth quarter of 2016, the Company's realized Trinidad crude oil price was \$61.85 per barrel as compared to \$50.64 per barrel in the same period of 2015. The 22% increase was a result of a 17% increase in the Brent reference price over the same period and a reduction in the realized Brent reference differential from 13% to 6%.

For the year ended December 31, 2016, Touchstone's realized Trinidad crude oil price was 14% lower as compared to 2015. This price decrease was primarily attributable to the 16% decrease in Brent reference pricing over the same period, partially offset by a stronger Canadian dollar.

Petroleum revenue

(\$000's)	Three months ended December 31,		%	Year ended December 31,		%
	2016	2015	change	2016	2015	change
Trinidad						
Crude oil	7,084	6,976	2	24,036	34,128	(30)
Canada¹						
Crude oil	-	183	(100)	-	2,212	(100)
Company total	7,084	7,159	(1)	24,036	36,340	(34)

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

For the three months ended December 31, 2016, Trinidad petroleum revenue increased 2% from the corresponding 2015 period. A 17% decrease in production was offset by a 22% increase in realized prices. Trinidad petroleum revenue was \$24,036,000 during the year ended December 31, 2016,

representing a decrease of 30% from 2015. This decrease reflected lower average realized commodity prices and lower production in 2016 as compared to 2015.

The Company sells its crude oil to Petrotrin, whom establishes a monthly net price for Trinidad oil. As at December 31, 2016, Trinidad crude oil inventory totaled 6,092 barrels versus 7,012 barrels at December 31, 2015. The Company's crude oil is typically sold from its various sales batteries to Petrotrin three days per week. Crude oil sales are sold with no additional transportation costs, as title transfers at the Company's operating batteries.

Commodity price financial derivatives

In the past, the Company entered into Brent reference based crude oil financial derivative contracts to protect funds flow from operations from the volatility of commodity prices. Touchstone does not employ hedge accounting for any of its risk management contracts.

On June 2, 2016, the Company liquidated its outstanding hedge book. The Company had no commodity risk management contracts outstanding as at December 31, 2016 or at the date of this MD&A. For further information, refer to the "Risk Management" section of this MD&A. During the year ended December 31, 2016, the Company recorded net losses of \$1,970,000 (2015 – gain of \$8,835,000) related to commodity management contracts. The net losses and gains on contracts were composed of both realized gains and losses, representing the portion of risk management contracts that settled in cash during the period, and unrealized gains or losses that represent the change in the mark-to-market position of those contracts throughout the period.

Royalties

(\$000's)	Three months ended		% change	Year ended December 31,		% change
	2016	December 31, 2015		2016	2015	
Trinidad						
Crown royalties	638	771		2,166	3,748	
Private royalties	174	119		489	739	
Overriding royalties	1,100	1,028		3,262	5,086	
User fees	214	279		901	1,142	
	2,126	2,197	(3)	6,818	10,715	(36)
As a percentage of petroleum revenue	30.0%	31.5%		28.4%	31.4%	
Canada¹	-	57	(100)	-	395	(100)
Company total	2,126	2,254	(6)	6,818	11,110	(39)
As a percentage of petroleum revenue	30.0%	31.5%		28.4%	30.6%	

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Touchstone incurs a crown royalty rate of 12.5% on gross production under MEEI and Petrotrin leases. For freehold or private leases, the Company incurs private royalties between 10% and 12.5% of gross revenue.

On the WD-8, Coora and WD-4 blocks, the Company operates under LOAs, which in addition to crown royalties apply a sliding scale notional overriding royalty ("NORR") that ranges from 10% to 35% on predefined monthly base production levels. For any production volumes sold in excess of base production levels, the Company incurs an enhanced NORR ("enhanced NORR") of 8% to 22.5%. The NORR and enhanced NORR rates are indexed to the price of oil realized in the production month. The LOAs allow for NORR and enhanced NORR incentives for the drilling or sidetracking of a replacement well as follows:

- Year 1 of production from the replacement well: 0% NORR or enhanced NORR rate; and
- Year 2 of production from the replacement well: 10% NORR or enhanced NORR rate.

Production from the Coora, WD-4 and WD-8 blocks incur a TT\$12.60 per barrel charge for user fees that serve to offset expenses for electricity, maintenance, labour and other miscellaneous costs incurred by Petrotrin associated with the management of the applicable lease operatorship properties.

In addition to crown royalties, the South Palo Seco and New Dome blocks are subject to farmout agreements that stipulate NORR rates ranging from 7% to 27% and enhanced NORR rates ranging from 4% to 17%. Similar to the LOA structure, the NORR and enhanced NORR rates are indexed to the price of oil realized in the production month. However, there are no incentives for drilling under the farmout agreements.

Fourth quarter and annual 2016 royalty expenses reduced commensurate with the corresponding reduction in petroleum revenues. For the three months and year ended December 31, 2016, Trinidad royalties represented 30.0% and 28.4% of petroleum revenues respectively, both of which were lower than the prior year comparative periods. The decreases in both periods reflected the sliding scale effect of decreased commodity prices to royalty rates.

Operating expenses

(\$000's)	Three months ended December 31,			Year ended December 31,		
	2016	2015	% change	2016	2015	% change
Trinidad						
Operating expenses	2,278	3,275	(30)	10,042	13,322	(25)
Canada¹						
Operating expenses	-	599	(100)	-	3,292	(100)
Company total	2,278	3,874	(41)	10,042	16,614	(40)

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Trinidad operating expenses for the three months ended December 31, 2016 were \$2,278,000, representing \$19.89 per barrel or US\$14.91. This represented a decrease of \$997,000 or US\$3.35 per barrel from the fourth quarter of 2015. For the year ended December 31, 2016, Trinidad operating expenses were \$10,042,000 or US\$15.88 per barrel, representing an absolute decrease of 25% and US\$2.11 per barrel from the prior year.

The annual decrease in absolute and per barrel operating expenses in 2016 was mainly attributable to the disposition of Canadian non-core assets in 2015, and diligent cost control efforts, including negotiating service cost decreases with many of Touchstone's suppliers and a reduction of operating costs that were fixed in nature. Touchstone continues to focus on reductions in operating expenses where available.

Operating netback¹

(\$/bbl)	Three months ended			Year ended December 31,		
	2016	December 31, 2015	% change	2016	2015	% change
Trinidad						
Brent benchmark price	65.53	58.02	13	57.68	66.62	(13)
Discount	(3.68)	(7.38)	(50)	(7.19)	(8.17)	(12)
Realized sales price	61.85	50.64	22	50.49	58.45	(14)
Royalties	(18.56)	(15.95)	16	(14.32)	(18.35)	(22)
Operating expenses	(19.89)	(23.77)	(16)	(21.09)	(22.81)	(8)
Operating netback prior to derivatives	23.40	10.92	100	15.08	17.29	(13)
Realized gain on derivatives	-	17.04	(100)	13.57	10.59	28
Operating netback after derivatives	23.40	27.96	(16)	28.65	27.88	3
Total Company						
Operating netback after derivatives	23.40	23.38	-	28.65	23.09	24

¹See "Non-GAAP Measures".

Fourth quarter 2016 operating netback was \$23.40 per barrel compared to \$23.38 per barrel in the same period of 2015. Excluding 2015 Canadian property results that were disposed, Trinidad operating netback decreased \$4.56 per barrel from 2015. 2016 fourth quarter realized prices per barrel increased 22% and related royalties per barrel increased 16% from 2015. Fourth quarter operating expenses of \$19.89 per barrel decreased 16% from the fourth quarter of 2015 in response to the Company's focus on reducing costs. The Company did not have any commodity derivative contracts throughout the fourth quarter of 2016 whereas prior year realized gains from commodity contracts increased fourth quarter operating netback by \$17.04 per barrel. For the three months ended December 31, 2016, Company operating netback after current income taxes was \$23.14 per barrel versus \$27.58 per barrel in the prior year comparative period.

2016 annual operating netback were \$28.65 per barrel compared to \$23.09 per barrel in the same period of 2015. 2016 per barrel operating netback increased 24% from the 2015 period based on a 3% increase in Trinidad per barrel operating netback and the cessation of Canadian operating netback losses incurred in the prior year. In 2016, Trinidad realized pricing decreased 14% and related royalties decreased 22% reflecting the sliding scale of royalty rates on decreased average realized prices during the year. 2016 operating expenses were \$21.09 per barrel, which represented a decrease of 8% from the \$22.81 per barrel incurred in 2015. The Company's commodity derivative contracts increased year to date 2016 operating netback by \$13.57 per barrel versus \$10.59 per barrel in 2015. For the year ended December 31, 2016, operating netback after current income taxes was \$27.67 per barrel versus \$22.40 per barrel in the prior year comparative period.

Income tax expense and income taxes payable

The Company's two Trinidad exploration and production subsidiaries are subject to the following Trinidad petroleum taxes:

- Supplemental Petroleum Tax ("SPT") 18% of gross revenue less royalties
- Petroleum Profits Tax ("PPT") 50% of net chargeable profits
- Unemployment Levy ("UL") 5% of net chargeable profits
- Green Fund Levy 0.3% of gross revenue

SPT is calculated and remitted on a quarterly basis. Actual rates vary based on the realized selling prices of crude oil in the applicable quarter. The SPT rate is 0% when the weighted average realized price of oil for a given quarter is below US\$50.00 per barrel and 18% when weighted average realized oil prices fall between US\$50.00 and US\$90.00. The revenue base for the calculation of SPT is gross revenue less royalties, less 20% investment tax credits for allowable tangible and intangible capital expenditures incurred in the applicable fiscal quarter. Annual PPT and UL taxes are calculated based on net chargeable profits. Net chargeable profits are determined by calculating gross revenue less royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses.

The Company also has a Trinidad oilfield service subsidiary that is subject to the greater of a 25% corporation tax calculated on net chargeable profits or a 0.6% business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above.

The following table summarizes the total current income tax expense for the three months and years ended December 31, 2016 and 2015:

(\$000's)	Three months ended		% change	Year ended December 31,		% change
	2016	December 31, 2015		2016	2015	
Trinidad						
SPT	-	-		-	551	
PPT	-	(2)		-	255	
UL	-	(1)		-	25	
Business levy	7	(213)		25	8	
Green fund levy	23	9		91	52	
	30	(207)	(100)	116	891	(87)
Canada						
Current income tax (recovery) expense	-	(400)	(100)	350	(447)	(100)
Company total	30	(607)	(100)	466	444	5

Trinidad based current income taxes for the three months and year ended December 31, 2016 were \$30,000 and \$116,000, respectively. Touchstone was not obligated to remit quarterly SPT given that realized prices received were below US\$50.00 per barrel throughout 2016. In 2016, Touchstone's three Trinidad subsidiaries were not in a PPT and UL taxable position because of decreased Trinidad cash flows driven by decreases in realized oil prices and production. In the first quarter of 2015, Touchstone paid \$551,000 in SPT. In addition, PPT and UL taxes were recorded in 2015 based on the filing of 2014 filed tax returns.

Canadian operations were in a net loss position in 2016 and were not taxable. In 2015 the Company recorded a credit to Canadian current tax expense relating to a 2014 tax refund. The Company believes that it is likely that a portion of the refund will be denied based on an ongoing audit; accordingly, a \$350,000 current tax accrual was recorded during the year ended December 31, 2016.

The Company previously acquired a Trinidad company that had overdue income tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the acquired subsidiary specified that upon confirmation from the BIR, the acquired subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the acquired subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of December 31, 2016, \$3,068,000 (2015 - \$3,314,000) in related interest was accrued in income taxes payable.

The acquired subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. The Company continues to work with the seller and the BIR to resolve this matter and does not believe that it will be required to make any further income tax payments nor any payments for the seller's portion of any interest.

The December 31, 2016 income tax payable balance was comprised of the following:

(\$000's)	Principal	Interest	Total
Prior year taxes (2015 and prior)	268	3,207	3,475
Current year tax accruals less instalments paid (2016)	30	-	30
Income taxes payable	298	3,207	3,505

Touchstone's \$4,745,000 (2015 - \$5,391,000) deferred income tax liability balance represented the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases as at December 31, 2016. The deferred tax liability balance mainly related to the discrepancy of the fair values over the carrying values of the Trinidad producing assets. During the three months and year ended December 31, 2016, the Company recorded a deferred tax expense of \$1,674,000 and a recovery of \$246,000, respectively (2015 – recoveries of \$2,167,000 and \$17,143,000). The 2015 deferred tax recoveries were mainly a result of 2015 Trinidad property and equipment impairment charges.

At December 31, 2016, the Company had approximately \$27,663,000 and \$1,772,000 (2015 - \$23,929,000 and \$1,068,000) in Trinidadian PPT and corporate tax losses respectively which may be carried forward indefinitely to reduce PPT and corporate tax in future years. The benefit of \$11,555,000 of Trinidad PPT and corporate tax losses were not recognized as at December 31, 2016 (2015 - \$10,251,000). The Company had approximately \$91,418,000 (2015 – \$51,416,000) in Canadian non-capital losses which begin to expire in 2026. The benefit of the Canadian non-capital losses was not recognized as at December 31, 2016 and 2015.

General and administrative (“G&A”) expenses

(\$000's)	Three months ended December 31,		%	Year ended December 31,		%
	2016	2015	change	2016	2015	change
Trinidad						
Gross G&A	1,044	1,263		3,959	5,389	
Capitalized G&A	(318)	(330)		(1,216)	(1,281)	
	726	933	(22)	2,743	4,108	(33)
Canada						
Gross G&A	964	1,354		3,655	6,408	
Capitalized G&A	-	-		-	-	
	964	1,354	(29)	3,655	6,408	(43)
Gross G&A	2,008	2,617		7,614	11,797	
Capitalized G&A	(318)	(330)		(1,216)	(1,281)	
Company total	1,690	2,287	(26)	6,398	10,516	(39)

G&A expenses primarily consist of management and administrative salaries and benefits, legal and professional fees, office rent, insurance, travel and other administrative expenses. In Trinidad, a total of 120 full-time-equivalents were working for Touchstone as at December 31, 2016 compared to 135 as at December 31, 2015. At Touchstone's Canadian head office, a total of 12 full-time-equivalents were employed as at December 31, 2016 versus 21 as at December 31, 2015.

For the three months and year ended December 31, 2016, gross G&A costs were \$2,008,000 and \$7,614,000, representing declines of 23% and 35% from 2015 comparative period spending, respectively. The overall decrease in 2016 G&A reflected lower compensation associated with a smaller workforce and reduced administrative spending in all areas. The Company continues to adjust its fixed cost base and strives to reduce G&A on an ongoing basis.

Net finance expenses

(\$000's)	Three months ended December 31,		% change	Year ended December 31,		% change
	2016	2015		2016	2015	
Interest income	(29)	(31)		(115)	(99)	
Interest (income) expense on bank loan	(37)	28		83	412	
Interest expense on term loan	128	-		128	-	
Interest expense on income taxes	333	975		(132)	975	
Finance fees and other	6	1,649		266	2,205	
Net finance expenses	401	2,621	(85)	230	3,493	(93)

Interest income included interest earned from funds on deposit and interest generated from a Trinidad capital equipment finance lease which commenced in May 2015.

2016 bank loan interest expenses decreased from 2015 based on reduced borrowing amounts. Term loan interest expenses relate to the term loan established on November 23, 2016 (see "*Liquidity and Capital Resources*").

Interest expenses are accrued for outstanding value added tax balances owing as a result of intercompany transactions. Value added tax amounts owing will be remitted when the offsetting value added tax receivables are ultimately collected from the Trinidad government. A onetime reversal of previously accrued interest was recorded in the third quarter of 2016 based on a Trinidad government tax amnesty.

Financing and other fees primarily consisted of bank loan administrative fees, which were reduced throughout 2016. The facility was terminated in November 2016.

Loss on marketable securities

The Company's investment in marketable securities consisted of common shares in the capital of Lightstream Resources Ltd. ("Lightstream"). The fair value of the investment in marketable securities was recorded on the consolidated statement of financial position at the end of each period, with the change in the fair value included in the determination of net earnings. During the three months ended March 31, 2015, the Company disposed of its remaining 243,613 Lightstream common shares resulting in a loss of \$51,000 recognized in the year ended December 31, 2015.

Foreign exchange and foreign currency translation

The Company's presentation currency is the Canadian dollar. The Company and its Canadian subsidiaries have a Canadian dollar functional currency while the Trinidad subsidiaries have a Trinidad and Tobago dollar functional currency. Touchstone Exploration (Barbados) Ltd., a wholly-owned holding subsidiary of the Company, has a United States dollar functional currency. In each reporting period, the change in values of the US\$ and TT\$ relative to the Canadian dollar reporting currency are recognized.

The applicable rates used to translate the Company's TT\$ and US\$ denominated financial statement items were as follows:

	December 31, 2016	December 31, 2015	%
			change
Closing foreign exchange rates¹			
Cdn\$ / US\$	0.7448	0.7225	3
Cdn\$ / TT\$	5.0125	4.6404	8

¹Source: Bank of Canada nominal noon exchange rates.

	Three months ended December 31,			Year ended December 31,		
	2016	2015	%	2016	2015	%
			change			change
Average foreign exchange rates¹						
Cdn\$:US\$ average exchange rate	0.75	0.75	-	0.76	0.78	(4)
Cdn\$:TT\$ average exchange rate	5.03	4.77	6	5.01	4.98	1
US\$:TT\$ average exchange rate	6.71	6.37	5	6.63	6.36	4

¹Source: Average of daily Bank of Canada nominal noon exchange rates.

The Company's main exposure to foreign currency risk relates to working capital balances denominated in US\$ in Canada and Trinidad. During the three months ended December 31, 2016, the Canadian dollar and TT\$ were range bound to the US\$. The Company recorded \$33,000 in foreign exchange losses versus a gain of \$158,000 recorded in the equivalent period of 2015. The Canadian dollar appreciated relative to the TT\$ and US\$ throughout 2016 which resulted in the Company recognizing total foreign exchange losses of \$163,000 during the year ended December 31, 2016 (2015 – gains of \$1,814,000). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in prevailing exchange rates.

In addition, the assets and liabilities of the Company's subsidiaries are translated to Canadian dollars at the exchange rate on the reporting period date for presentation purposes. The income and expenses of the Company's Trinidad operations are translated to Canadian dollars at the average monthly exchange rates relative to the date of the transactions. All resulting foreign currency differences are recorded in other comprehensive income in the Company's consolidated statement of earnings. As a result of the 2016 appreciation of the Canadian dollar versus the TT\$, a foreign currency translation loss of \$3,787,000 was recorded during year ended December 31, 2016 (2015 – gain of \$8,563,000).

Share-based compensation

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the closing price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant.

The Company also has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a \$0.05 exercise price. A maximum of two million incentive shares has been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant and the incentive share options typically expire five years from the date of the grant.

The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding Company common shares.

During the three months and year ended December 31, 2016, share-based compensation expense of (\$2,000) and \$157,000 was recorded compared to \$114,000 and \$363,000 recognized in the 2015 comparative periods, respectively. Share-based compensation expense decreased from the prior year as unvested share options were forfeited based on employee departures, which resulted in a recovery of the related unvested share-based compensation expense initially recorded.

During 2016, the Company's Board of Directors approved and granted 1,578,800 share options and nil incentive share options, respectively (2015 – 1,891,000 and nil). At December 31, 2016, share options and incentive share options outstanding represented 6.9% of the Company's outstanding common shares (December 31, 2015 – 6.7%).

Depletion and depreciation expense

(\$000's)	Three months ended December 31,		% change	Year ended December 31,		% change
	2016	2015		2016	2015	
Trinidad						
Depletion expense	1,006	1,987		3,959	6,802	
Depreciation expense	404	248		863	960	
	1,410	2,235	(37)	4,822	7,762	(38)
On a per barrel basis	12.31	16.22	(24)	10.13	13.29	(24)
Canada¹						
Depletion expense	-	47		-	399	
Depreciation expense	36	53		190	219	
	36	100	(64)	190	618	(69)
Company total						
	1,446	2,335	(38)	5,012	8,380	(40)
On a per barrel basis	12.63	16.16	(22)	10.53	13.07	(19)

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Depreciation expense is recorded based on corporate assets in Canada and motor vehicles and rig equipment in Trinidad on a declining balance basis. The Company's producing assets in Trinidad are subject to depletion expense. The net carrying value of producing assets is depleted using the unit of production method by reference to the ratio of production in the year over the related proven and probable reserves while also considering the estimated future development costs necessary to bring those reserves into production. Assets in the exploration phase are not amortized.

As at December 31, 2016, \$70,870,000 in future development costs were included in the Trinidad cost bases for depletion calculation purposes (December 31, 2015 - \$70,764,000 in Trinidad and \$1,019,000 in Canada/Corporate).

For the three months and year ended December 31, 2016, depletion and depreciation expenses were \$12.63 per barrel and \$16.16 per barrel compared to \$10.53 per barrel and \$13.07 barrel in the same periods of 2015, respectively. The decrease in Trinidad depletion expense in both periods reflected the effect of a lower depletable base due to impairment charges recorded during the year ended December 31, 2015. Furthermore, Touchstone disposed of its Canadian producing assets effective December 31, 2015 and closing on February 20, 2016.

Impairment

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated depletion and depreciation expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. Immediately before non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and fair value less costs of disposal, with any impairment loss or reversal of impairment recognized in earnings. Touchstone assesses exploration asset and property and equipment indicators of impairment on a quarterly basis. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods. Impairment charges (recoveries) for the three months and years ended December 31, 2016 and 2015 were as follows:

(\$000's)	Three months ended		% change	Year ended December 31,		% change
	2016	December 31, 2015		2016	2015	
Trinidad cash-generating unit ("CGU")						
<i>Exploration assets</i>						
Cory Moruga	241	-		241	948	
East Brighton	3,544	(1,157)		4,334	(317)	
<i>Property and equipment</i>						
Coora	1,200	1,660		1,200	12,549	
WD-4	35	5,430		35	8,840	
WD-8	(3,823)	(264)		(3,823)	9,768	
New Dome	246	173		246	303	
South Palo Seco	1	(8)		1	60	
Barrackpore	879	616		879	1,766	
Fyzabad ¹	1,148	(4,445)		1,148	1,491	
San Francique	361	(89)		361	1,720	
	3,832	1,916	100	4,622	37,128	(88)
Canada CGU						
<i>Exploration assets</i>						
Dawson	-	-		-	2,562	
Luseland	260	-		260	122	
Other	205	675		205	553	
<i>Property and equipment</i>						
Kerrobot	-	(2,223)		250	(2,223)	
	465	(1,548)	(100)	715	1,014	(29)
Company total	4,297	368	100	5,337	38,142	(86)

¹The Company's Palo Seco, Icacos and Fyzabad properties are included in the Fyzabad CGU.

Exploration assets

The Company incurred \$241,000 in partner expenses related to the non-operated Cory Moruga property during the year ended December 31, 2016. These expenses were impaired as the estimated recoverable amount of the property was \$nil.

Furthermore, during the year ended December 31, 2016 the Company incurred \$4,334,000 of East Brighton property expenses which were impaired as the estimated recoverable amount of the asset did not exceed the corresponding carrying amount. The property, which was classified as held for sale at December 31, 2015, was no longer classified as held for sale as the transaction failed to close. The Company revalued its decommissioning liability, incurred lease payments and letter of credit holding costs in relation to the property, which resulted in the additional impairment recorded in the year.

At December 31, 2016, the Company identified indicators of impairment on its Canadian segment exploration asset CGUs due to potential decreased undeveloped land fair values and minimal capital development activity was incurred in 2016. The Company performed impairment tests which resulted in total impairment charges of \$465,000. All CGUs had a fair value assessment of \$nil as the Company has no further plans to develop the properties and over half of the acreage expires by the end of the first quarter of 2018.

During the year ended December 31, 2015, the following exploration asset impairment charges were recognized:

- Impairment charges of \$948,000 were recorded with respect to the Company's interest in the Trinidad Cory Moruga block based on uneconomic well performance. The fair value of the CGU was assessed at \$nil.
- An impairment reversal of \$317,000 was recorded related to the East Brighton block CGU during the year ended December 31, 2015. The exploration asset was written up to its \$1,413,000 decommissioning obligation value based on a sales agreement executed on October 1, 2015. The fair value of the CGU was determined to be \$nil, as the value of the 3.5% gross overriding royalty was not reliably determinable.
- An impairment charge of \$2,562,000 was recorded during the year ended December 31, 2015 to write down the Dawson CGU to the lesser of carrying value and the estimated recoverable amount based on \$2,100,000 transaction proceeds received in July 2015.
- Impairment charges of \$675,000 were recorded relating to the Company's Canadian undeveloped land in Luseland and other, which was written down to \$491,000 representing the estimated fair value less costs to sell as at December 31, 2015.

Property and equipment

At December 31, 2016, the Company evaluated its Trinidad segment development and production assets for indicators of any potential impairment or related reversal. Based on operating cost efficiencies achieved in 2016, impairment tests were performed on all CGUs, and net impairment charges of \$47,000 were recorded. The recoverable amount of the impaired CGUs was determined to be \$55,351,000 as at December 31, 2016.

The Company initially recorded a \$250,000 share conversion receivable relating to the sale of its Kerrobert property which closed in February 2016. The asset was subsequently written to a fair value of \$nil as the purchaser entered creditor protection, resulting in an impairment expense of \$250,000.

Property and equipment impairment charges of \$36,497,000 were recorded during the year ended December 31, 2015 on crude oil assets located in the Trinidad operating segment. The impairment charges, attributed to all Trinidad CGUs, were the result of sustained declines in forecasted short and long-term crude oil pricing. The recoverable amount of the impaired CGUs was determined to be \$59,280,000 as at December 31, 2015. At June 30, 2015, the Company's Trinidad decommissioning obligations were revalued using the adjusted long-term Trinidad inflation rate of 4%, which represented a 1% increase from the previous estimate. The corresponding \$2,503,000 increase to the decommissioning obligation asset balance was valued at \$nil and charged to impairment, as the restated CGUs were initially impaired on December 31, 2014 and no headroom remained.

The Company recognized an impairment reversal of \$2,223,000 relating to the Kerrobert CGU based on transaction proceeds received in February 2016. The transaction closed on February 1, 2016 based on a sales agreement executed in January 2016. Accordingly, the property and equipment and corresponding decommissioning obligation balances were not classified as held for sale as at December 31, 2015.

Further information regarding the impairment charges for the years ended December 31, 2016 and 2015 is included in Note 8 in the Company's consolidated financial statements.

Accretion and decommissioning obligations

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal based on current regulations and economic circumstances. The total decommissioning obligation is estimated by Management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. As at December 31, 2016, Touchstone has recorded a decommissioning obligation balance of \$16,783,000 (2015 - \$16,987,000).

Pursuant to Trinidad production licenses, the Company is obligated to remit funds into an abandonment fund based on production. The abandonment fund obligations are determined based on cumulative crude oil sales and recognized as a current liability and a reduction of the long-term decommissioning obligation. Payments to the fund are typically made on an annual basis and recorded as a long-term asset included in property equipment. As at December 31, 2016, the Company has remitted \$697,000 of abandonment fund payments, and \$328,000 in short-term fund obligations are included in accounts payable and accrued liabilities. The Company and the Trinidad government must agree on the budget and site to reclaim prior to using the abandonment fund.

Accretion charges of \$101,000 and \$378,000 for the three months and year ended December 31, 2016 (2015 - \$101,000 and \$624,000), respectively, were recognized to reflect the increase in decommissioning obligation associated with the passage of time.

Decommissioning obligation details as at December 31, 2016 were as follows:

# of well/facility locations	Undiscounted balance (\$000's)	Inflation adjusted balance (\$000's)	Discounted balance (\$000's)
844	20,664	68,580	16,783

As disclosed herein, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs on February 1, 2016. Through the disposition, the Company transferred its total Canadian segment discounted decommissioning liability balance of \$4,028,000 to the purchaser.

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the years ended December 31, 2016 and 2015 is included in Note 11 in the Company's consolidated financial statements.

Capital Expenditures and Dispositions

Exploration asset cash expenditures

(\$000's)	Three months ended December 31,		% change	Year ended December 31,		% change
	2016	2015		2016	2015	
Trinidad						
Lease payments	153	290		865	310	
Geological	42	(77)		113	268	
Capitalized G&A	32	-		206	-	
Other	326	360		810	360	
	553	573	(3)	1,994	938	100
Canada¹						
Lease payments	-	-		35	54	
Capitalized losses	-	39		-	241	
Other	-	-		-	12	
	-	39	(100)	35	307	(89)
Company total	553	612	(10)	2,029	1,245	63

Exploration asset expenditures include asset additions in areas that have been determined to be in the exploration phase.

The Company incurred \$553,000 and \$2,029,000 in exploration asset expenditures during the three months and year ended December 31, 2016, respectively. The expenditures mainly related to annual head license costs for the Trinidad Ortoire and East Brighton properties, as well as capitalized finance costs in connection with the letters of credit that secure both concessions. In addition, capitalized G&A of \$32,000 and \$206,000 relate to work performed on the Ortoire property during the three months and year ended December 31, 2016, respectively.

Property and equipment cash expenditures

(\$000's)	Three months ended December 31,		% change	Year ended December 31,		% change
	2016	2015		2016	2015	
Trinidad						
Drilling and completions	417	174		704	1,778	
Production equipment and facilities	-	65		-	478	
Capitalized G&A	286	330		1,010	1,281	
	703	569	24	1,714	3,537	(52)
Canada¹						
Corporate assets / other	116	9		138	35	
	116	9	100	138	35	100
Company total	819	578	42	1,852	3,572	(48)

¹Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

For the year ended December 31, 2016 property and equipment capital expenditures before dispositions totaled \$1,852,000 compared to \$3,572,000 during the same period in 2015. This total includes \$704,000 in development additions, as the Company recompleted nine wells and performed two well stimulations during the year. In 2015, the Company performed a total of 28 recompletions on Trinidad wellbores. The Company reduced its developmental capital expenditures throughout 2016 in response to prevailing commodity prices. During the three months ended December 31, 2016, the Company performed an eight well recompletion program in response to the rebound and stabilization of commodity prices.

Asset dispositions

The Company entered into an agreement on October 1, 2015 to dispose of its 70% working interest in the East Brighton offshore block. The transaction failed to close as the agreement expired on September 16, 2016. Accordingly, the carrying values of the East Brighton exploration asset and associated decommissioning obligations were no longer classified as held for sale as at December 31, 2016.

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs, all of which were included in the Company's Canada/Corporate operations segment. In addition to the mineral rights, the sale included all of the facilities, infrastructure, interests and decommissioning obligations related to the Kerrobert combustion project. The Company received total consideration of \$4,150,000, which included cash proceeds of \$650,000 and \$3,500,000 in securities through the issuance of 35,000 non-voting preferred shares of the purchaser. The preferred shares were valued at \$250,000 due to a share conversion option exercisable on July 1, 2016 and were subsequently impaired in the third quarter of 2016 as the purchaser entered creditor protection. This resulted in an impairment expense of \$250,000.

The Company disposed of the following non-core Canadian assets in 2015:

- Effective March 1, 2015, the Company disposed of its producing Luseland CGU for net proceeds of \$2,200,000. The CGU consisted of one producing well and various decommissioning obligations. Approximately 4,000 acres of undeveloped land and ancillary production equipment were also included in the sale. A gain of \$130,000 was recognized in the statement of earnings as a result of the transaction.
- On July 14, 2015, the Company disposed of its non-core Dawson exploration CGU for net proceeds of \$2,100,000 with no gain or loss recognized on the transaction.
- On July 30, 2015, the Company disposed of undeveloped land in its Beadle exploration asset CGU for net proceeds of \$4,200,000. A gain of \$3,351,000 was recognized in the statement of earnings as a result of the transaction.

Liquidity and Capital Resources

Touchstone's long-term goal is to fund current period capital expenditures and reclamation expenditures using only funds from operations. Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil prices, capital expenditures, royalty expenses, operating expenses, general and administrative expenses and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, capital expenditures, production expectations and other factors that in the Company's view would impact cash flow.

The Company's objective is to maintain net debt to annualized funds flow from operations at or below a level of 3.0 to 1. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1.

	Target measure	December 31, 2016	December 31, 2015
Working capital surplus ^{1,2}		(846)	(987)
Undiscounted term loan balance		15,000	-
Net debt (surplus) ³		14,154	(987)
Shareholders' equity		36,234	52,657
Net debt plus equity		50,388	51,670
Funds flow from operations		6,117	2,908
Net debt to funds flow from operations	< 3.0 times	2.31	(0.34)
Net debt to net debt plus equity	< 0.4 times	0.28	(0.02)

¹Working capital surplus is calculated as current assets less current liabilities as they appear on the consolidated statements of financial position.

²As at December 31, 2015, the Company's bank loan balance of \$8,304,000 was classified as a current liability and included in the \$987,000 working capital surplus balance.

³See "Non-GAAP Measures".

Touchstone exited the year with a working capital surplus of \$846,000 and a \$15,000,000 principal term loan balance. In addition, the Company classified \$8,461,000 in cash used to collateralize letters of credit that secure future work obligations on Trinidad production and development contracts as long-term restricted cash. On March 14, 2017, the total restricted cash balance of US\$6,229,000 was reduced to \$2,449,000, thereby increasing cash balances by US\$3,850,000.

Although the Company must maintain a minimum \$5,000,000 cash balance in accordance with its term loan, the subsequent reduction of the restricted cash allows the Company near term financial liquidity to commence a 24 recompletion and four well drilling program in 2017.

Furthermore, the Company has accrued \$3,068,000 related to an uncertain income tax position discussed in the "Income taxes" section of this MD&A. Management believes this balance is ultimately the obligation of the lender; the successful resolution of the issue could increase working capital by the accrued balance.

Term loan

On November 23, 2016, the Company completed an arrangement for a \$15,000,000, five-year term loan agreement from a Canadian investment fund. The term loan replaced the Company's bank loan, which was discharged. The Company immediately used a portion of the proceeds to cash collateralize its US\$6,000,000 letter of credit that provides credit support in respect of its East Brighton offshore property future work commitments (refer to "Restricted cash and cash equivalents and letters of credit").

The term loan matures on November 23, 2021 with no mandatory repayment of principal required until January 1, 2019. The Company is required to repay \$810,000 per quarter commencing on January 1, 2019 through October 1, 2021, and the then outstanding principal balance is repayable on the maturity date. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly in arrears from January 1, 2017. In connection with the term loan, the Company has also granted the lender a 1% gross overriding royalty on petroleum sales from current Company land holdings in Trinidad, which is payable until November 23, 2021 regardless of any repayment or prepayment of the term loan. The Company has the ability to prepay the term loan after 18 months and has the option to buy out all of the future royalty obligations if the term loan balance is prepaid in full. The term loan and the Company's obligations in respect of the royalty are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The term loan was initially measured at fair value, net of all transaction fees. The fair value was determined by using a discount rate of 12%. This rate was determined by reviewing publicly traded debt yields for small-sized oil and gas entities and selecting a set of bonds with comparable durations for entities with similar credit worthiness to the Company. The term loan balance less transaction costs is

unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings.

The royalty obligation was initially measured at fair value, using the estimated royalty payable at the inception of the loan discounted by 15%. The rate was based on the Company's long-term weighted average cost of capital less a discount for the shorter time frame of the royalty period. The royalty liability is reduced by future amounts paid to the lender. Once the liability is reduced to \$nil any subsequent amounts paid are recorded as finance expenses in the period incurred.

The following is a continuity schedule of the term loan and associated liabilities balance from inception to December 31, 2016:

	Term loan liability		Royalty liability		Total
Balance, November 23, 2016	\$	13,132	\$	1,247	\$ 14,379
Accretion		164		-	164
Payments		-		(47)	(47)
Balance, December 31, 2016	\$	13,296	\$	1,200	\$ 14,496

The term loan arrangement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at and during the three months ended December 31, 2016 were as follows:

Covenant	Covenant threshold	Estimated position at December 31, 2016 ¹
Cash balance	> \$5,000,000	\$8,433,000
Net funded debt to equity ratio ²	< 0.5 times	0.2 times
EBITDA ³ for the fiscal quarter ending December 31, 2016	> \$625,000	\$807,000

¹Estimated position subject to final approval.

²Net funded debt defined as interest-bearing debt less cash reserves. Equity defined as book value of shareholders' equity less accumulated other comprehensive income (loss).

³EBITDA defined as net earnings before interest, income taxes and non-cash items.

Pursuant to the term loan agreement, a failure of any covenant constitutes an event of default. Upon an event of default, the lender can declare the principal loan balance and any accrued interest immediately due and payable. The Company routinely reviews the term loan covenants based on actual and forecasted results and can make changes to development and exploration plans to comply with the covenants. The Company is committed to having an adaptable capital expenditure program that can be adjusted to a tightening of liquidity sources if necessary.

Restricted cash and cash equivalents and letters of credit

At December 31, 2016, the Company had cash collateralized a US\$6,000,000 letter of credit relating to work commitments on its offshore East Brighton exploration concession. This balance was reduced to US\$2,150,000 subsequent to December 31, 2016 as noted above. The Company has also cash collateralized bonds totaling US\$299,000 related to its work commitments on its Petrotrin concessions. Given the associated funds collateralize work obligations that are expected to occur after one year, a total of US\$6,299,000 (\$8,461,000) was classified as long-term assets on the statement of financial position as of December 31, 2016.

The Company has a security agreement with Export Development Canada ("EDC") in connection with a performance security guarantee that supports a US\$3,313,000 letter of credit provided to the MEEI related to work commitments on its Ortoire exploration property.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in the business environment.

To manage its capital structure in a period of low commodity prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. The Company will continue to manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability.

Undiscounted cash outflows relating to financial liabilities as at December 31, 2016 were as follows:

<i>(\$000's)</i>	Undiscounted amount	Less than 1 year	1 – 3 years	4 – 5 years
Accounts payable and accrued liabilities	13,384	13,384	-	-
Income taxes payable	3,505	3,505	-	-
Term loan and associated liabilities	15,000	-	3,240	11,760
Total financial liabilities	31,889	16,889	3,240	11,760

Risk Management

Management of cash flow variability is an integral component of Touchstone's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board of Directors to establish risk management guidelines used by management to carry out the Company's strategic risk management program. The risk exposure inherent in the movements of the price of crude oil, and fluctuations in Cdn\$:US\$ and Cdn\$:TT\$ exchange rates are all proactively reviewed by Touchstone and may be managed through the use of derivative contracts as considered appropriate.

The Company has elected not to apply IFRS prescribed "hedge accounting" rules. Accordingly, the fair value of financial derivative contracts is recorded at each period-end. The fair value may change substantially from period to period depending on market conditions. As a result, earnings may fluctuate considerably based on the period ending commodity forward strip prices compared to the prices in any derivative contracts.

Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due.

On June 2, 2016, the Company liquidated its outstanding commodity financial contracts. The Company had no commodity financial contracts in place as at December 31, 2016 and the date of this MD&A.

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

reduce the volatility of petroleum revenues and protect future development capital programs. For the year ended December 31, 2016, with all other variables held constant, a 5% change in realized commodity prices would have resulted in an approximate \$492,000 (2015 - \$769,000) increase or decrease in net earnings.

Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the Trinidad and Tobago dollar can have a significant effect on reported results. The Company's foreign exchange gain or losses primarily include unrealized foreign exchange gains on losses on the translation of the Company's US\$ denominated working capital balances in Canada and Trinidad. The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion.

The Company had no contracts in place to manage foreign currency risk as at or during the year ended December 31, 2016. For the year ended December 31, 2016, with all other variables held constant, a 1% change in the Canadian dollar to TT\$ exchange rate would have resulted in an approximate \$117,000 (2015 - \$153,000) increase or decrease in net earnings.

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. The Company is not exposed to interest rate risk as its term loan interest rate is fixed in nature.

Contractual Obligations, Commitments and Guarantees

In the normal course of operations, the Company executes agreements that provide for indemnification and guarantees to counterparties in transactions such as the sale of assets. The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their services to the Company to the extent permitted by law. The Company maintains liability insurance for its officers and directors. The Company is party to various legal claims associated with the ordinary conduct of business, and the Company does not expect that these claims will have a material impact on its financial position.

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under license and production agreements with the MEEI and various lease commitments for office space and equipment.

As at December 31, 2016, the Company's estimated contractual capital requirements over the next five years were as follows:

(\$000's)	2017	2018	2019	2020	2021	Total
Minimum work obligations and lease payments						
Coora block	4,318	70	71	119	-	4,578
WD-4 block	2,719	1,379	85	87	-	4,270
WD-8 block	2,189	1,117	46	49	-	3,401
New Dome block	4	51	4	52	5	116
South Palo Seco block	56	442	445	113	117	1,173
Ortoire exploration commitments	1,644	4,344	5,701	345	-	12,034
East Brighton exploration commitments	2,190	325	340	355	-	3,210
Office leases	227	401	279	261	243	1,411
Equipment leases	325	325	325	217	-	1,192
Total minimum payments	13,672	8,454	7,296	1,598	365	31,385

Under the terms of its Trinidad concessions, the Company must fulfill the minimum work obligations on an annual basis over the specific license term. In total, the Company is obligated to drill 12 wells and perform 18 heavy workovers prior to the end of 2021. As of December 31, 2016, six workovers have been completed with respect to these obligations. The Company failed to drill four wells that were required in 2016 (see "Trinidad Operating Agreements"). The Company has various letters of credit totaling US\$299,000 related to its work commitments on its Petrotrin concessions.

The Company has provided a US\$3,313,000 letter of credit in favour of the MEEI related to its Ortoire block exploration commitments. The Company's December 31, 2016 estimated costs and timing of its future Ortoire exploration commitments, which includes acquiring and processing 85 line kilometers of 2D seismic and the drilling of four vertical wells, were as follows:

(\$000's)	2017	2018	2019	2020	2021	Total
Lease payments	301	316	330	345	-	1,292
2D seismic	-	1,343	4,028	-	-	5,371
Drilling commitments	1,343	2,685	1,343	-	-	5,371
Total minimum payments	1,644	4,344	5,701	345	-	12,034

The Company has a US\$6,000,000 letter of credit relating to work commitments on its East Brighton offshore concession. Approval has been obtained to reduce the letter of credit to US\$2,150,000 as disclosed herein. The Company's December 31, 2016 estimated costs and timing of its future East Brighton exploration commitments, which includes the drilling of one well to a total depth of 5,000 true vertical feet, were as follows:

(\$000's)	2017	2018	2019	2020	2021	Total
Lease payments	310	325	340	355	-	1,330
Drilling commitments	1,880	-	-	-	-	1,880
Total minimum payments	2,190	325	340	355	-	3,210

Off-balance Sheet Arrangements

Touchstone has certain equipment and office lease agreements reflected in the contractual obligations and commitments table above which were entered in the normal course of operations. All leases are currently treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the statement of financial position as of December 31, 2016.

As disclosed above, the Company has a US\$3,313,000 letter of credit that is secured by the EDC. This balance was not included on the statement of financial position as at December 31, 2016.

Related Party Transactions

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. The Company was formerly a party to transactions with Lightstream and Alvopetro Energy Ltd., which were related parties to the Company due to common Directors. The transactions included natural gas purchased for the Company's Canadian/Corporate operation segment from Lightstream and an office sub-lease with Alvopetro Energy Ltd. All related party transactions were recorded at fair value.

(\$000's)	Year ended December 31,	
	2016	2015
Legal fees charged by Norton Rose Fulbright Canada LLP	297	194
Office rent charged to Alvopetro Energy Ltd.	85	259
Gas purchased from Lightstream Resources Ltd.	-	146
Related party transactions	382	599

The Company has determined that the key management personnel of the Company are comprised of its directors and three executive officers. Key management personnel compensation paid or payable was as follows:

	Year ended December 31,	
	2016	2015
Salaries, director fees and short-term benefits included in G&A expenses	1,258	1,036
Termination benefits included in G&A expenses	-	523
Share-based compensation	224	297
Key management compensation	1,482	1,856

Financial Instruments

The Company's financial instruments recognized in the consolidated statement of financial position consists of cash, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, term loan and associated liabilities and financial derivatives. Cash and restricted cash and cash equivalents are classified as held-for-trading and are recorded at cost, which approximates their fair value. Accounts receivable are classified as loans and receivables, and their fair value approximate their carrying value due to their short periods to maturity. Accounts payable and accrued liabilities and the term loan balances are classified as other financial liabilities that are not held for trading. The fair values of accounts payable and accrued liabilities approximate their carrying values due to their short periods to maturity. The term loan and associated liabilities is measured at amortized cost using the effective interest rate method.

Share Information

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The following table summarizes the outstanding common shares, share options, incentive share options and share purchase warrants as at the date of this MD&A, December 31, 2016 and December 31, 2015:

	March 21, 2017	December 31, 2016	December 31, 2015
Common shares outstanding – end of period	83,137,143	83,137,143	83,087,143
Share options outstanding – end of period	5,642,040	5,642,040	5,308,445
Incentive share options outstanding – end of period	127,500	127,500	298,125
Warrants outstanding – end of period	-	-	2,260,800

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's Annual Information Form, which will be available on SEDAR on or before March 31, 2017.

The Company is exposed to a variety of risks including, but not limited to, operational, financial, competitive, political and environmental risks. As a participant in the oil and gas industry, the Company is exposed to a high level of exploration and production risk, upon which there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, well blow-outs and other operating hazards, lack of infrastructure or transportation to access markets and monetize reserves, and regulatory, environment and safety concerns. The Company works to mitigate these risks by employing highly skilled personnel and utilizing available technology. The Company also maintains a corporate insurance program consistent with industry practices to protect against insurable losses.

The Company is exposed to normal financial risks inherent in the oil and gas industry including commodity price risk, exchange rate risk, interest rate risk and credit risk. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in commodity prices. The Company operates the majority of its properties and, therefore, has significant control over the timing and costs related to exploration commitments and development opportunities.

The Company has identified breaches under its lease operating agreements and is operating under a number of expired licenses. See "*Trinidad Operating Agreements*" for a discussion of these risks.

Access to capital

From time to time, the Company may have to raise additional funds to finance business development activities. The Company's ability to raise additional capital will depend on a number of factors such as general economic and market conditions that are beyond the Company's control. Internally generated funds will also fluctuate with changing commodity prices.

The Company currently has a \$15,000,000 term loan. Touchstone is required to comply with covenants under this facility, and in the event it does not comply, access to capital could be restricted or repayment may be required. The Company routinely reviews the covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants under the term loan. The Company is committed to having an adaptable capital expenditure program that can be adjusted to capitalize on acquisition opportunities and, if necessary, a tightening of liquidity sources.

Foreign jurisdictions

The Company is currently focused on international oil and gas exploration and production activities in Trinidad. As such, the Company is subject to political risks such as: changes in policies and regulation related to changes in government, price controls, renegotiation of lease operatorship and production license agreements, nationalization, changes in tax and royalty regulations, amendments or changes to legal systems, and complex regulatory regimes. The Company engages local, Canadian and international advisors and local in-country staff to the largest extent possible. The Company is also exposed to potential delay of its operations due to waiting on drilling permits or obtaining surface access to drilling locations. Furthermore, the Company is exposed to foreign exchange fluctuations as noted in “*Risk Management – Foreign currency risk*”.

Reserves estimates

The Company has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves on an annual basis. Reserve values are based on a number of variables and assumptions such as future commodity prices, future production, future operating and capital costs and governmental regulations. Reserve estimates are prepared in accordance with standards and procedures set out in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. The reserves and recovery information contained in the independent reserve report is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserve engineers (see “*Advisory on Reserves Information*”).

Volatility of commodity prices and foreign exchange rates

The Company’s operational results and financial condition depend on the prices received for petroleum production. Commodity prices are determined by economic and, in some circumstances, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, also influence prices. The Company is exposed to commodity price risk whereby the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Petroleum commodity prices are affected by the global economic events that dictate the levels of supply and demand.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as various portions of its working capital balances, and future expenses and revenues are denominated in TT\$ and US\$ (see “*Risk Management – Commodity price risk*”).

Counterparty risk

Credit risk is the risk of a counterparty failing to meet its obligations in accordance with the agreed upon terms. The Company may be exposed to third-party credit risk through its contractual arrangements with its current or future joint operation partners, marketers of its commodities and other parties. Touchstone has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and natural gas sales and financial derivative transactions. However, the Company is exposed to sole purchaser risk in Trinidad as Petrotrin is the sole purchaser of crude oil.

Operational matters

The oil and natural gas industry is intensely competitive, with the Company competing against companies that may have greater technical and financial resources. There is competition for new exploration and development properties, for infrastructure and sales contracts, for drilling and other specialized technical equipment and for experienced key human resources. There are also extensive and varying environmental regulations imposed by the Trinidad government. The Company adopts prudent and industry-recommended field operating procedures for all operations, as well as maintaining a health, safety and environment program.

Exploration

The Company is exposed to a high level of exploration risk. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless Touchstone can acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance that the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, the Company employs highly experienced geologists, uses technology such as 2D or 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. The Company may also choose to mitigate exploration risk through acquisitions that may require raising funds.

Changes in Accounting Policies

Adoption of new accounting policies

There were no new or amended accounting standards or interpretations adopted by the Company during the year ended December 31, 2016.

Future changes in accounting policies

The Company will be required to adopt IFRS 9 *Financial Instruments* on January 1, 2018, IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 and IFRS 16 *Leases* on January 1, 2019. The Company continues to assess the impact of adopting these pronouncements. Further information regarding future changes in accounting policies is included in Note 4 in the Company's consolidated financial statements.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. 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 the Company's consolidated financial statements are outlined below.

Fair value of financial derivatives

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, volatility curves and risk of non-performance. 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.

The fair value of financial derivatives is based on fair values provided by counterparties with whom the transactions were completed. By their nature, these estimates and assumptions are subject to measurement uncertainty.

Crude oil reserves, recoverability of asset carrying values and depletion

The amounts recorded for exploration assets, property and equipment, depletion and depreciation and impairment testing are based on estimates of proven and probable reserves, production rates, future oil prices, future costs, future foreign exchange rates and other relevant assumptions. The Company retains qualified independent reserves evaluators to evaluate the Company's proved and probable oil and natural gas reserves. As at December 31, 2016, the Company's reserves were evaluated by GLJ, who is a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with NI 51-101. The Reserves Committee of the Company's Board of Directors is comprised of independent directors whose mandate is to steward the reserves evaluation process.

There are a number of inherent uncertainties associated with estimating reserves and resources. Reserve and resource estimates are based on engineering data, estimated future prices, expected future rates of production and the timing and amount of future expenditures, all of which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2016, which could differ significantly from other points in time throughout the year, or future periods. 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 or recovery rates may change the economic status of reserves. Changes in the economic environment could result in significant changes to the discount rate used to calculate net present values. Changes in reserves impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property and equipment for impairment calculations.

Determination of cash-generating units

Determination of what constitutes a CGU is subject to the judgement of Management. The recoverability of development and production 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.

Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of acquisition. In determining the fair values of the assets and liabilities, Management must make assumptions and estimates, such as reserves, future commodity prices, fair values of undeveloped land, discount rates, decommissioning liabilities and possible outcomes of any assumed contingencies.

Provisions

The determination of provisions may be a complex process that involves Management judgments about the outcomes of future events and estimates on timing and amount of expected future cash flows.

Decommissioning obligations

The provision for decommissioning obligations is based on numerous assumptions and judgements including the ultimate settlement amounts, Trinidad 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 obligation, a corresponding adjustment is made to the property and equipment balance.

Equity-settled transactions

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 option awards is typically measured by reference to the five-day weighted average trading price of the common shares prior to the date of grant. The fair value of share options is measured using a Black-Scholes option pricing model. Measurement inputs include weighted average share prices prior to the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government of Canada bonds).

Income tax accounting

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 net earnings.

Going concern

Management has made judgments relating to future projected cash flows in order to assess the Company's ability to continue as a going concern. These estimates are based upon Management's best estimates of future production volumes, forward pricing, future operating costs, future capital costs, future general and administrative expenses, exchange rates, interest rates and income taxes, all of which are subject to measurement uncertainty.

Control Environment

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at December 31, 2016. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Based on this evaluation, Management concluded that both ICFR and DC&P were effective as at December 31, 2016. There have been no changes during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, ICFR.

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded; transactions are appropriately authorized; and to facilitate the preparation of relevant, reliable and timely information. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Advisory on Reserves Information

Oil and Natural Gas Reserves

The reserves information summarized in this MD&A is from reports prepared by Touchstone's independent reserves evaluator, GLJ, dated March 17, 2017 with an effective date of December 31, 2016 and dated March 8, 2016 with an effective date of December 31, 2015. Each of these reports were prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. All December 31, 2016 reserves presented are based on GLJ's forecast pricing and estimated costs effective December 31, 2016, and December 31, 2015 reserves presented are based on GLJ's forecast prices and estimates of future costs as at December 31, 2015. Additional reserves information as required under NI 51-101 will be included in the Company's Annual Information Form which will be filed on SEDAR on or before March 31, 2017.

The recovery and reserves estimates of crude oil provided herein are estimates only, and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein. The recovery and reserves estimates attributed to the Company's properties described herein are estimates only. The actual reserves attributable to the Company's properties may be greater or less than those calculated. The reserves evaluator forecasts reserve volumes and future cash flows based upon current and historical well performance through to the economic production limit of individual wells. Notwithstanding established precedence and contractual options for the continuation and renewal of the Company's existing operating agreements, in many cases the forecast economic limit of individual wells are beyond the current term of the relevant operating agreements. There is no certainty as to any renewal of the Company's existing operating arrangements.

Oil and Gas Metrics

This MD&A contains certain oil and gas metrics that are commonly used in the oil and gas industry such as finding and development costs, reserves additions and reserves replacement ratio. These metrics do not have standardized meanings or standardized methods of calculation and therefore such measures may not be comparable to similar measures presented by other companies. Such metrics have been included herein to provide readers with additional metrics to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance of the Company, and future performance may not compare to the performance in prior periods and therefore such metrics should not be unduly relied upon. The Company uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare the Company's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this MD&A, should not be relied upon for investment purposes.

Finding and development costs are the sum of capital expenditures excluding capitalized general and administrative costs incurred in the period and the change in future development costs required to develop those reserves. Finding and development costs per barrel is determined by dividing current period net reserve additions to the corresponding period's finding and development cost. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. Total capital expenditures used in the finding and development cost calculation is reconciled as follows:

<i>(\$000's)</i>	December 31, 2016
Exploration asset capital expenditures per cash flow statement	2,029
Less: exploration asset capitalized G&A	(206)
Property and equipment capital expenditures per cash flow statement	1,852
Less: property and equipment capitalized G&A	(1,010)
Total capital expenditures for finding and development cost calculation	2,665

Reserve additions are calculated as the change in reserves from the beginning to the end of the applicable period excluding period production. Reserves replacement ratio is calculated as period reserve additions divided by period production.

Advisory on Forward-Looking Statements

Certain information regarding Touchstone set forth in this MD&A, including assessments by the Company's Management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. Statements relating to "reserves" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future. Such statements represent the Company's internal projections, estimates or beliefs concerning future growth, results of operations based on information currently available to the Company based on assumptions that are subject to change and are beyond the Company's control, such as: production rates and production decline rates, the magnitude of and ability to recover oil and gas reserves, plans for and results of drilling activity, well abandonment costs and salvage value, the ability to secure necessary personnel, equipment and services, environmental matters, future commodity prices, changes to prevailing regulatory, royalty, tax and environmental laws and regulations, the impact of competition, future capital and other expenditures (including the amount, nature and sources of funding thereof), future financing sources, business prospects and opportunities, among other things. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company.

In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to:

- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- crude oil production levels;
- the quantity of the Company's reserves;
- drilling and recompletion plans, and the anticipated timing thereof;
- future capital expenditures, the timing thereof and the method of funding;
- activities to be undertaken in various areas and timing thereof, including the fulfillment of minimum work obligations and exploration commitments;
- terms of the Company's contractual commitments and their timing of settlement;
- terms of exploration and production contracts and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- the Company's risk management strategy and the use of commodity derivatives to manage movements in the price of crude oil;
- treatment under governmental regulatory regimes and tax laws;
- the Company's position related to its uncertain tax positions;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;

- the Company's future sources of liquidity;
- the Company's future compliance with its term loan covenants;
- the Company's expected release of its letter of credit cash collateral;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning obligations;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Judgments, Estimates and Assumptions*".

The Company is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results. The Company is exposed to risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities. Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain qualified employees on a cost-effective basis, commodity and marketing risk. The Company is subject to significant drilling risks and uncertainties including the ability to find oil reserves on an economic basis and the potential for technical problems that could lead to well blow-outs and environmental damage. The Company is exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operation risks. The Company is subject to industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced. There are uncertainties in estimating the Company's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The Company is subject to the risk that it will not be able to fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada and Trinidad, continued volatility in market prices for oil, the impact of significant declines in market prices for oil, the ability to access sufficient capital from internal and external sources, changes in income tax laws or changes in tax laws, royalties and incentive programs relating to the oil and gas industry, fluctuations in interest rates, the Canadian dollar to United States dollar exchange rate and the Canadian dollar to Trinidad and Tobago dollar exchange rate. The Company is subject to local regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, lease operating or farm-in rights related to the Company's oil and gas interests in Trinidad.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements. Readers are also cautioned that the foregoing list of factors and assumptions is not exhaustive. The Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Additional information on these and other factors that could affect the Company's operations and financial results are included elsewhere herein and in reports, documents and disclosures on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Non-GAAP Measures

The MD&A contains terms commonly used in the oil and natural gas industry, including funds flow from operations per share, operating netback, operating netback after current income taxes and net debt. These terms do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other companies.

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 does not have a standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Operating netback is presented on a per barrel basis and is calculated by deducting royalties and operating expenses from petroleum revenue. The Company 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 in evaluating operating results on a per barrel basis to analyze performance on a historical basis.

The Company also uses operating netback after current income taxes as a key performance indicator of results. This measure does not have a standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Operating netback after current income taxes is presented on a per barrel basis and is calculated by deducting current income taxes from operating netback after the impacts of financial derivatives. Management believes that deducting current income taxes from operating netback is a useful measure given that SPT, although classified as income taxes, is calculated similar to a royalty rate. In addition to net income (loss), Management believes that operating netback after current income taxes is a useful supplemental measure that demonstrates the Company's ability to generate the cash necessary to fund future capital investment. Management uses this non-GAAP measure for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

The following table calculates operating netback and operating netback after current income taxes:

	Three months ended		Year ended December 31,	
	2016	December 31, 2015	2016 ²	2015
Petroleum revenue	7,084	7,159	24,036	36,340
Royalties	(2,126)	(2,254)	(6,818)	(11,110)
Operating expenses	(2,278)	(3,874)	(10,042)	(16,614)
Operating netback prior to derivatives	2,680	1,031	7,176	8,616
Realized gain on derivatives	-	2,348	6,462	6,181
Operating netback after derivatives (000's)	2,680	3,379	13,638	14,797
Production (bbls)	114,527	144,499	476,057	640,936
Operating netback after derivatives (\$/bbl)	23.40	23.38	28.65	23.09
Operating netback after derivatives	2,680	3,379	13,638	14,797
Current income tax expense	(30)	607	(466)	(444)
Operating netback after current income taxes (000's)	2,650	3,986	13,172	14,353
Operating netback after current income taxes (\$/bbl)	23.14	27.58	27.67	22.40

The following table calculates realized gain on derivative contracts for the specified periods:

(\$000's)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016 ²	2015
Gain (loss) on financial derivatives	-	4,084	(1,970)	8,835
Non-cash (loss) gain on financial derivatives	-	(1,736)	8,432	(2,654)
Realized gain on financial derivatives	-	2,348	6,462	6,181

Net debt (surplus) is calculated by summing the Company's working capital and undiscounted non-current interest bearing liabilities. Working capital is defined as current assets less current liabilities. The Company uses this information to assess its true debt and liquidity position and to manage capital and liquidity risk. This measure does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures reported by other companies. The following table summarizes net debt (surplus):

(\$000's)	As at December 31,	
	2016	2015
Working capital surplus ¹	(846)	(987)
Undiscounted long-term portion of term loan	15,000	-
Net debt (surplus)	14,154	(987)

¹As at December 31, 2015, the Company's bank loan balance of \$8,304,000 was classified as a current liability and included in the \$987,000 working capital surplus balance.

Summary of Quarterly Results

The following is a summary of the unaudited quarterly results of the Company for the eight most recently completed fiscal quarters:

Three months ended	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Operating				
Average daily production (bbls/d)	1,245	1,276	1,322	1,361
Average oil prices before derivatives (\$/bbl)	61.85	52.56	49.83	38.66
Operating netback ¹ (\$/bbl)				
Petroleum revenue	61.85	52.56	49.83	38.66
Royalties	(18.56)	(13.89)	(13.52)	(11.59)
Operating expenses	(19.89)	(19.65)	(20.10)	(24.53)
Operating netback prior to derivatives	23.40	19.02	16.21	2.54
Realized gain on derivatives	-	-	27.56	25.40
Operating netback after derivatives	23.40	19.02	43.77	27.94
Financial (\$000's except share and per share amounts)				
Funds flow from operations	353	1,567	3,278	919
Per share – basic and diluted ¹	0.01	0.02	0.04	0.01
Net loss	(7,154)	(702)	(2,553)	(2,444)
Per share – basic and diluted	(0.09)	(0.01)	(0.03)	(0.03)

Three months ended	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Capital expenditures				
Exploration assets	553	847	476	153
Property and equipment	819	327	(340)	1,046
Company total	1,372	1,174	136	1,199
Total assets - end of period	89,285	72,550	73,330	81,209
Net debt ¹ - end of period	14,154	4,115	4,188	1,164
Weighted average shares outstanding				
Basic and diluted	83,137,143	83,137,143	83,125,605	83,087,143
Outstanding shares - end of period	83,137,143	83,137,143	83,137,143	83,087,143

¹See "Non-GAAP Measures".

Three months ended	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Operating				
Average daily production (<i>bbls/d</i>)	1,571	1,638	1,786	2,036
Average oil prices before derivatives (<i>\$/bbl</i>)	49.54	56.24	65.12	55.25
Financial (<i>\$000's except share and per share amounts</i>)				
Funds flow from operations	1,408	313	762	425
Per share – basic and diluted ¹	0.02	0.01	0.01	0.01
Net earnings (loss)	152	(12,666)	(8,505)	(1,128)
Per share – basic and diluted	0.01	(0.15)	(0.10)	(0.01)
Capital expenditures				
Exploration assets	612	154	291	188
Property and equipment	578	679	1,144	1,171
Company total	1,190	833	1,435	1,359
Total assets - end of period	100,619	101,564	125,788	141,486
Net (surplus) debt ¹ - end of period	(987)	39	5,755	6,172
Weighted average shares outstanding				
Basic	83,087,143	83,080,866	83,079,643	83,073,865
Diluted	83,294,151	83,080,866	83,079,643	83,073,865
Outstanding shares - end of period	83,087,143	83,087,143	83,079,643	83,079,643

¹See "Non-GAAP Measures".

The Company's funds flow from operations are significantly impacted by changes in production volumes and fluctuations in commodity prices. In addition, net earnings are impacted by asset impairments.

Material Trinidad segment impairment charges were recognized in the third quarter of 2015 related to the sustained decrease in forward commodity prices. In response to the decrease in crude oil prices, the Company decreased 2015 and 2016 capital and operational spending, which reduced crude oil production and operating cash flows.

Net operating losses and net debt decreased throughout 2015 based on Canadian segment asset dispositions. Effective December 31, 2015, Touchstone disposed of its Kerrobert property, which was the Company's remaining Canadian segment producing asset. Accordingly, there was no Canadian segment production or operating expenses during 2016.

Currency and References to Touchstone

All information included in this MD&A is shown on a Canadian dollar basis unless otherwise stated. Tabular amounts herein are in thousands of Canadian dollars, and the amounts in text are rounded to thousands of Canadian dollars.

For convenience, references in this document to the “Company”, “we”, “us”, “our”, and “its” may, where applicable, refer only to Touchstone.

Additional Information

Additional information regarding Touchstone Exploration Inc., including Touchstone’s Annual Information Form, can be accessed online on SEDAR at www.sedar.com or from the Company’s website at www.touchstoneexploration.com.

CORPORATE INFORMATION

DIRECTORS

John Wright
Chairman of the Board

Paul R. Baay

Kenneth McKinnon

Corey Ruttan

Thomas Valentine

Harrie Vredenburg

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Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

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Nunez and Co.
Port of Spain, Trinidad

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

ABBREVIATIONS

The following is a list of abbreviations that may be used in this MD&A:

Oil

bbls	barrels
Mbbl	thousand barrels
bbls/d	barrels per day
boe	barrels of oil equivalent
Mboe	thousand barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Brent	The reference price paid for crude oil FOB North Sea
WTI	Western Texas Intermediate, the reference price paid for crude oil and standard grade in U.S. dollars at Cushing Oklahoma

Other

Cdn\$	Canadian dollar
US\$	United States dollar
TT\$	Trinidad and Tobago dollar
TSX	Toronto Stock Exchange