Touchstone Exploration Inc.

Management's Discussion and Analysis

December 31, 2019

TSX / LSE: **TXP**

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. ("Touchstone", "we", "our", "us" or the "Company") for the three months and year ended December 31, 2019 with comparisons to the three months and year ended December 31, 2018 is dated March 25, 2020 and should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018. 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 are included with reports on file with the Canadian securities regulatory authorities, including the Company's 2019 Annual Information Form dated March 25, 2020, which can be found on the Company's SEDAR profile (www.sedar.com).

Unless otherwise stated, all financial amounts presented herein are rounded to thousands of United States dollars ("$" or "US$") as further described in the section titled "*Changes to Accounting Policies*" in this MD&A. The Company may also reference Canadian dollars ("C$") and Trinidad and Tobago dollars ("TT$") herein, which are the functional and operational currencies of the Company's parent company and operating subsidiaries, respectively. All production volumes disclosed herein are sales volumes and are based on Company working interest before royalty burdens. 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 sections titled "*Forward-looking Statements*", "*Non-GAAP Measures*", and "*Abbreviations*" included in 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 and the AIM market of the London Stock Exchange under the symbol "TXP".

Touchstone's strategy is to leverage Canadian experience and capability to international onshore properties to create shareholder value. Outside of its core Trinidad portfolio, the Company will continue to examine opportunities in jurisdictions that have stable political and fiscal regimes coupled with large defined original oil and gas in place.

Financial and Operating Results Summary

	Three months ended December 31, 2019	2018	% change	Year ended December 31, 2019	2018	% change
Operating Highlights						
Average daily oil production *(bbls/d)*	**1,690**	1,851	(9)	**1,825**	1,718	6
Net wells drilled	**0.8**	3.0	(73)	**1.6**	11.0	(85)
Brent benchmark price *($/bbl)*	**63.17**	68.76	(8)	**64.28**	71.31	(10)
Operating netback[1] *($/bbl)*						
Realized sales price	**57.38**	58.54	(2)	**58.01**	60.15	(4)
Royalties	**(17.05)**	(14.81)	15	**(16.49)**	(16.16)	2
Operating expenses	**(15.21)**	(21.18)	(28)	**(14.91)**	(17.31)	(14)
	25.12	22.55	11	**26.61**	26.68	-
Financial Highlights *($000's except as indicated)*						
Petroleum sales	**8,920**	9,970	(11)	**38,654**	37,729	2
Cash flow from operating activities	**2,090**	1,810	15	**5,454**	6,331	(14)
Funds flow from operations[2]	**2,018**	1,482	36	**6,840**	8,548	(20)
Per share – basic and diluted[1][2]	**0.01**	0.01	-	**0.04**	0.07	(43)
Net (loss) earnings	**(3,549)**	552	n/a	**(5,620)**	358	n/a
Per share – basic and diluted	**(0.02)**	0.00	n/a	**(0.04)**	0.00	n/a
Exploration capital expenditures	**5,838**	1,603	264	**10,113**	2,557	296
Development capital expenditures	**157**	4,773	(97)	**1,388**	14,606	(90)
Total capital expenditures	**5,995**	6,376	(6)	**11,501**	17,163	(33)
Working capital deficit				**1,139**	3,318	(66)
Principal balance of term loan				**15,364**	11,004	40
Net debt[1] – end of period				**16,503**	14,322	15
Share Information *(000's)*						
Weighted average shares outstanding – basic	**160,691**	129,021	25	**155,830**	129,021	21
Weighted average shares outstanding – diluted	**160,691**	130,532	23	**155,830**	130,220	20
Outstanding shares – end of period				**160,703**	129,021	25

Notes:
(1) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
(2) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information.

Operating results

Throughout 2019, Touchstone conducted minimal capital development activity and continued to allocate capital to exploration activities on our Ortoire property. As a result, crude oil production during the fourth quarter averaged 1,690 bbls/d, a 9% decrease relative to the 1,851 bbls/d produced in the fourth quarter of 2018, as incremental production achieved from wells drilled in 2018 were offset by natural declines. 2019 crude oil production averaged 1,825 barrels per day, representing an increase of 6% from production delivered in 2018. We invested $1,388,000 in development activities in 2019, which mainly consisted of recompletion activities on legacy wellbores.

We commenced our onshore exploration program on the Ortoire block (80% working interest) in the second half of 2019, drilling two gross exploration wells (1.6 net). Coho-1, the first natural gas prospect, had an encouraging production test that exceeded the Company's expectations. Touchstone completed drilling its second Ortoire exploration prospect, Cascadura-1ST1, in December 2019, with production testing in February and March 2020 confirming a substantial liquids-rich gas discovery. In aggregate, we invested $10,113,000 in exploration activities, including $8,901,000 in drilling, completion and lease building activities (2018 - $2,557,000 and $nil, respectively).

Financial results

Despite an 8% decrease in average Brent reference pricing, our fourth quarter operating netback was $25.12 per barrel, representing an 11% increase from the $22.55 per barrel operating netback achieved in the equivalent prior year period. Realized fourth quarter 2019 crude oil pricing was $57.38 per barrel, 2% less than the $58.54 per barrel received in the fourth quarter of 2018 as the Company's realized pricing differential to Brent reference pricing narrowed significantly. 2019 fourth quarter royalties represented 29.7% of petroleum sales compared to 25.3% in the prior year comparative period. This reflected an increase in overriding royalties, as production from development wells drilled in 2017 and 2018 qualified for reduced royalty rates throughout 2018. In comparison to the fourth quarter of 2018, operating expenses on a per barrel basis decreased 28% to $15.21 per barrel, predominately due to decreased well servicing expenditures and licence fees. On an annual basis, our 2019 operating netback of $26.61 per barrel was consistent with the $26.68 recorded in the prior year. Despite a 10% decrease in average Brent reference pricing, the Company realized $58.01 per barrel, a 4% decrease from the $60.15 per barrel recognized in 2018. In comparison to 2018, 2019 royalties per barrel increased by 2% while operating costs per barrel decreased by 14%, reflecting the Company's 2019 cost control efforts.

For the three months and year ended December 31, 2019, Touchstone delivered funds flow from operations of $2,018,000 ($0.01 per share) and $6,840,000 ($0.04 per share), respectively. Fourth quarter 2019 funds flow from operations increased by $536,000 from the $1,482,000 recorded in the corresponding 2018 period, reflecting savings in cash finance expenses from the reversal of previously accrued income tax interest expenses, slightly offset by increased income tax expenses recorded in 2019. 2019 funds flow from operations were $1,708,000 less than the $8,548,000 recognized in 2018. Annual savings in operating costs and cash finance expenses were offset by an increase of $3,513,000 in current income taxes. Fourth quarter and annual 2019 income taxes increased based on minimal capital development activity, which decreased credits used to offset supplemental petroleum taxes.

We recorded net losses of $3,549,000 ($0.02 per share) and $5,620,000 ($0.04 per share) during the three months and year ended December 31, 2019, respectively, in comparison to net earnings of $552,000 ($0.00 per share) and $358,000 ($0.00 per share) in the comparative 2018 periods, respectively. The annual variances were driven by property and equipment impairments, as $7,594,000 in impairments were recorded in the fourth quarter of 2019 versus impairment reversals of $3,719,000 recognized in the fourth quarter of 2018. The impairment expenses were minimized by their corresponding effect on deferred taxes, as recoveries of $3,945,000 and $1,813,000 were recognized during the three months and year ended December 31, 2019 (2018 – expenses of $3,228,000 and $6,897,000).

Touchstone exited the year with a cash balance of $6,182,000, a working capital deficit of $1,139,000 and a C$20 million principal term loan balance. Net debt as at December 31, 2019 was $16,503,000, which represented net debt to annual 2019 funds flow from operations of 2.4 times. In the fourth quarter of 2019, we increased the principal balance of our credit facility from C$15 million to C$20 million in order to fund the Cascadura-1ST1 exploration well. The credit facility does not require the commencement of principal payments until January 1, 2021, and we were within the financial covenants as at December 31, 2019.

Subsequent events and outlook

On the basis of the successful results from the first two Ortoire exploration wells, the Company undertook a private placement in February 2020 in order to support the drilling of a further Ortoire exploration well at the Chinook prospect, which is targeting a separate structure along the same geological trend. The private placement raised net proceeds of approximately $10.8 million by way of a placing of 22,500,000 common shares at a price of 40 pence (approximately C$0.69). The net proceeds of the equity issuance are also expected to be used to complete the second stage of the Cascadura-1ST1 production test and provide additional working capital while we progress the Ortoire exploration program.

With the significant drop and volatility in financial markets and world crude oil prices as a result of the novel coronavirus ("COVID-19") pandemic and concurrent oil market share war, consistent with past practices the Company will manage its development and operational spending. Our emphasis remains on bringing Coho-1 and Cascadura-1ST1 on stream. We are preparing to drill an earning exploration well at the Chinook prospect and anticipate continuing with the planned exploration program unless it becomes absolutely necessary to suspend it.

The Company's response to these events will be to continue its approach of maintaining prudence and financial flexibility with a focus on preserving value and financial liquidity. Our low base production decline rate, strong operating netbacks, top-tier capital efficiencies, lack of development drilling commitments and solely operated exploration capital program provide flexibility in this volatile market. Efforts have been initiated to optimize operations in order to minimize discretionary costs, with field operations limited to emergency workovers. All operations will be thoroughly vetted to optimize corporate cash flows which may include shutting in any wells that will not generate positive cash flow under current forward crude oil prices. Further operating and corporate cost efficiencies will also be pursued in consideration of the current pricing environment. Aside from voluntarily restricting field operations, the Company has had no operational impacts from COVID-19 to date; we have not been subject to supply chain disruptions nor the unavailability of personnel.

Management's main concern is the safety and wellbeing of its employees and stakeholders. International travel has been restricted, and remote working and physical distancing measures have been implemented where possible to allow our operations to continue as smoothly as possible in the circumstances.

Bolstered by the recent private placement, the Company had approximately $13.5 million of cash as at February 29, 2020, and no repayments are required on the Company's debt until January 2021. We remain focused on managing our operations to ensure that we operate within our credit facility financial covenants.

We continue to monitor the situation and economic environment, and we will adapt our business operations to ensure that we preserve and grow long-term shareholder value. We thank our shareholders and stakeholders for their continuing support and look forward to coming out of this unprecedented challenge with a stronger and sustainable Company.

Principal Properties

The Company holds interests in producing and exploration properties in southern Trinidad and minimal undeveloped acreage in Saskatchewan, Canada. All properties are operated by Touchstone apart from the Cory Moruga exploration block. A full schedule of the Company's Trinidad property interests as of December 31, 2019 is set forth below.

Property	Working interest	Lease type	Gross acres[(1)]	Net acres[(2)]
Producing				
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	2,167	2,167
Barrackpore	100%	Private	211	211
Fyzabad	100%	Crown	94	94
Fyzabad	100%	Private	470	470
Palo Seco	100%	Crown	499	499
San Francique	100%	Private	1,277	1,277
	100%		**7,836**	**7,836**
Exploratory				
Bovallius	100%	Private	827	827
Cory Moruga	16%	Crown	7,443	1,206
East Brighton	70%	Crown	20,588	14,412
Moruga	100%	Private	1,416	1,416
New Grant	100%	Private	193	193
Ortoire	80%	Crown	44,731	35,785
Rousillac	100%	Private	235	235
Siparia	50%	Private	111	56
St. John	100%	Private	167	167
	72%		**75,711**	**54,297**
Total	**74%**		**83,547**	**62,133**

Notes:
(1) "Gross" means acres in which the Company has an interest.
(2) "Net" means the Company's interest in the gross acres.

Operating Agreements

The Petroleum Company of Trinidad and Tobago ("Petrotrin") ceased operations on November 30, 2018, and assets related to the exploration and production operations of Petrotrin were transferred to its affiliate, Heritage Petroleum Company Limited ("Heritage"). Included in the assets which are now owned by Heritage are the Company's four lease operatorship agreements ("LOAs") and two farmout agreements ("FOAs"). As a result, Heritage has replaced Petrotrin in the LOAs and FOAs, including the rights and obligations of Petrotrin contained therein.

In addition to LOAs and FOAs governed by Heritage, the Company operates under state exploration and production licences with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") and private exploration and production agreements with individual landowners.

Lease operatorship agreements

The Company's LOAs governing its four core properties (Coora 1, Coora 2, WD-4 and WD-8) with Heritage expire on December 31, 2020, with the Company holding five-year renewal options upon reaching agreements regarding the proposed work programs and financial obligations. The practice in Trinidad is for extensions to be issued in most cases on terms substantially similar to those in effect at the time. Presently, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020. Under the LOAs, failing to reach minimum production levels does not constitute a breach provided the minimum work obligations have been completed.

As of December 31, 2019, the Company satisfied all of its minimum work obligations stipulated in its LOAs through December 31, 2020, which included drilling 10 wells and performing 11 well recompletions.

Farmout agreements

The Company's FOAs governing its New Dome and South Palo Seco properties with Heritage expire on December 31, 2021. The Company holds a five-year renewal option, and the agreements are currently subject to five-year minimum work commitments from 2017 through 2021.

As of December 31, 2019, the Company satisfied all of its minimum work obligations stipulated in its New Dome FOA through December 31, 2021, which included performing three well recompletions. The South Palo Seco FOA requires drilling two development wells and performing four well recompletions. Wells scheduled to be drilled in 2018 and 2019 remain outstanding (see "*Contractual Obligations, Commitments and Guarantees*" for further details). The South Palo Seco property is considered non-core as it represented 0.2% of total Company crude oil production during the year ended December 31, 2019 (2018 - 0.4%) and 0.01% of proved plus probable reserves at December 31, 2019 (2018 - 0.01%).

MEEI exploration and production licences

The Company has exploration and production licences with the MEEI for its Fyzabad and Palo Seco producing properties and its Cory Moruga, East Brighton and Ortoire exploration properties. The licences typically are for an initial six-year term, with the option to extend a further 19 years upon a commercial discovery. Under its East Brighton and Ortoire licences, the Company is subject to work commitments through 2020 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details).

The Company's Fyzabad and Palo Seco agreements with the MEEI contain no major work obligations or covenants. The Palo Seco licence expired on August 19, 2013, and Touchstone is currently negotiating a renewal or an extension. The Company has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed. The Palo Seco property is also considered non-core as it represented 0.6% of total Company crude oil production during the year ended December 31, 2019 (2018 - 0.7%) and 0.09% of proved plus probable reserves at December 31, 2019 (2018 - 1.05%).

Private lease agreements

Touchstone also negotiates private lease agreements with individual landowners. Lease terms are typically 35 years in duration and contain no minimum work obligations. The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, Touchstone is continuing to recognize petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the year ended December 31, 2019, production volumes produced under expired private lease agreements represented 1.8% of total Company production (2018 – 2.4%).

Crude oil marketing agreement

On January 14, 1974, Premier Consolidated Oilfields Limited, the Company's predecessor in interest, and Texaco Trinidad Inc., Petrotrin's predecessor, entered into a Crude Oil Purchase Agreement whereby Petrotrin committed to purchase all petroleum crude oil produced by Primera Oil and Gas Limited from various producing properties operating under MEEI licences and private lease agreements. The agreement, as amended from time to time, has continued to have an indefinite term and may be terminated by either party upon three months' notice. The price currently paid is the Trinidad equity land blend indexed price, payable in US$. This agreement was transferred to Heritage on December 1, 2018, and to date the Company has collected all payments from Heritage in a timely manner.

Results of Operations

Financial highlights

($000's except for per share amounts)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2019	2018		**2019**	2018	
Net (loss) earnings	**(3,549)**	552	n/a	**(5,620)**	358	n/a
Per share – basic and diluted	**(0.02)**	0.00	n/a	**(0.04)**	0.00	n/a
Cash flow from operating activities	**2,090**	1,810	15	**5,454**	6,331	(14)
Funds flow from operations(1)	**2,018**	1,482	36	**6,840**	8,548	(20)
Per share – basic and diluted(2)	**0.01**	0.01	-	**0.04**	0.07	(43)

Notes:
(1) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information.
(2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.

Net (loss) earnings

During the three months ended December 31, 2019, the Company recognized a net loss of $3,549,000 ($0.02 per share) versus net earnings of $552,000 ($0.00 per share) generated in the prior year equivalent quarter. In the fourth quarter of 2019, Touchstone recorded property and equipment impairment charges of $7,594,000 in comparison to net property and equipment impairment reversals of $3,719,000 recognized in the 2018 equivalent quarter. The increased impairment charges were partially offset by their effect on deferred income taxes, as a recovery of $3,945,000 was recognized in the fourth quarter of 2019 versus a deferred expense of $3,228,000 in the corresponding 2018 period.

Touchstone recorded a net loss of $5,620,000 ($0.04 per share) during the year ended December 31, 2019 versus net earnings of $358,000 ($0.00 per share) recognized in 2018. The variance was predominately from the aforementioned 2019 increase in impairment charges net of deferred income tax, as well as a year-over-year decease in funds flow from operations of $1,708,000.

Details of the change in net loss from the three months and year ended December 31, 2018 to the three months and year ended December 31, 2019 are included in the table below.

($000's)	**Three months ended December 31**	**Year ended December 31**
Net earnings - 2018	552	358
Sales volume variance	**(870)**	**2,350**
Realized price variance	**(180)**	**(1,425)**
Royalties	**(127)**	**(853)**
Other income	**55**	**(303)**
Expenses		
Operating	**1,243**	**922**
General and administrative	**35**	**(6)**
Cash finance	**1,173**	**1,092**
Current income tax	**(689)**	**(3,513)**
Realized foreign exchange	**(55)**	**(45)**
Total cash variances	**585**	**(1,781)**
Non-cash loss on financial derivatives	**(118)**	**(18)**
Gain on asset dispositions	**(228)**	**(228)**
Unrealized foreign exchange	**(90)**	**(422)**
Share-based compensation	**(16)**	**(51)**
Depletion and depreciation	**(161)**	**(1,055)**
Impairment	**(11,362)**	**(11,169)**
Loss on decommissioning liabilities	**-**	**9**
Non-cash finance expenses	**116**	**27**
Deferred income taxes	**7,173**	**8,710**
Total non-cash variances	**(4,686)**	**(4,197)**
Net loss - 2019	**(3,549)**	**(5,620)**

Cash flow from operating activities and funds flow from operations

Touchstone delivered fourth quarter 2019 cash flow from operating activities of $2,090,000, representing an increase of $280,000 from $1,810,000 in cash flow generated from operating activities in the prior year equivalent quarter. The variance relative to the prior year period was a result of an increase in $536,000 in funds flow from operations, offset by a $256,000 decrease in changes in non-cash working capital.

For the year ended December 31, 2019, cash provided by operations decreased $877,000 from 2018. Relative to 2018, a year-over-year increase in non-cash working capital of $849,000 was offset by a decrease in funds flow from operations of $1,708,000 and an $18,000 increase in costs related to derivative option purchases.

During the three months ended December 31, 2019, the Company generated funds flow from operations of $2,018,000, a 36% increase from funds flow recorded in the fourth quarter of 2018. The $536,000 annual increase reflected savings in cash finance expenses from the reversal of previously accrued income tax interest expenses, slightly offset by increased income tax expense recorded in 2019.

For the year ended December 31, 2019, the Company generated funds flow from operations of $6,840,000, representing a 20% decrease relative to the $8,548,000 recognized in 2018. Compared to 2018, annual savings in operating costs and cash finance expenses were offset by an increase of $3,513,000 in current income tax expenses. Fourth quarter and annual 2019 income taxes increased based on minimal capital development activity, which decreased investment tax credits that offset supplemental petroleum taxes.

Details of the change in funds flow from operations from the three months and year ended December 31, 2018 to the three months and year ended December 31, 2019 are reflected in the following table.

($000's)	Three months ended December 31	Year ended December 31
Funds flow from operations – 2018[1]	1,482	8,548
Sales volume variance	**(870)**	**2,350**
Realized price variance	**(180)**	**(1,425)**
Royalties	**(127)**	**(853)**
Other income	**55**	**(303)**
Expenses		
Operating	**1,243**	**922**
General and administrative	**35**	**(6)**
Cash finance	**1,173**	**1,092**
Current income tax	**(689)**	**(3,513)**
Realized foreign exchange	**(55)**	**(45)**
Change in non-cash other	**(49)**	**(2)**
Decommissioning expenditures	**-**	**75**
Funds flow from operations – 2019[1]	**2,018**	**6,840**

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

Net (loss) earnings and funds flow from operations sensitivity

The following table illustrates sensitivities of operating items to operational and business environment changes and the resulting estimated impact to net earnings and funds flow from operations for the year ended December 31, 2019.

	Assumption[2]	Change	Impact on annual net earnings (loss)[1] *($000's)*	Impact on annual funds flow from operations[1] *($000's)*
Average realized price *($/bbl)*	58.01	10%	1,089	2,157
Average production volumes *(bbls/d)*	1,825	10%	833	1,660
Operating expenses *($/bbl)*	14.91	10%	(489)	(950)

Notes:
(1) Calculations are estimates, are performed independently and will not be indicative of actual results that would occur when multiple variables change concurrently. Calculations are performed prior to the impact of commodity price financial derivatives.
(2) Assumptions are indicative of actual prices and volumes realized and actual results for the year ended December 31, 2019.

Production volumes

	Three months ended December 31,		% change	Year ended December 31,		% change
	2019	2018		**2019**	2018	
Oil production *(bbls)*	**155,454**	170,320	(9)	**666,277**	627,209	6
Average daily oil production *(bbls/d)*	**1,690**	1,851	(9)	**1,825**	1,718	6

Fourth quarter 2019 crude oil sales decreased 9% compared to the prior year equivalent period, as incremental production from the wells drilled in 2018 were offset by natural declines.

2019 annual crude oil production increased 6% from 2018 based on a full year of production gains achieved from the Company's 2018 developmental drilling efforts, offset by natural declines. Incremental 2019 production from wells drilled in 2018 contributed approximately 470 bbls/d, versus 198 bbls/d in 2018.

The following table summarizes crude oil production by property during the three months and years ended December 31, 2019 and 2018.

(bbls)	Three months ended December 31, **2019**	2018	% change	Year ended December 31, **2019**	2018	% change
Coora 1	**41,498**	44,549	(7)	**149,737**	147,368	2
Coora 2	**4,856**	7,024	(31)	**24,097**	26,150	(8)
WD-4	**56,111**	61,669	(9)	**233,211**	224,086	4
WD-8	**32,793**	28,671	14	**170,591**	113,454	50
New Dome	**2,254**	2,336	(4)	**9,131**	9,352	(2)
South Palo Seco	**145**	620	(77)	**1,444**	2,536	(43)
Barrackpore	**1,490**	4,847	(69)	**5,529**	18,201	(70)
Fyzabad	**8,723**	10,492	(17)	**38,866**	49,316	(21)
Icacos(1)	**-**	718	(100)	**-**	3,827	(100)
Palo Seco	**1,082**	1,276	(15)	**3,776**	4,886	(23)
San Francique	**6,502**	8,118	(20)	**29,895**	28,033	7
Production	**155,454**	170,320	(9)	**666,277**	627,209	6

Note:
(1) The Icacos property was sold on December 22, 2018. See "*Capital Expenditures and Dispositions: Property disposition*" for further details.

Realized crude oil pricing (excluding derivative contracts)

	Three months ended December 31, **2019**	2018	% change	Year ended December 31, **2019**	2018	% change
Average crude oil benchmark prices(1)						
Brent *($/bbl)*	**63.17**	68.76	(8)	**64.28**	71.31	(10)
WTI *($/bbl)*	**56.96**	59.34	(4)	**57.03**	64.90	(12)
Avg. realized price (*$/bbl*)	**57.38**	58.54	(2)	**58.01**	60.15	(4)
Realized price discount as a % of Brent	**(9.2)**	(14.9)		**(9.8)**	(15.6)	
Realized price premium (discount) as a % of WTI	**0.7**	(1.3)		**1.7**	(7.3)	

Note:
(1) Source: US Energy Information Administration. Benchmark prices do not reflect the Company's realized sales prices.

The Company's crude oil price received is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond the Company's control. Touchstone's crude oil realized price has historically correlated to the Brent benchmark price. Relative to the fourth quarter of 2018, the Brent reference pricing differential during the fourth quarter of 2019 narrowed from 14.9% to 9.2%. Similarly, the Brent reference price differential realized during the year ended December 31, 2019 narrowed to 9.8% versus 15.6% in the 2018 year. The decrease is reflective of the closing of the Petrotrin refinery in November 2018.

The Company realized an average price of $57.38 per barrel in the fourth quarter of 2019 compared to an average of $58.54 per barrel in the comparative period of 2018. The 2% decrease resulted from an 8% decrease in the Brent reference price, partially offset by a 6% narrowing of the realized Brent reference differential.

On an annual basis, the Company's 2019 average realized price of $58.01 per barrel was 4% weaker than the $60.15 price received in 2018. The annual decline reflected a 10% decrease in the average Brent reference price, offset by a 6% narrowing of the realized differential to Brent.

Petroleum sales

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2019	2018		**2019**	2018	
Petroleum sales	**8,920**	9,970	(11)	**38,654**	37,729	2

The Company recognized petroleum sales of $8,920,000 during the three months ended December 31, 2019 versus $9,970,000 recorded in the prior year comparative quarter. $870,000 of the $1,050,000 inter-period variance was a result of decreased production with the remaining $180,000 variance due to a reduction in realized pricing.

Touchstone's 2019 petroleum sales were $38,654,000, representing a $925,000 or 2% increase from the $37,729,000 recognized in 2018. A difference of $2,350,000 was attributed to increased 2019 production, partially offset by a negative realized price variance of $1,425,000.

Touchstone sells all of its crude oil to Heritage, with title transferring at the Company's various sales batteries. As at December 31, 2019, the Company held 4,166 barrels of crude oil inventory versus 7,559 barrels held as at December 31, 2018.

Commodity price financial derivatives

The Company may enter into crude oil financial derivative contracts to protect funds flow from operations from the volatility of commodity prices. Touchstone's strategy focuses on the use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases. Touchstone does not employ hedge accounting for any of its risk management contracts.

In April 2019, the Company purchased put option contracts for 800 bbls/d at a strike price of Brent $56.10 per barrel from June 1, 2019 to December 31, 2019. The put options were purchased from a financial institution for an upfront cash premium of $171,000. The monthly settled options expired out of the money throughout 2019, resulting in derivative losses of $118,000 and $171,000 recorded during the three months and year ended December 31, 2019, respectively (2018 - $nil and $153,000). For further information, refer to the "*Risk Management*" section of this MD&A.

Other income

The Company recorded $55,000 of other income during the year ended December 31, 2019, which was mainly comprised of fees received for selling crude oil on behalf of a third-party operator, and proceeds received from the sale of used inventory and equipment. During the year ended December 31, 2018, the Company sold a licenced 3D seismic copy of the Luseland, Saskatchewan area to a third-party broker for proceeds of $375,000.

Operating netback

The components of operating netback for the three months and years ended December 31, 2019 and 2018 are set forth below.

	Three months ended December 31, 2019	2018	% change	Year ended December 31, 2019	2018	% change
($000's)						
Petroleum sales[1]	**8,920**	9,970	(11)	**38,654**	37,729	2
Royalties	**(2,650)**	(2,523)	5	**(10,986)**	(10,133)	8
Operating expenses	**(2,364)**	(3,607)	(34)	**(9,936)**	(10,858)	(8)
Operating netback[2]	**3,906**	3,840	2	**17,732**	16,738	6
($/bbl)						
Brent benchmark price	**63.17**	68.76	(8)	**64.28**	71.31	(10)
Discount	**(5.79)**	(10.22)		**(6.27)**	(11.16)	
Realized sales price	**57.38**	58.54	(2)	**58.01**	60.15	(4)
Royalties	**(17.05)**	(14.81)	15	**(16.49)**	(16.16)	2
Operating expenses	**(15.21)**	(21.18)	(28)	**(14.91)**	(17.31)	(14)
Operating netback[2]	**25.12**	22.55	11	**26.61**	26.68	-

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

Royalties

($000's unless otherwise stated)	Three months ended December 31, 2019	2018	% change	Year ended December 31, 2019	2018	% change
Crown royalties	**1,102**	1,078		**4,440**	4,021	
Private royalties	**86**	68		**398**	497	
Overriding royalties	**1,462**	1,377		**6,148**	5,615	
Royalties	**2,650**	2,523	5	**10,986**	10,133	8
As a % of petroleum sales	**29.7%**	25.3%	17	**28.4%**	26.9%	6

Touchstone is obligated to pay a crown royalty rate of 12.5% on crude oil production under MEEI and Heritage licences. For private leases, the Company incurs private royalties between 10% and 12.5% of petroleum sales. 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 ("ORR") 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 ORR ("enhanced ORR") of 8% to 22.5%. The ORR and enhanced ORR rates are indexed to the average price of oil realized in the production month. The LOAs allow for ORR and enhanced ORR incentives for the drilling or sidetracking of a replacement well as follows:

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

In addition to crown royalties, the South Palo Seco and New Dome blocks FOAs stipulate ORR rates ranging from 7% to 27% and enhanced ORR rates ranging from 4% to 17%. Similar to the LOA structure, the ORR and enhanced ORR rates are indexed to the average price of oil realized in a production month. There are no incentives for drilling under the FOAs.

2019 fourth quarter royalties represented 29.7% of petroleum sales or $17.05 per barrel compared to 25.3% or $14.81 per barrel in the prior year comparative period. The variances were primarily a result of an increase in overriding royalties, as production from wells drilled in 2018 did not incur overriding royalties in the prior year fourth quarter.

For the year ended December 31, 2019, royalties represented 28.4% of petroleum sales or $16.49 per barrel as compared to 26.9% or $16.16 per barrel in 2018. The annual increases were primarily reflective of decreased crude oil production that qualified for enhanced ORR incentives in 2019, as Touchstone did perform developmental drilling activities in 2019.

Operating expenses

($000's)	**Three months ended December 31,** **2019**	2018	% change	**Year ended December 31,** **2019**	2018	% change
Operating expenses	**2,364**	3,607	(34)	**9,936**	10,858	(8)

The Company's fourth quarter operating expenses were $2,364,000, representing $15.21 per barrel. In comparison to the fourth quarter of 2018, current period operating expenses decreased by $1,243,000 or 28% on a per barrel basis from the $21.18 per barrel incurred in 2018. In the fourth quarter of 2018, the Company recorded a one-time licence fee adjustment of $393,000 relating to a legacy licence renewal. Further, the Company reduced well servicing costs and recorded decreased variable operating costs based on a decline of production in the fourth quarter of 2019 compared to the equivalent 2018 period.

On an annual basis, 2019 operating expenses were $9,936,000 or $14.91 per barrel compared to $10,858,000 or $17.31 per barrel incurred in 2018. The year-over-year decrease was reflective of the aforementioned licence fee adjustment recorded in 2018, decreases in well services costs, and a reduction of approximately $348,000 in service rig and vehicle costs formerly recognized as operating expenses. These costs are now reclassified as interest expenses and repayments of lease liabilities following the Company's January 1, 2019 adoption of IFRS 16 *Leases* ("IFRS 16") (refer to "*Changes to Accounting Polices*"). 2019 cost reductions were slightly offset by increased fixed salaries and increased variable lifting and transportation costs associated with increased 2019 production.

General and administrative expenses ("G&A")

($000's unless otherwise stated)	**Three months ended December 31,** **2019**	2018	% change	**Year ended December 31,** **2019**	2018	% change
Gross G&A	**2,115**	2,228	(5)	**6,854**	7,017	(2)
Capitalized G&A	**(310)**	(388)	(20)	**(919)**	(1,088)	(16)
G&A expenses	**1,805**	1,840	(2)	**5,935**	5,929	-
On a per barrel basis	**11.61**	10.80	7	**8.91**	9.45	(6)

Fourth quarter and annual 2019 G&A expenses remained consistent with the prior year, as decreases in capitalized G&A were partially offset by reductions in head office rent and office equipment costs which are now classified as repayment of lease liabilities following the Company's adoption of IFRS 16 (refer to "*Changes to Accounting Policies*").

Net finance expenses

($000's)	Three months ended December 31, 2019	2018	% change	Year ended December 31, 2019	2018	% change
Interest income	**(8)**	(42)	(81)	**(96)**	(177)	(46)
Term loan interest expense	**279**	228	22	**954**	923	3
Term loan revaluation gain	**(379)**	-	n/a	**(656)**	(219)	100
Production payment liability revaluation loss	**452**	289	56	**622**	341	82
Accretion on term loan	**153**	74	100	**384**	301	28
Accretion on decom. liabilities	**97**	67	45	**372**	262	42
Lease liability interest expense	**7**	-	n/a	**69**	-	n/a
Reversal of accrued income tax interest	**(1,265)**	-	n/a	**(1,286)**	-	n/a
Other	**(9)**	-	n/a	**(47)**	4	n/a
Net finance (income) expenses	**(673)**	616	n/a	**316**	1,435	(78)
Cash finance (income) expenses	**(987)**	186	n/a	**(342)**	750	n/a
Non-cash finance expenses	**314**	430	(27)	**658**	685	(4)
Net finance (income) expenses	**(673)**	616	n/a	**316**	1,435	(78)

Interest income included interest earned from funds on deposit and interest generated from a finance lease (refer to "*Liquidity and Capital Resources - Finance lease*").

Term loan interest expenses increased in the fourth quarter of 2019 and on annual basis from 2018 as the Company raised the principal balance of its term loan credit facility from C$15 million to C$20 million effective October 31, 2019 (see "*Liquidity and Capital Resources - Term loan*").

Term loan revaluation gains represented the impact of revaluations of the Company's term credit facility that was initially extended by one year in June 2018 and further extended by another year in March 2019. An additional term loan revaluation gain of $379,000 was recorded in the fourth quarter of 2019 based on the Company's C$5 million principal increase of the term loan. The term credit facility principal expansion also served to increase related term loan accretion in the fourth quarter of 2019, as the discounted term loan balance is unwound using the effective interest rate method to the principal value at maturity.

Production payment liability revaluation losses were a result of increased production payment liabilities estimated by the Company at each reporting period. Concurrent with the 2018 and 2019 extensions of the term credit facility, the related production payment liability due to the lender was also extended. Additionally, in connection with the October 31, 2019 increase in principal, the production payment liability increased from 1% to 1.33% of petroleum sales through October 2023. The estimated liability will continue to vary in each reporting period based on changes to internally forecasted production and forward commodity pricing.

Lease liability interest expenses were recognized in 2019 as a result of the adoption of IFRS 16 (refer to "*Liquidity and Capital Resources – Lease liabilities*" and "*Changes to Accounting Policies*").

In 2019, The Trinidad and Tobago government introduced a tax amnesty relating to certain taxes, including petroleum taxes and VAT, wherein historical interest was waived on outstanding balances paid during the June through September 2019 period. As a result, $1,286,000 in previously accrued interest was reversed based on principal payments made during the year ended December 31, 2019 (2018 - $nil) (see "*Income taxes*" for further details).

Foreign exchange and foreign currency translation

The Company's presentation currency is the United States dollar (refer to "*Changes to Accounting Policies*"). The parent company has a Canadian dollar functional currency while its Trinidadian subsidiaries have a Trinidad and Tobago dollar functional currency. In each reporting period, the change in values of the C$ and TT$ relative to the US$ reporting currency are recognized. The applicable rates used to translate the Company's TT$ and C$ denominated items are summarized in the table below.

	Three months ended December 31, **2019**	2018	% change	Year ended December 31, **2019**	2018	% change
Average foreign exchange rates[1]						
US$:C$	**1.32**	1.32	-	**1.33**	1.30	2
US$:TT$	**6.76**	6.75	-	**6.77**	6.74	-
	December 31, 2019	September 30, 2019		**December 31, 2019**	December 31, 2018	
Closing foreign exchange rates[1]						
US$:C$	**1.30**	1.32	(2)	**1.30**	1.36	(5)
US$:TT$	**6.75**	6.78	-	**6.75**	6.80	(1)

Note:
(1) Source: Oanda Corporation average daily exchange rates for the specified periods and daily exchange rates for the specified dates.

The income and expenses of the Company's Canadian head office and Trinidad operations are translated to US$ at the average monthly exchange rates relative to the date of the transactions. Fluctuations in the exchange rate between the TT$ and the US$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT$. This is currently mitigated by the fact that the TT$ is informally pegged to the US$. The Company is also subject to foreign exchange exposure relating to Canadian head office expenses and its term loan, which are denominated in C$. Any material movements in the C$ to US$ exchange rate may have a material effect on the Company's reporting results. The Company also has foreign exchange exposure on costs denominated in pounds sterling required to maintain its AIM listing.

During the fourth quarter of 2019, the C$ and the TT$ remained range bound to the US$, as the average rates remained consistent with the corresponding rates observed in the 2018 fourth quarter. On an annual basis, the Canadian dollar depreciated relative to the US$, with average rates approximately 2% less than average 2018 foreign exchange rates, while the TT$ remained range bound throughout 2019. As a result, the Company recorded foreign exchange losses of $15,000 and $147,000 during the three months and year ended December 31, 2019, respectively (2018 – gains of $130,000 and $320,000). The majority of the 2019 translation differences in each period were unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

The assets and liabilities of the Company's subsidiaries are translated to US$ dollars at the exchange rate on the reporting period date for presentation purposes, with all resulting foreign currency differences recorded in other comprehensive loss. As at December 31, 2019 compared to September 30, 2019, the US$ was 2% weaker relative to the C$ and marginally weaker relative to the TT$. As a result, a foreign currency translation gain of $3,000 was reported during the fourth quarter of 2019 (2018 – loss of $89,000). In comparison to December 31, 2018, the US$ was 5% weaker relative to the C$ and depreciated 1% relative to the TT$ as at December 31, 2019. Touchstone recognized a foreign currency translation loss of $171,000 during the year ended December 31, 2019 (2018 - gain of $306,000).

Share-based compensation plans

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 grant date as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant.

On April 5, 2019, the Company granted 2,550,000 share options to officers, directors and employees at an exercise price of C$0.23 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.

The Company also has an incentive share compensation plan which provides for the grant of incentive share options to purchase common shares of the Company at a C$0.05 exercise price. A maximum of one million common shares have 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 Company is phasing out its incentive share compensation plan, as no awards have been granted since June 2014 and no incentive share options were outstanding as at December 31, 2019.

At December 31, 2019, Touchstone had 8,740,600 share options outstanding, with a weighted average exercise price of C$0.26 per share. 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. At December 31, 2019, share options and incentive share options outstanding represented 5.4% of the Company's outstanding common shares (2018 - 6.6%).

During the three months and year ended December 31, 2019, the Company recorded share-based compensation expenses of $46,000 and $169,000 in relation to share option plans, respectively (2018 - $30,000 and $118,000).

Depletion and depreciation expense

($000's unless otherwise stated)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2019	2018		**2019**	2018	
Depletion expense	**1,114**	1,090	2	**4,557**	3,981	14
On a per barrel basis	**7.17**	6.40	12	**6.84**	6.35	8
Depreciation expense	**177**	40	100	**614**	135	100
Depletion and depreciation expense	**1,291**	1,130	14	**5,171**	4,116	26

The Company's producing petroleum assets 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 period over the related proven and probable reserves while also considering the estimated future development costs necessary to bring those reserves into production. As at December 31, 2019, $67,134,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (2018 - $68,644,000).

Assets in the exploration phase are not amortized. Depreciation expense is recorded based on corporate assets in Canada on a declining balance basis. The right-of-use ("ROU") assets recognized upon the Company's adoption of IFRS 16 are depreciated over their estimated useful lives on a straight-line basis (refer to "*Changes to Accounting Policies*").

For the three months and year ended December 31, 2019, per barrel depletion expenses increased by 12% and 8% in comparison to the comparative 2018 periods, respectively, reflecting expenses incurred in the 2018 drilling campaign that increased 2019 net property and equipment carrying values.

In comparison to the fourth quarter and annual 2018 periods, depreciation expenses increased in each 2019 respective period as a result of the adoption of IFRS 16 which increased the Company's property and equipment balance by $1,194,000 on January 1, 2019 (refer to "*Changes to Accounting Polices*").

Impairment of non-financial assets

Entities are required to conduct impairment test where there is an indication of impairment or reversal of a non-financial asset, and the test may be conducted for a cash-generating unit ("CGU") where an asset does not generate cash inflows that are largely independent of those from other assets. 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. Touchstone assesses exploration asset and property and equipment indicators of impairment and impairment reversals on each reporting date. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Exploration asset impairments

Exploration asset impairments for the three months and years ended December 31, 2019 and 2018 by CGU is disclosed in the following table.

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2019	2018		**2019**	2018	
Cory Moruga	**14**	59		**14**	88	
East Brighton	**131**	37		**352**	422	
Impairments	**145**	96	51	**366**	510	(28)

During the three months and year ended December 31, 2019, the Company incurred $89,000 and $310,000 in lease expenses relating to its East Brighton property, respectively (2018 - $37,000 and $422,000). The lease costs and an additional $42,000 based on decommissioning liability changes in estimates were impaired given the property's estimated recoverable value was $nil. During the year ended December 31, 2019, the Company incurred a further $14,000 impairment charge relating to its Cory Moruga exploration concession (2018 - $88,000). In both periods, the decommissioning liability associated with the property was increased based on changes in estimates, and the corresponding abandonment asset was impaired given the property's estimated recoverable value was $nil.

The Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of $13,579,000 as at December 31, 2019 (2018 - $3,644,000).

Property and equipment impairments

Property and equipment impairments (recoveries) for the three months and years ended December 31, 2019 and 2018 by CGU is disclosed in the following table.

($000's)	**Three months and year ended December 31,**		% change
	2019	2018	
Coora	**2,966**	271	
WD-4	**3,306**	(3,351)	
WD-8	**1,322**	(695)	
Property and equipment inventory	**-**	56	
Impairment (recoveries)	**7,594**	(3,719)	n/a

At December 31, 2019, the Company evaluated its property and equipment for indicators of any potential impairment or related impairment reversals. As a result of these assessments, indicators of impairment were identified on the Coora, WD-4 and WD-8 CGUs related to the forecasted effects of future income tax changes and uncertainty regarding future strip pricing. Impairment tests were conducted on the properties, resulting in a net impairment charge of $7,594,000 recognized on the consolidated statements of comprehensive income (loss).

Based on the results of the Company's December 31, 2018 evaluation of potential impairment or related reversals, indicators of impairment were identified on the Company's Coora CGU, and indicators of impairment reversals were identified on the Company's WD-4 and WD-8 properties. Impairment tests were conducted on the properties, resulting in an impairment charge of $271,000 related to the Coora CGU and impairment recoveries of $3,351,000 and $695,000 related to the WD-4 and WD-8 CGUs, respectively. In addition, the Company recorded $56,000 in impairment charges related to oilfield inventory that was not assigned to a specific CGU during the year ended December 31, 2018.

Subsequent to year-end, significant declines and abnormal volatility in financial markets and world crude oil prices have occurred as a result of the COVID-19 pandemic and concurrent oil market share war. The scale and duration of these developments remain uncertain but could impact the Company's operations, future net earnings, cash flow and financial condition.

The impairment tests for the Company's property and equipment assets are based on value in use calculations. As required by IFRS, the Company has not reflected these subsequent conditions in its indictors of impairment analysis or recoverable amount estimates of its petroleum assets as at December 31, 2019. Impairment indicators for the Company's property and equipment assets could exist at March 31, 2020, if current conditions persist. Management continues to work on revisions to the Company's forecasts and operating and capital investment plans in light of current conditions and will use these updated assumptions and forecasts for its impairment indicator analysis and for impairment testing in the first quarter of 2020, if such tests are required.

Further information regarding the impairment charges for the years ended December 31, 2019 and 2018 is included in Note 9 "*Impairments*" of the Company's December 31, 2019 consolidated financial statements.

Decommissioning liabilities and abandonment fund

The Company's decommissioning and reclamation liabilities relate to future site restoration and well abandonment costs including the costs of production equipment removal and land reclamation based on current environmental regulations.

Pursuant to production and exploration licences with the MEEI, the Company is obligated to remit $0.25 per barrel sold into an escrow account in the name of the MEEI. The payments are used as a contingency fund for remediation of pollution arising from petroleum operations carried out under the relevant licence and the eventual abandonment of wells and decommissioning of facilities used for operations conducted under the relevant licence. The MEEI shall return the funds in the escrow account once all obligations in respect of environmental remediation are fulfilled to the satisfaction of the MEEI. Contributions to the fund are reflected on the consolidated statements of financial position as non-current abandonment fund assets.

With respect to decommissioning liabilities associated with the Company's leases with Heritage, the Company is obligated for its proportional cost of all abandonments defined as its percentage of crude oil sold in a well in comparison to the well's cumulative historical production. The Company is not responsible for the decommissioning of existing infrastructure and sales facilities. The Company is obligated to remit $0.25 per barrel sold to Heritage into a joint well abandonment fund. These funds are used solely for well decommissioning. Any costs of wells that are abandoned during the relevant licence term are credited against any future contributions of the well abandonment fund. Upon expiration of the relevant agreement, Heritage shall calculate the Company's total abandonment liability. If Touchstone's liability exceeds the well abandonment fund, the Company is obligated to pay the difference. Conversely, if the proceeds of the fund exceed the liability, the surplus shall be returned to Touchstone. These amounts are also reflected on the consolidated statements of financial position as non-current abandonment fund assets. As of December 31, 2019, the Company classified $1,125,000 of accrued or paid contributions into MEEI and Heritage abandonment funds as abandonment fund assets (2018 - $966,000).

Pursuant to its Heritage operating agreements, the Company funds Heritage's $0.25 per barrel obligation with respect to Heritage's head licence commitments with the MEEI. As the Company cannot access the contributions for its future well abandonments and all contributions are non-refundable, the payments are included in operating expenses as incurred. Additionally, the Company is obligated to remit $0.03 per barrel to Heritage into a general abandonment fund. The non-refundable proceeds are used as a contingency fund for the decommissioning and removal of infrastructure and facilities within a property and are expensed to operating costs as incurred.

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be $11,547,000 as at December 31, 2019 based on a total inflation adjusted future liability of $27,153,000 (2018 - $8,915,000 and $31,606,000, respectively). The estimate included assumptions in respect of actual costs to abandon wells or reclaim a property, the time frame in which such costs will be incurred, and annual inflation factors. December 31, 2019 decommissioning liabilities were valued using a long-term risk-free rate of 5.5% and a long-term inflation rate of 3.3% (2018 - 7.9% and 3.7%, respectively). $97,000 and $372,000 of accretion charges were recognized during the three months and year ended December 31, 2019 to reflect the increase in decommissioning liabilities associated with the passage of time, respectively (2018 - $67,000 and $262,000). Decommissioning obligation details as at December 31, 2019 are noted in the table below.

Number of net well locations	**Undiscounted balance** *($000's)*	**Inflation adjusted balance** *($000's)*	**Discounted balance** *($000's)*
833	**15,776**	**27,153**	**11,547**

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 and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the consolidated 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 years ended December 31, 2019 and 2018 is included in Note 15 "*Decommissioning Liabilities and Abandonment Fund*" of the Company's December 31, 2019 consolidated financial statements.

__Income taxes__

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

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

SPT is computed and remitted on a quarterly basis and is applicable to produced petroleum liquids. 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 $50.00 per barrel and 18% when weighted average realized oil prices fall between $50.00 and $90.00. The revenue base for the calculation of SPT is gross revenue less royalties paid, less 20% investment tax credits on mature oilfields for allowable tangible and intangible capital expenditures incurred in the applicable fiscal quarter. Effective January 1, 2020, the investment tax credit relating to mature oilfields was increased to 25%. The Company's Ortoire property is not considered a mature oilfield and thus no investment tax credits are applicable for exploration spending.

Annual PPT and UL taxes are calculated based on net taxable profits. Net taxable profits are determined by calculating gross revenue less: royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses. PPT losses may be carried forward indefinitely to reduce PPT in future years. Effective January 1, 2020, PPT losses can only be used to shelter a maximum of 75% of PPT per annum. UL losses cannot be carried forward to reduce future year UL. Developmental and exploratory capital expenditure allowances (tangible and intangible) were formerly amortized 50% in year one, 30% in year two and 20% in year three. Effective January 1, 2020, all development and exploration capital expenditure allowances are amortized on a five-year straight-line basis.

The Company has a Trinidad oilfield service subsidiary that is subject to the greater of a 30% corporation income tax calculated on net taxable profits or a 0.6% business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above. All corporate income tax losses can be carried forward indefinitely. Allowances vary from 10% to 33.3% for various capital expenditures incurred in the year.

The following table sets forth current income tax expense for the three months and years ended December 31, 2019 and 2018.

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2019	2018		**2019**	2018	
SPT	**1,120**	474		**4,914**	1,714	
PPT/UL	**(38)**	(78)		**279**	3	
Business levy	**4**	3		**25**	17	
Green fund levy	**28**	26		**150**	121	
Current income tax expense	**1,114**	425	100	**5,368**	1,855	100

For the three months and year ended December 31, 2019, current income taxes expenses were $1,114,000 and $5,368,000, respectively (2018 - $425,000 and $1,855,000). The annual increases in both reporting periods were predominately from increased SPT recorded in 2019 due to significantly reduced developmental capital activity, which qualified for less SPT input tax credits.

The Company's December 31, 2019 income tax payable balance was composed entirely of 2019 income tax accruals. In 2019, Touchstone paid $2,933,000 in historical income tax balances, which allowed the reversal of previously accrued income tax interest expense based on the aforementioned Trinidad tax amnesty. The following table is a continuity of the current income tax payable for the year ended December 31, 2019 and 2018.

($000's)	Year ended December 31,	
	2019	2018
Balance, beginning of period	**2,730**	2,441
Current income tax expense	**5,174**	1,850
Revisions to estimates	**194**	5
Income tax interest expense	**655**	-
Income tax payments	**(7,336)**	(1,552)
Reversal of income tax interest	**(102)**	-
Effect of change in foreign exchange rates	**14**	(14)
Balance, end of period	**1,329**	2,730
Summary by income tax		
UL	**209**	(98)
SPT	**1,120**	463
Interest	**-**	2,365
Total income tax payable	**1,329**	2,730

Touchstone's $13,289,000 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, 2019 (2018 - $14,994,000). The deferred tax balance was in a liability position mainly from the discrepancy between the carrying values and the tax values of the Company's petroleum assets. The Company recorded deferred tax recoveries of $3,945,000 and $1,813,000 during the three months and year ended December 31, 2019, respectively (2018 – expenses of $3,228,000 and $6,897,000). The 2019 deferred tax recoveries were primarily reflective of the property and equipment impairment charges recorded in the fourth quarter of 2019.

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of tax matters under review, and the Company believes that the provision for income taxes is adequate. Further information regarding the Company's income taxes is included in Note 16 "*Income Taxes*" of the Company's December 31, 2019 consolidated financial statements.

Capital Expenditures and Dispositions

Exploration asset expenditures

Exploration asset expenditures include asset additions in areas that have been determined to be in the exploration phase. Touchstone's core exploration property is the Ortoire exploration block. The Company's exploration asset expenditures during the respective periods are summarized in the following table.

($000's)	Three months ended December 31,		% change	Year ended December 31,		% change
	2019	2018		**2019**	2018	
Lease payments	**203**	1,264		**805**	1,796	
Geological	**32**	281		**180**	662	
Drilling, completions and well testing	**5,552**	-		**8,901**	-	
Capitalized G&A / other	**51**	58		**227**	99	
Total expenditures	**5,838**	1,603	100	**10,113**	2,557	100

The Company drilled two gross exploration wells on the Ortoire exploration property during 2019, investing $5,552,000 and $8,901,000 in exploration expenditures during the three months and year ended December 31, 2019 (2018 - $nil and $nil). The Company's capital costs for the Coho-1 exploration well was approximately $3.5 million, which included drilling, completion and testing. The Company incurred approximately $5.1 million to drill the Cascadura-1ST1 well during the year ended December 31, 2019. 2019 capital investment was also focused on the initial building of the Chinook-1 well site.

Property and equipment (development) expenditures

($000's)	**Three months ended December 31,** 2019	2018	% change	**Year ended December 31,** 2019	2018	% change
Drilling and completions	**(58)**	4,429		**696**	13,527	
Capitalized G&A	**215**	337		**692**	994	
Corporate assets / other	**-**	7		**-**	85	
Total expenditures	**157**	4,773	(97)	**1,388**	14,606	(90)

Touchstone conducted minimal field development activity in both the fourth quarter and annual 2019 periods, with only well recompletions performed. During the three months and year ended December 31, 2018, the Company drilled three and 11 net developmental wells, respectively.

Property disposition

In December 2018, the Company completed the disposition of its Icacos crude oil property and related assets. Touchstone sold its 50% operating working interest in the property to the third-party partner for minimum consideration of $500,000. $38,000 of the consideration was collected during the year ended December 31, 2019 (2018 - $96,000). The remaining consideration will be paid based on the Company's working interest net petroleum sales it would have received had it retained such interest through December 2020. Should these cumulative payments not exceed the minimum consideration, the Company will receive the difference prior to the end of February 2021. The Company shall retain all cumulative payments should such payments exceed the $500,000 minimum consideration through December 31, 2020.

The disposition was considered non-core as it represented 0.6% of total production during the 2018 year and 0.3% of proved plus probable reserves at December 31, 2017 and therefore was not significant to the Company's 2018 financial results and operational performance.

Liquidity and Capital Resources

Touchstone's capital management objective is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only funds flow from operations. Profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. Touchstone uses share equity and term debt as primary sources of capital.

As at December 31, 2019, Touchstone had a cash balance of $6,182,000, a working capital deficit of $1,139,000 and a C$20 million principal term loan balance. The Company's net debt was $16,503,000 as at December 31, 2019, representing net debt to annual funds flow from operations of 2.4 times.

On October 31, 2019, the Company and its lender executed an amendment to the credit facility, increasing the principal amount of the credit facility from C$15 million to C$20 million. The expanded facility was primarily used to fund the Company's Cascadura-1ST1 exploration well drilling. The amended credit facility does not require the commencement of principal payments until January 1, 2021, and Touchstone continued to be within the financial covenants as at December 31, 2019.

On the basis of the successful results from the first two Ortoire exploration wells, the Company undertook a private placement in February 2020 in order to support the drilling of a further Ortoire exploration well at the Chinook prospect. The private placement raised net proceeds of approximately $10.8 million by way of a placing of 22,500,000 common shares at a price of 40 pence (approximately C$0.69). The net proceeds of the equity issuance are also expected to be used to complete the second stage of the Cascadura-1ST1 production test and to provide additional working capital while the Company progresses on the Ortoire exploration program (see "*Financial and Operating Results Summary – Subsequent events and outlook*").

The Company's near-term development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities on the Ortoire property. Touchstone will continue to take a measured approach to future developmental drilling in an effort to manage financial liquidity while focusing on the Ortoire exploration opportunity. Management's long-term strategy is to maintain net debt to annual funds flow from operations at or below a ratio of 2.0 times. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Touchstone also monitors its capital management through the net debt to net debt plus equity ratio. Management'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. The Company's internal capital management calculations for the year ended December 31, 2019 and December 31, 2018 are summarized in the table below.

($000's)	**Target measure**	**December 31, 2019**	December 31, 2018
Current assets		**(14,118)**	(15,854)
Current liabilities		**15,257**	19,172
Working capital deficit[(1)]		**1,139**	3,318
Principal non-current portion of term loan		**15,364**	11,004
Net debt[(2)]		**16,503**	14,322
Shareholders' equity		**30,115**	31,217
Net debt plus equity		**46,618**	45,539
Annual funds flow from operations[(3)]		**6,840**	8,548
Net debt to funds flow from operations	**at or < 2.0 times**	**2.41**	1.68
Net debt to net debt plus equity	**< 0.4 times**	**0.35**	0.31

Notes:

(1) Working capital deficit is a Non-GAAP measure and is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position.

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

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

Term loan

On November 23, 2016, the Company completed an arrangement for a C$15 million, five-year term credit facility from a Canadian based investment fund (the "Credit Agreement"). The Credit Agreement bears a fixed interest rate of 8% per annum, compounded and payable quarterly. In connection with the Credit Agreement, the Company and the lender entered into a production payment agreement (the "Production Payment Agreement"), which granted the lender a production payment equal to 1% of petroleum sales from Company land holdings in Trinidad, payable quarterly through October 31, 2021 regardless of any repayment or prepayment of the term credit facility. The Credit Agreement and the Company's production payment obligations under the Production Payment Agreement are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The Credit Agreement and Production Payment Agreement have been subsequently amended as follows:

- June 15, 2018: The Second Amending Agreement to the Credit Agreement extended the term credit facility maturity date by one year to November 22, 2022 and deferred all principal payments by one year. The First Amendment to the Production Payment Agreement extended the maturity date by one year as well.
- March 29, 2019: The Third Amending Agreement to the Credit Agreement further extended the term credit facility maturity date to November 20, 2023 and deferred all principal payments by one year. The Second Amendment to the Production Payment Agreement extended the maturity date by one year to October 31, 2023.
- October 31, 2019: The Fourth Amending Agreement to the Credit Agreement (the "Amended Credit Agreement"), increased the principal amount of the term credit facility from C$15 million to C$20 million. The Third Amending Agreement to the Production Payment Agreement increased future production payment obligations from 1% of petroleum sales to 1.33% of petroleum sales attributable to the Company's participating interest in all current Trinidad properties.

The Company is required to repay C$1,100,000 per quarter of the principal outstanding under the term credit facility provided under the Amended Credit Agreement, commencing on January 1, 2021 through October 1, 2023, and the then outstanding principal balance is repayable on the November 23, 2023 maturity date. Touchstone continues to have the ability to prepay the credit facility principal amount and has the option to negotiate a buyout of future production payment obligations with the lender if the outstanding principal amount of the credit facility is prepaid in full.

The debt instrument is comprised of two financial liability components: the term loan liability and the production payment liability.

At inception the term loan liability was measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan was revalued based on the Third and Fourth Amending Agreements, resulting in gains of $379,000 and $656,000 recognized during the three months and year ended December 31, 2019, respectively (2018 - $nil and $219,000). The discount on the term loan liability is unwound using the effective interest rate method to the face value at maturity, resulting in $153,000 and $384,000 recognized to accretion during the three months and year ended December 31, 2019, respectively (2018 - $74,000 and $301,000). The term loan liability balance was $13,966,000 as at December 31, 2019 (2018 - $10,130,000).

The production payment liability is revalued at each reporting period based on internal estimated future production and forward crude oil pricing forecasts using a discount rate of 15%. As a result of these changes in estimates and the Third and Fourth Amending Agreements, revaluation losses of $452,000 and $622,000 were recognized during the three months and year ended December 31, 2019, respectively (2018 – $289,000 and $341,000). The production payment liability balance was estimated at $989,000 as at December 31, 2019, with $220,000 classified as a current liability on the consolidated statement of financial position (2018 - $733,000 and $180,000, respectively).

The Amended Credit Agreement contains industry standard representations and warranties, positive and negative covenants and events of default. The Fourth Amending Agreement revised the definition of Funded Debt, which is part of the definition of Net Funded Debt. Net Funded Debt forms part of the Net Funded Debt to Equity Ratio and the Net Funded Debt to EBITDA Ratio financial covenants in the Amended Credit Agreement. The definition of Funded Debt excludes lease obligations that were treated as operating leases under IFRS in effect as at December 31, 2018.

The financial covenants and the Company's estimated position as at December 31, 2019 are set forth below.

Covenant	Covenant threshold	Year ended December 31, 2019
Net funded debt to equity ratio(1)	< 0.50 times	**0.20 times**
Net funded debt to EBITDA ratio(2)	< 2.50 times	**0.77 times**

Notes:

(1) Net funded debt is defined in the Amended Credit Agreement as interest-bearing debt less cash. Equity is defined as the book value of shareholders' equity less accumulated other comprehensive loss, less the effects of impairment expenses or recoveries.

(2) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined in the Amended Credit Agreement as net earnings before interest, income taxes and all non-cash items.

Pursuant to the Amended Credit Agreement, a failure of any covenant constitutes an event of default. Upon an event of default, the lender can declare the principal credit facility balance and any accrued interest immediately due and payable. The Company routinely reviews Credit Agreement 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

As at December 31, 2019, the Company provided $271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments via bonds that expire on December 31, 2020 (2018 – $271,000).

Finance lease

The Company entered into a five-year, $1,836,000 contractual agreement to lease its coil tubing unit, four service rigs and ancillary equipment to a third party on October 1, 2017. Effective September 30, 2019, the parties amended the lease arrangement to exclude a service rig, reducing the principal balance by $900,000. The amended lease continues to bear a fixed interest rate of 8% per annum, compounded and payable monthly. Principal is collected on a monthly basis, and the Company continues to hold title to the assets until all principal and associated interest payments have been collected.

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. The adoption of IFRS 16 did not affect the finance lease arrangement at January 1, 2019 (refer to "*Changes to Accounting Polices*"). At December 31, 2019, the Company's finance lease receivable was $376,000, of which $239,000 was classified as non-current other assets on the consolidated statement of financial position (2018 - $1,447,000 and $1,047,000, respectively).

Lease liabilities

Lease liabilities were recognized by the Company as a result of the adoption of IFRS 16 (refer to "*Changes to Accounting Policies*"). The Company has lease liabilities for head office space, motor vehicles and office equipment, with contracts effective from one to three years as of December 31, 2019. Leases are negotiated on an individual basis and contain varying terms and conditions. Discount rates used in calculating the present values of lease payments during the year ended December 31, 2019 were between 5 and 10%.

The following table details the movements of the Company's lease liabilities for the year ended December 31, 2019.

($000's)	
Balance, January 1, 2019	**1,352**
Interest expense	69
Payments	(432)
Derecognition of liabilities	(670)
Effect of change in foreign exchange rates	16
Balance, December 31, 2019	**335**
Current (included in accounts payable and accrued liabilities)	230
Non-current	105
Lease liabilities	**335**

Effective August 1, 2019, an arrangement relating to oilfield service equipment was amended and consequently was no longer considered a lease under IFRS 16. Accordingly, the Company's lease liability of $670,000 and the associated ROU asset of $655,000 were derecognized, resulting in a $15,000 non-cash gain recorded in net finance expenses.

Shareholder's equity

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The table below summarizes the outstanding common shares, share options and incentive share options as at the date of this MD&A, December 31, 2019 and December 31, 2018.

	March 25, 2020	**December 31, 2019**	**December 31, 2018**
Common shares outstanding	183,203,095	160,703,095	129,021,428
Share options outstanding	8,593,100	8,740,600	8,534,640
Incentive share options outstanding	-	-	15,000
Fully diluted common shares	**191,796,195**	**169,443,695**	**137,571,068**

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. Stewardship of the Company's capital structure and potential liquidity risk 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, G&A expenses, income tax 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.

To manage its capital structure, the Company may reduce its fixed cost structure, adjust capital and exploration spending, issue new equity or seek additional sources of debt financing. Given that the Company currently has minimal development work obligations and guarantees, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability (see "*Financial and Operating Results Summary – Subsequent events and outlook*").

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at December 31, 2019.

($000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	**1 to 3 years**	**4 to 5 years**
Accounts payable and accrued liabilities	13,708	13,708	-	-
Income taxes payable	1,329	1,329	-	-
Term loan principal	15,364	-	6,760	8,604
Estimated term loan production payments	1,946	439	981	526
Term loan interest payments	3,553	1,229	1,849	475
Lease liabilities	351	245	105	1
Total financial liabilities	**36,251**	**16,950**	**9,695**	**9,606**

Market 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 to be used by Management. The risk exposure inherent in the movements of the price of crude oil and fluctuations in foreign 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, comprehensive income (loss) 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. 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. Touchstone maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. Touchstone's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases.

In April 2019, the Company purchased crude oil put option contracts for 800 barrels per day at a strike price of Brent $56.10 per barrel from June 1, 2019 to December 31, 2019. The put options were purchased from a financial institution for an upfront cash premium of $171,000. The Company initially recognized the premium for the put options as a derivative financial asset, with the derivatives subsequently recorded at their estimated fair value based on the difference between the contracted price and the period-end forward price using quoted market prices. The monthly options expired without being exercised, resulting in derivative losses of $118,000 and $171,000 recognized during the three months and year ended December 31, 2019 (2018 - $nil and $153,000). The Company had no commodity financial contracts in place as of January 1, 2020.

The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development and exploration capital programs.

Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the TT$ and the US$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT$. This is currently mitigated by the fact that the TT$ is informally pegged to the US$. In addition, the Company has Canadian dollar denominated debt, related interest and production payment obligations of which future cash repayments are directly impacted by the exchange rate in effect on each payment date. The Company also has foreign exchange exposure on head office costs denominated in Canadian dollars and costs denominated in pounds sterling required to maintain its AIM listing. Any material movements in the C$ to US$ exchange rate may have a material effect on the Company's reporting results (see "*Foreign exchange and foreign currency translation*").

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid 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 has no contracts in place to manage foreign currency risk as at the date hereof or during the years ended December 31, 2019 and 2018.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. As at December 31, 2019, the Company was exposed to credit risk with respect to its accounts receivable and other assets, which include finance lease receivable and deferred consideration from a property disposition.

The credit risk associated with Touchstone's finance lease receivable is considered to be low as the asset is secured by the underlying fixed assets, with ownership transferring to the counterparty subsequent to the final lease payment (refer to "*Liquidity and Capital Resources - Finance lease*"). The credit risk associated with the Company's deferred consideration is also considered low as the Company is selling the counterparty's crude oil produced from the disposed assets through its facilities and currently has the right to net the quarterly payment from the gross proceeds received.

The Company's credit exposure on accounts receivable typically pertains to accrued sales revenue for monthly production volumes sold to Heritage and value added taxes due from the Trinidad government. As at December 31, 2019, $2,074,000 of petroleum sales was included in accounts receivable, representing approximately 28% of the consolidated accounts receivable balance (2018 - $5,165,000 and 43%, respectively). $4,283,000 in value added tax was included in accounts receivable as at December 31, 2019, which represented approximately 58% of the accounts receivable balance (2018 - $6,006,000 and 51%, respectively).

As at December 31, 2019, Touchstone believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from Trinidad government agencies for value added taxes, and the Company has historically not experienced any material collection issues. The aging of accounts receivable as at December 31, 2019 and December 31, 2018 is disclosed in the following table.

($000's)	**December 31, 2019**	December 31, 2018
Not past due	**3,581**	6,731
Past due (greater than 90 days)	**3,767**	5,162
Accounts receivable	**7,348**	11,893

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 Heritage, exploration commitments under exploration and production agreements with the MEEI and various lease commitments for office space and equipment.

The following table outlines the Company's estimated minimum contractual capital requirements as at December 31, 2019.

($000's)		Estimated payments due by period			
	Total	**2020**	**2021**	**2022**	**Thereafter**
Operating agreement commitments					
Coora blocks	**104**	15	16	16	57
WD-4 block	**236**	35	37	39	125
WD-8 block	**224**	32	34	36	122
New Dome block	**15**	2	2	2	9
South Palo Seco block	**1,464**	90	801	101	472
Fyzabad block	**985**	73	74	76	762
Exploration agreement commitments					
Ortoire block	**4,951**	4,951	-	-	-
East Brighton block	**2,319**	2,319	-	-	-
Office leases	**578**	300	278	-	-
Equipment leases	**189**	183	6	-	-
Minimum payments	**11,065**	**8,000**	**1,248**	**270**	**1,547**

Under the terms of its operating agreements, the Company must fulfill the minimum work obligations on an annual basis over the specific licence term. In aggregate, the Company is obligated to drill 12 wells and perform 18 well recompletions prior to the end of 2021. As of the date of this MD&A, 10 wells were drilled, and 15 well recompletions were completed with respect to these obligations (see "*Operating Agreements*"). The Company has provided $271,000 in cash collateralized guarantees in favour of Heritage to support its operating agreement work commitments (refer to "*Liquidity and Capital Resources - Restricted cash*").

The following table sets forth the Company's December 31, 2019 estimated costs and timing of its minimum future Ortoire exploration commitments, which included acquiring and processing 85-line kilometres of 2D seismic and the drilling of two vertical wells.

($000's)		Estimated payments due by period			
	Total	**2020**	**2021**	**2022**	**Thereafter**
Lease payments	**451**	451	-	-	-
2D seismic	**2,000**	2,000	-	-	-
Drilling commitments	**2,500**	2,500	-	-	-
Minimum payments	**4,951**	**4,951**	**-**	**-**	**-**

Touchstone's December 31, 2019 estimated costs and timing of its minimum future East Brighton exploration commitments, which included the drilling of one well to a total depth of 5,000 true vertical feet, are disclosed in the following table.

($000's)		Estimated payments due by period			
	Total	**2020**	**2021**	**2022**	**Thereafter**
Lease payments	**319**	319	-	-	-
Drilling commitments	**2,000**	2,000	-	-	-
Minimum payments	**2,319**	**2,319**	**-**	**-**	**-**

As at December 31, 2019, the Company provided a general security agreement to Export Development Canada in connection with a performance security guarantee that support a $500,000 bid bond issued to the MEEI in relation to a Trinidad solar project proposal. Subsequent to December 31, 2019, the Company was notified it was not a successful bidder, and the bid bond will expire once the MEEI has formally notified the issuing bank or the August 1, 2020 expiry date.

Off-balance Sheet Arrangements

The Company did not enter into any off-balance sheet arrangements during the years ended December 31, 2019 and 2018.

Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2019, $94,000 in legal fees charged by Norton Rose Fulbright Canada LLP were incurred, of which $13,000 were included in accounts payable and accrued liabilities as at December 31, 2019 (2018 - $38,000 and $8,000, respectively).

The Company has determined that the key management personnel of the Company consists of its officers and directors. The Company provides salaries and directors' fees, annual bonuses and other benefits to its key management personnel. In addition, the Company provides share-based compensation to its key management personnel under its share option plan. For the year ended December 31, 2019, Touchstone recognized $1,536,000 in total key management personnel compensation (2018 - $1,376,000). The compensation paid to the directors of the Company during the year ended December 31, 2019 is set forth in the following table.

($000's)	**Fees earned**	**Share-based compensation**	**All other compensation**	**Total compensation**
Paul R. Baay(1)	-	-	-	-
Kenneth R. McKinnon	34	11	8	53
Peter Nicol	32	11	8	51
Stanley T. Smith	34	11	8	53
Thomas E. Valentine	30	10	8	48
Dr. Harrie Vredenburg	30	10	8	48
John D. Wright	45	11	8	64
Director compensation	**205**	**64**	**48**	**317**

Note:
(1) Mr. Baay does not receive compensation for his service as a director during the period as he is an executive officer of the Company.

Changes to Accounting Policies

Presentation currency

The Company changed its presentation currency from Canadian dollars to United States dollars effective January 1, 2019, with retrospective application on comparative figures in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 21 *Foreign Currency*. The change in accounting policy was made to better reflect the Company's international business activities and to improve comparability of the Company's financial results with other internationally focused junior oil and gas exploration and production companies. Touchstone's functional currencies of the parent company and its subsidiaries remained unchanged.

For comparative purposes, historical consolidated financial statements and financial amounts included in this MD&A have been restated to reflect financial results had they been presented in US$ since the Company's inception. The change in presentation currency did not have an economic impact on the Company's underlying operations and transactions. However, elements of earnings or loss and any ratios incorporating elements of earnings and loss have changed as a result of different currency rates being applied thereto.

Further information regarding the Company's change in presentation currency is included in Note 4 "*Changes to Accounting Policies*" of the Company's December 31, 2019 consolidated financial statements.

Adoption of IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16 which requires the recognition of a ROU asset and associated lease liability for most leasing arrangements where the Company is acting as the lessee. Prior to the adoption of this standard, identified leases where the Company was the lessee were categorized as either operating or finance leases, and operating leases were not subject to recognition on the consolidated statements of financial position. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from previous guidance. The Company is the lessee in the majority of its lease arrangements; however, the Company does have one material lease arrangement where it acts as the lessor.

The Company elected to apply IFRS 16 using the modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to opening accumulated deficit at January 1, 2019 and applies the standard prospectively. Accordingly, comparative information before adoption has not been restated and continues to be reported under the previous guidance.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets (included in property and equipment) were measured at the amount equal to the lease liability on January 1, 2019 less any amount previously recognized for office lease inducements, with no impact on opening accumulated deficit.

The Company identified ROU lease assets and liabilities related to head office space, oilfield service equipment, motor vehicles and office equipment. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from recognition requirements.

The impact on the consolidated statement of financial position as at January 1, 2019 is detailed in the table below.

($000's)	**January 1, 2019**
ROU assets (included in property and equipment)	1,194
Increase in total assets	**1,194**
Current portion of lease liabilities (included in accounts payable and accrued liabilities)	482
Provisions and accounts payable and accrued liabilities	(158)
Non-current portion of lease liabilities	870
Increase in total liabilities and shareholders' equity	**1,194**

Refer to "*Liquidity and Capital Resources – Lease liabilities*" for further information regarding 2019 lease liabilities. For the year ended December 31, 2019, the Company reclassified approximately $348,000 in operating expenses and approximately $83,000 in G&A expenses to lease interest expenses and payments of finance leases as a result of the adoption of IFRS 16.

The adoption of IFRS 16 did not affect its finance lease where the Company is the lessor.

Certain of the Company's performance measures including funds flow from operations and operating netbacks are impacted by the adoption of IFRS 16. Where lease payments for certain arrangements were previously included in operating expense and G&A, these payments are now reflected as payments of interest and lease obligations, which increase total funds flow from operations and operating netbacks. As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable. Further information regarding the Company's adoption of IFRS 16 is included in Note 4 "*Changes to Accounting Policies*" to the Company's December 31, 2019 consolidated financial statements.

Significant Accounting Estimates, Judgements and Assumptions

The preparation of financial statements in conformity with IFRS requires Management to make estimates, judgments, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates, and those differences may be material. The estimates, judgements 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 included in Note 5 "*Use of Estimates, Judgements and Assumptions*" of the December 31, 2019 consolidated financial statements.

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, 2019. 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, 2019. There were no changes during the three months and year ended December 31, 2019 that had materially affected, or were reasonably likely to materially affect, ICFR.

ICFR is a process designed to provide reasonable assurance that all assets are safeguarded, and transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. 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.

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's 2019 Annual Information Form dated March 25, 2020, which can be found on the Company's SEDAR profile (www.sedar.com).

The Company is exposed to a variety of risks including, but not limited to, political, operational, financial, and environmental risks. As discussed in the "*Market Risk Management*" section of this MD&A, the Company is exposed to normal financial risks inherent in the international oil and gas industry including commodity price risk, exchange rate risk, and credit risk. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in foreign exchange and 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 following are key risks, uncertainties and opportunities associated with the Company's business that can impact financial results.

Foreign location of assets and foreign economic and political risk

Touchstone is subject to risks associated with international operations in Trinidad. The Company's operations may be adversely affected by changes in foreign government policies and legislation or social instability and other factors which are not within the control of Touchstone, including, but not limited to: nationalization, expropriation of property without fair compensation or marketable compensation; renegotiation or nullification of existing concessions and contracts; the imposition of specific drilling obligations and the development and abandonment of fields; changes in energy and environmental policies or the personnel administering them; changes in oil and natural gas pricing policies; the actions of national labour unions; currency fluctuations and devaluations; currency exchange controls; economic sanctions; and royalty and tax increases. The Company's operations may also be adversely affected by laws and policies of Trinidad affecting foreign trade, taxation and investment. If the Company's operations are disrupted and/or the economic integrity of its projects are threatened for unexpected reasons, its business may be harmed. Prolonged problems may threaten the commercial viability of its operations. Although Management considers political conditions in Trinidad as generally stable, changes may occur in its political, fiscal and legal systems, which might affect the ownership or operation of the Company's interests.

Volatility of commodity prices and foreign exchange rates

The Company's operational results and financial condition, and therefore its amount of capital investment, are dependent on the prices received for crude oil and natural gas production. Decreasing crude oil and natural gas prices will decrease the Company's cash flows, adversely impacting the Company's level of capital investment and may result in the shut-in of certain producing properties. Any movement in crude oil and natural gas prices will have an effect on the Company's ability to continue its exploration and development capital programs. Crude oil and natural gas prices are affected by global economic and political events that dictate the levels of supply and demand. Political factors include foreign tax regimes and protectionist measures that could have the effect of closing off key markets. Supply and demand factors, including weather and general economic conditions as well as conditions in other crude oil and natural gas regions, impact prices. Touchstone may manage the risk associated with changes in commodity prices by entering into crude oil or natural gas price derivative contracts. If the Company engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivative contracts activities could expose the Company to losses. To the extent that Touchstone engages in risk management activities related to commodity prices, it will also be subject to credit risks associated with counterparties with which it contracts. Refer to "*Market Risk Management - Commodity price risk*" in this MD&A for further details.

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, its term loan and production obligation and future expenses and revenues are denominated in US$, TT$, C$ and UK pounds sterling (see "*Market Risk Management – Foreign currency risk*").

Adverse Economic Conditions

The demand for energy, including crude oil and natural gas, is generally linked to broad-based economic activities. If there was a slowdown in economic growth, an economic downturn or recession or other adverse economic or political development in the United States, Europe, or Asia, there could be a significant adverse effect on global financial markets and commodity prices. In addition, continued hostilities in the Middle East and the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the global economy. Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as the recent COVID-19 outbreak, may adversely affect the Company by (i) reducing global economic activity thereby resulting in lower demand for crude oil and natural gas, (ii) impairing its supply chain, for example, by limiting the manufacturing of materials or the supply of services used in Touchstone's operations, and (iii) affecting the health of its workforce, rendering employees unable to work or travel. These and other factors that affect the demand for crude oil and natural gas and the Company's business and industry could ultimately have an adverse impact on Touchstone's results of operations and cash flows.

Refinancing and debt service

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of crude oil and natural gas reserves in the future. 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 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.

Touchstone currently has a C$20,000,000 term credit facility that is secured against the current and future assets of the Company. 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 credit facility. If Touchstone becomes unable to pay its debt service charges or otherwise commits an event of default, the lender may foreclose on such assets of Touchstone or sell the working interests.

Access to capital markets

Touchstone's capital expenditures are financed from funds from operations, borrowings, proceeds from property divestments and possible future equity issuances. The Company's ability to issue equity is dependent upon, among other factors, the overall state of capital markets and investor appetite for investments in the international energy industry and Company securities. Further, if revenues or reserves decline, the Company may not have access to the capital necessary to undertake or complete future drilling programs.

To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Company's ability to make capital investments and maintain or expand existing assets and reserves may be impaired, and Touchstone's assets, liabilities, business, financial condition, and results of operations may be materially or adversely affected as a result.

Environmental regulations

The Company is subject to environmental laws and regulations that affect aspects of the Company's past, present and future operations. Extensive environmental laws and regulations in Trinidad will and do affect nearly all of the operations of the Company. These laws and regulations set various standards regulating certain aspects of health and environmental quality, including air emissions, water quality, wastewater discharges and the generation, transport and disposal of waste and hazardous substances; provide for penalties and other liabilities for the violation of such standards; and establish, in certain circumstances, obligations to remediate current and former facilities and locations where operations are or have been conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. The Company adopts prudent and industry-recommended field operating procedures for all operations, as well as maintaining a robust health, safety and environment program.

Significant liability could be imposed on the Company for costs resulting from potential unknown and unforeseeable environmental impacts arising from the Company's operations, including damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by Touchstone or non-compliance with environmental laws or regulations. While these costs have not been material to the Company in the past, there is no guarantee that this will continue to be the case in the future.

Operational matters

The operation of oil and gas wells and sales facilities involves a number of operational and natural hazards. 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 maintains a corporate insurance program in amounts consistent with industry practices to protect against insurable losses. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce cash flows and may reduce future capital investments. Furthermore, the Company may be subject to specific project risks that may be required to process and market its natural gas reserves.

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.

Sole purchaser and the ability to market

The Company is exposed to sole purchaser risk in Trinidad as Heritage is the sole purchaser of crude oil. Touchstone's ability to market its crude oil depends upon numerous factors beyond its control, including: the availability of pipeline capacity; the supply of and demand for crude oil; the availability of alternative fuel sources; Heritage's future financial viability and ability to remain a going concern; and the effects of weather conditions. Deliverability uncertainties relate to third-party processing and storage facilities, operational problems affecting pipelines and facilities as well as government regulation relating to oil prices, taxes, royalties, land tenure, allowable production, and the export of crude oil. Because of these factors, Touchstone could be unable to market or to obtain competitive prices for the crude oil it produces.

The amount of oil and natural gas that Touchstone can produce and sell is subject to the accessibility, availability, proximity and capacity of these third-party processing facilities and pipeline systems. From time-to-time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on the Company's ability to market its oil and natural gas production. The ongoing lack of availability of capacity in any of the third-party processing facilities and pipeline systems could result in Touchstone's inability to realize the full economic potential of its production, or in a reduction of the price offered for its production.

Reserves estimates

The reserves and recovery information contained in Touchstone’s annual independent reserves evaluation is only an estimate. 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. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator. 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 is beyond the current term of the relevant operating agreements. There is no certainty as to the renewal of any of the Company’s existing operating arrangements.

Depletion of reserves

The Company’s future crude oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on its success in exploiting its reserves base and acquiring additional reserves. Without reserves additions through acquisition or development activities, Touchstone’s reserves and production will decline over time as the oil and natural gas reserves are produced. There can be no assurance that the Company will make sufficient capital expenditures to maintain production at current levels. There can be no certainty that Touchstone will be successful in developing or acquiring additional reserves on terms that meet the Company’s investment objectives.

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 state-owned Heritage is the sole purchaser of crude oil. In addition, the Company historically has aged accounts receivables owing for Trinidad based value added taxes. Although ultimate collection is erratic and therefore the timing thereof cannot be estimated with any certainty, the Company believes that all of the balances are ultimately collectable as it has not experienced any past collection issues (see "*Credit risk*").

Exploration

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. 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 income tax legislation

In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects Touchstone or its shareholders. Tax authorities having jurisdiction over the Company or its shareholders may disagree with how Touchstone calculates its income for tax purposes to the detriment of the Company and its shareholders. Furthermore, changes in Trinidad tax laws may have an unfavourable effect on cash flows, adversely impacting the Company's level of capital investment.

The Trinidad exploration and production agreements

The current exploration and production licences, LOAs, joint operating agreements and/or FOAs with respect to Touchstone's properties contain significant obligations on the part of the Company or its subsidiaries including minimum work commitments on blocks held in Trinidad which, upon a continuing default, may give rise to the termination of the Company's operatorship interest therein. There are no assurances that all of these commitments will be fulfilled within the time frames allowed. As such, Touchstone may lose certain exploration and production rights on the blocks affected and may be subject to certain financial penalties that would be levied by Heritage, the MEEI, or the other parties thereto, as applicable. The current forms of LOAs and FOAs, as applicable, may, in certain circumstances, be terminated at Heritage's or the MEEI's discretion and are subject to a defined term, and there is no certainty as to any renewal.

Further, the Company is operating under a number of private lease agreements and one government licence which have expired and are currently being renegotiated. Based on legal opinions obtained from Trinidad legal counsel, the Company is continuing to recognize revenue as operator, is paying all associated royalties and taxes, and no title to its lands in Trinidad has been disputed. However, there is no certainty that such expired lease agreements will be renewed, on terms satisfactory to the Company or at all, or that the Company's rights as operator will not be challenged or impugned.

Retention of key personnel

A loss in the key personnel of Touchstone could delay the completion of certain projects or otherwise have a material adverse effect on the Company. Shareholders are dependent on the Company's Management and staff in respect of the administration and management of all manners relating to the Company's assets. Any deterioration of Touchstone's corporate culture could adversely affect its long-term success.

Cyber-security

Touchstone employs and depends upon information technology systems to conduct its business. These systems have the potential to introduce information security risks, which are growing in both complexity and frequency and could include potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of Touchstone's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities. Further, disturbance to critical information technology services, or breaches of information security, could have a negative effect on the Company's assets, performance and earnings, and reputation. The significance of any such event is difficult to quantify but may in certain circumstances be material and could have a material adverse effect on the Company's business, financial condition and results of operations.

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", "target", "intend", "could", "might", "should", "believe" and other similar expressions.

Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production rates, production decline rates, the magnitude of and ability to recover oil and gas reserves, plans for and results of drilling and recompletion activities, well abandonment costs, 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, risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties and risks related to lawsuits.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies. 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, Touchstone. In particular, forward-looking statements contained in this MD&A may include, but are not limited to, statements with respect to:

- the Company's business and operational strategies, including targeted jurisdictions and technologies used to execute its strategies;
- financial condition and outlook and results of operations;
- the Company's financial and operational response to the recent COVID-19 outbreak and the impact it will have on the Company's operations and future petroleum pricing;
- future demand for the Company's petroleum products and economic activity in general;
- the Company's future capital expenditure programs, including the anticipated timing, allocation and costs thereof and the method of funding;
- the Company's estimated timing of development of its Ortoire exploration wells;
- crude oil and natural gas production levels, estimated field production levels and production test results;
- the performance characteristics of the Company's oil and natural gas properties;
- expectations regarding the ability of the Company to raise capital and to continually add to reserves through acquisitions and development;
- future development and exploration activities to be undertaken in various areas and timing thereof, including future cash flows to be derived therefrom and the fulfillment of minimum work obligations and exploration commitments;
- terms and estimated future expenditures of the Company's contractual commitments and their timing of settlement;

- terms and title of exploration and production licences 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;
- receipt of anticipated or future regulatory approvals;
- access to facilities and infrastructure;
- expected levels of operating costs, G&A costs and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil and natural gas;
- treatment under current and future governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future liquidity and future sources of liquidity;
- the Company's future compliance with its Credit Agreement covenants and its ability to make future scheduled interest, principal and production obligation payments;
- estimated amounts of the Company's future production payment obligations in connection with its Production Payment Agreement;
- the potential of future acquisitions or dispositions;
- general economic and political developments in Trinidad;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning liabilities;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Estimates, Judgments and Assumptions*".

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. 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 crude oil and natural gas 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, 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, the United Kingdom and Trinidad, the impact of significant volatility in market prices for oil and gas, the ability to access sufficient capital from internal and external sources, changes in income tax laws, royalties and incentive programs relating to the Trinidad oil and gas industry, fluctuations in interest rates, and fluctuations in foreign exchange rates. 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, exploration, lease operating or farm-in rights related to the Company's crude oil and gas interests in Trinidad. Readers are cautioned that the foregoing list of risk factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Management has included the above summary of assumptions and risks related to forward-looking statements and other information provided in this MD&A in order to provide shareholders and investors with a more complete perspective on the Company's current and future operations, and such information may not be appropriate for other purposes. Actual results, performance or achievement could differ materially from that expressed in or implied by any forward-looking statements or information in this MD&A, and accordingly, investors should not place undue reliance on any such forward-looking statements or information. Further, any forward-looking statements or information speaks only as of the date on which such statement is made, and Touchstone undertakes no obligation to update any forward-looking statements or information to reflect information, events, results, circumstances or otherwise after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law, including securities laws. All forward-looking statements and information contained in this MD&A and other documents of Touchstone are qualified by such cautionary statements. New factors emerge from time to time, and it is not possible for Management to predict all of such factors and to assess in advance the impact of each such factor on Touchstone's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Non-GAAP Measures

The MD&A contains terms commonly used in the oil and natural gas industry, including funds flow from operations, funds flow from operations per share, operating netback and net debt. These terms do not have a standardized meaning prescribed under GAAP and therefore may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash flow from operating activities, net earnings, net earnings per share, total liabilities, or other measures of financial performance as determined in accordance with GAAP. Management uses these non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

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

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

The following table calculates operating netback for the periods indicated.

($000's unless otherwise stated)	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Petroleum sales	**8,920**	9,970	**38,654**	37,729
Royalties	**(2,650)**	(2,523)	**(10,986)**	(10,133)
Operating expenses	**(2,364)**	(3,607)	**(9,936)**	(10,858)
Operating netback	**3,906**	3,840	**17,732**	16,738
Production *(bbls)*	**155,454**	170,320	**666,277**	627,209
Operating netback *($/bbl)*	**25.12**	22.55	**26.61**	26.68

The following table reconciles operating netback to funds flow from operations for the periods indicated.

($000's)	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Funds flow from operations	**2,018**	1,482	**6,840**	8,548
Other income	**(55)**	-	**(72)**	(375)
Expenses				
G&A	**1,805**	1,840	**5,935**	5,929
Net finance	**(673)**	616	**316**	1,435
Current income tax	**1,114**	425	**5,368**	1,855
Realized foreign exchange	**10**	(45)	**3**	(42)
Change in non-cash other	**(313)**	(478)	**(658)**	(687)
Decommissioning expenditures	**-**	-	**-**	75
Operating netback	**3,906**	3,840	**17,732**	16,738

The Company closely monitors its capital structure with a goal of maintaining a strong financial position to fund current operations and the future growth of the Company. The Company monitors working capital and net debt as part of its capital structure to assess its true debt and liquidity position and to manage capital and liquidity risk. Working capital is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position. Net debt is calculated by summing the Company's working capital and the principal (undiscounted) amount of senior secured debt. The following table summarizes working capital and net debt for the periods indicated.

($000's)	**December 31, 2019**	December 31, 2018
Current assets	**(14,118)**	(15,854)
Current liabilities	**15,257**	19,172
Working capital deficit	**1,139**	3,318
Principal non-current portion of term loan	**15,364**	11,004
Net debt	**16,503**	14,322

The following table reconciles total liabilities per the financial statements to net debt for the periods indicated.

($000's)	**December 31, 2019**	December 31, 2018
Total liabilities	**54,933**	53,889
Provisions	**-**	(125)
Lease liabilities	**(105)**	-
Decommissioning liabilities	**(11,547)**	(8,915)
Deferred income tax liability	**(13,289)**	(14,994)
Variance between carrying value and undiscounted value of term loan	**629**	321
Current assets	**(14,118)**	(15,854)
Net debt	**16,503**	14,322

In the Company's March 31, 2019, June 30, 2019 and September 30, 2019 management's discussion and analysis and related continuous disclosure documents, Touchstone included the non-current portion of lease liabilities in its calculation of net debt. The Company amended its term loan on October 31, 2019, which among other things, amended certain financial covenants in the term loan by excluding lease obligations that were treated as operating leases under IFRS in effect as at December 31, 2018 (refer to "*Liquidity and Capital Resources – Term loan*"). The Company has excluded the non-current portion of lease liabilities in its calculation of net debt as at December 31, 2019, restating prior 2019 reporting periods retrospectively. This change aligns with the Company's revised monitoring of its capital structure.

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, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Operating Highlights				
Average daily production *(bbls/d)*	1,690	1,729	1,768	2,121
Net wells drilled	0.8	0.8	-	-
Brent benchmark price[(1)] *($/bbl)*	63.17	61.95	69.01	63.10
Operating netback[(2)] *($/bbl)*	25.12	24.56	26.85	29.35
Financial Highlights *($000's except per share amounts)*				
Petroleum sales	8,920	9,011	9,708	11,015
Cash flow from (used in) operating activities	2,090	(1,205)	1,832	2,737
Funds flow from operations[(3)]	2,018	1,082	1,310	2,430
Per share - basic and diluted[(2)(3)]	0.01	0.01	0.01	0.02
Net loss	(3,549)	(1,053)	(833)	(185)
Per share - basic and diluted	(0.02)	(0.01)	(0.01)	(0.00)
Exploration capital expenditures	5,838	3,234	681	360
Development capital expenditures	157	517	315	399
Total capital expenditures	5,995	3,751	996	759
Working capital deficit (surplus)	1,139	805	(2,062)	(1,963)
Principal balance of term loan	15,364	11,328	11,459	11,235
Net debt[(2)] - end of period	16,503	12,133	9,397	9,272
Share Information *(000's)*				
Weighted average shares outstanding - basic and diluted	160,691	160,688	160,688	140,984
Outstanding shares - end of period	160,703	160,688	160,688	160,688

Notes:
(1) Average for the quarterly periods indicated. Source: US Energy Information Administration.
(2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
(3) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information.

Three months ended	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Operating Highlights				
Average daily production *(bbls/d)*	1,851	1,758	1,717	1,543
Net wells drilled	3.0	3.0	3.0	2.0
Brent benchmark price(1) *($/bbl)*	68.76	75.10	74.53	66.86
Operating netback(2) *($/bbl)*	22.55	28.39	29.58	26.52
Financial Highlights *($000's except per share amounts)*				
Petroleum sales	9,970	9,862	9,685	8,212
Cash flow from (used in) operating activities	1,810	831	4,711	(1,021)
Funds flow from operations(3)	1,482	2,497	2,507	2,062
Per share - basic and diluted(2)(3)	0.01	0.02	0.02	0.02
Net earnings (loss)	552	199	(523)	130
Per share - basic and diluted	0.00	0.00	(0.00)	0.00
Exploration capital expenditures	1,603	443	334	177
Development capital expenditures	4,773	3,475	3,506	2,852
Total capital expenditures	6,376	3,918	3,840	3,029
Working capital deficit (surplus)	3,318	(1,568)	(2,844)	(3,818)
Principal balance of term loan	11,004	11,627	11,420	11,630
Net debt(2) - end of period	14,322	10,059	8,576	7,812
Share Information *(000's)*				
Weighted avg. shares outstanding - basic	129,021	129,021	129,021	129,021
Weighted avg. shares outstanding - diluted	130,532	130,728	129,021	129,692
Outstanding shares - end of period	129,021	129,021	129,021	129,021

Notes:
(1) Average for the quarterly periods indicated. Source: US Energy Information Administration.
(2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
(4) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information.

Trends in net earnings and funds flow from operations are primarily associated with fluctuations in revenues which reflect changes in production levels and commodity prices. In addition, net earnings and total asset values are impacted by exploration asset and development property and equipment impairments and reversals. The following significant items impacted the Company's financial and operating results over the past eight quarters:

- In the fourth quarter of 2019, the Company recognized a reversal of $1.3 million in previously accrued interest on income tax balances, which predominately led to the $0.9 million quarterly increase in funds flow from operations. Touchstone recognized net $7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of $3.9 million, leading to a net loss of $3.5 million recognized in the quarter.
- The Company extended its term loan credit facility by C$5.0 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt by 36% from the third quarter of 2019.
- In the third quarter of 2019, Touchstone drilled its first Ortoire exploration well. The investment led to a 29% increase in net debt from the second quarter of 2019.
- In the second quarter of 2019, average daily production decreased by 16% from the first quarter of 2019 as production from wells drilled in the fourth quarter of 2018 stabilized. The production

decline decreased funds flow from operations and increased the Company's net loss from the first quarter of 2019.

- In the first quarter of 2019, flush production from wells drilled in the fourth quarter of 2018 increased average daily production by 15%, thereby increasing petroleum sales and funds flow from operations and decreasing net debt from the previous quarter.
- In the fourth quarter of 2018, the Company drilled three net development wells and commenced exploration activities on the Ortoire property, thereby increasing 2018 capital expenditures to $6.4 million and increasing net debt by $4.3 million. Touchstone recognized net $3.2 million of property and equipment impairment reversals, leading to net earnings of $0.5 million recognized in the quarter.
- In the second quarter of 2018, average daily production increased by 11%, reflecting new production from year to date 2018 new drilling. Petroleum sales and funds flow in turn increased by 18% and 22% from the first quarter of 2018, respectively, based on increased production and a 5% increase in realized pricing.

Currency and References to Touchstone

All information included in this MD&A is shown on a United States dollar basis unless otherwise stated. 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 D. Wright
Chairman of the Board

Paul R. Baay

Kenneth R. McKinnon

Peter Nicol

Stanley T. Smith

Thomas E. Valentine

Harrie Vredenburg

EXECUTIVE OFFICERS

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

STOCK EXCHANGE LISTING

Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

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Port of Spain, Trinidad

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

NOMINATED ADVISOR AND BROKER

Shore Capital
London, United Kingdom

PUBLIC RELATIONS

Camarco
London, United Kingdom

ABBREVIATIONS

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

Measurement

bbls	barrels
bbls/d	barrels per day
Mbbl	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousand barrels of oil equivalent

Other

AIM	AIM market of the London Stock Exchange plc
Brent	Reference price paid for crude oil FOB North Sea
C$	Canadian dollar
TSX	Toronto Stock Exchange
TT$	Trinidad and Tobago dollar
WTI	Western Texas Intermediate, the reference price paid for crude oil and standard grade in U.S. dollars at Cushing, Oklahoma
$ or US$	United States dollar
£	Pounds sterling