



Touchstone Exploration Inc.

Management's Discussion and Analysis

December 31, 2020

Management's Discussion and Analysis

As at and for the three months and years ended December 31, 2020 and 2019

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, 2020 with comparisons to the three months and year ended December 31, 2019 is dated March 25, 2021 and should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019 (the "audited financial statements"). The audited 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 2020 Annual Information Form dated March 25, 2021, 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\$"). 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 oil and natural gas development and exploration 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 petroleum in place.

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.

Financial and Operating Results Summary

	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Operating Highlights						
Average daily oil production ⁽¹⁾ (bbls/d)	1,274	1,690	(25)	1,392	1,825	(24)
Net wells drilled	1.6	0.8	100	1.6	1.6	-
Brent benchmark price (\$/bbl)	44.32	63.17	(30)	41.96	64.28	(35)
Operating netback ⁽²⁾ (\$/bbl)						
Realized sales price	37.66	57.38	(34)	38.34	58.01	(34)
Royalties	(10.48)	(17.05)	(39)	(10.74)	(16.49)	(35)
Operating expenses	(13.28)	(15.21)	(13)	(13.11)	(14.91)	(12)
	13.90	25.12	(45)	14.49	26.61	(46)
Financial Highlights						
(\$000's except as indicated)						
Petroleum sales	4,414	8,920	(51)	19,592	38,654	(49)
Cash from operating activities	167	2,090	(92)	2,296	5,454	(58)
Funds flow (used in) from operations ⁽³⁾	(736)	2,018	n/a	263	6,840	(96)
Per share – basic and diluted ⁽²⁾⁽³⁾	(0.00)	0.01	n/a	0.00	0.04	(100)
Net earnings (loss)	1,655	(3,549)	n/a	(11,030)	(5,620)	96
Per share – basic and diluted	0.01	(0.02)	n/a	(0.06)	(0.04)	50
Exploration capital expenditures	9,031	5,838	55	17,861	10,113	77
Development capital expenditures	186	157	18	709	1,388	(49)
Total capital expenditures	9,217	5,995	54	18,570	11,501	61
Working capital (surplus) deficit ⁽²⁾				(12,933)	1,139	n/a
Principal non-current balance of term loan				7,500	15,364	(51)
Net (surplus) debt ⁽²⁾ – end of period				(5,433)	16,503	n/a
Share Information (000's)						
Weighted avg. shares outstanding						
Basic	197,686	160,691	23	183,781	155,830	18
Diluted	206,072	160,691	28	183,781	155,830	18
Outstanding shares – end of period				209,400	160,703	30

Notes:

- (1) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown since the Company's oil sales volumes typically represent blends of more than one type of crude oil.
- (2) Non-GAAP financial measure that does not have a standardized meaning prescribed by 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 loss excluding non-cash items. See "Non-GAAP Measures" for further information.

The resilience and quality of our employees and asset base were demonstrated throughout an extremely challenging operational and financial period in 2020. The impacts on our business due to COVID-19 and the associated volatility in crude oil prices forced prompt decisions to preserve financial flexibility and protect the health of our employees and stakeholders. We remain focused on protecting the health of our employees and communities while ensuring a decisive response for our investors. We will continue to follow the advice of public health officials in supporting our employees, their families, and our business partners.

Despite these challenges, Touchstone continued with its focus on improving financial liquidity, capturing cost savings, and increasing the long-term value of our core assets. We managed our business prudently

during the year, progressing with our Ortoire exploration program and maintaining our base production while continuing safe and reliable operations.

Our primary objective remains to bring our two natural gas exploration discoveries at Ortoire onto production in 2021. Additionally, production testing operations are ongoing at our Chinook-1 and Cascadura Deep-1 prospects, and we anticipate drilling our Royston-1 location in the second quarter of 2021. As the current economic and health related challenges persist, we will continue to adapt our business operations and capital programs to ensure health and safety and enhance long-term shareholder value.

Annual operating results

Throughout 2020, we 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 1,274 bbls/d, a 25 percent decrease relative to the 1,690 bbls/d produced in the fourth quarter of 2019 based on the ongoing impact of natural declines. Further, commencing in March 2020, we deliberately reduced discretionary operating expenditures in response to lower crude oil pricing, focusing on performing well interventions on those deemed high priority. Accordingly, annual 2020 crude oil production averaged 1,392 bbls/d, representing a decrease of 24 percent from crude oil production delivered in 2019. We invested \$709,000 in development activities in 2020, which mainly consisted of recompletion activities on legacy wellbores and upgrades to our oilfield service equipment to maintain base production levels.

We remained heavily focused on our Ortoire exploration activities in 2020, investing \$17,861,000 in exploration assets during the year. In 2020, we drilled two gross exploration wells (1.6 net) and incurred production testing costs on the Cascadura-1ST1 well drilled in December 2019. The Chinook-1 exploration well reached its total depth on October 13, 2020, and we concluded drilling operations on Cascadura Deep-1 on December 19, 2020.

Annual financial results

We reported funds flow from operations of \$263,000 in 2020 versus \$6,840,000 generated in the prior year. Petroleum sales recognized in 2020 decreased by 49 percent or \$19,062,000 from 2019, reflecting a 34 percent reduction in our realized sales pricing as a result of the COVID-19 pandemic and a 24 percent decline in crude oil production volumes from limited capital and operational investment. The reduction in 2020 petroleum sales resulted in a 50 percent decline in royalty expenses compared to 2019. In response to the drastic decrease in realized crude oil pricing, we instituted cost-saving initiatives, decreasing annual operating expenses by 33 percent and 12 percent on an absolute and per barrel basis from 2019, respectively. As a result, our annual 2020 operating netback was \$14.49 per barrel versus \$26.61 per barrel reported in 2019. In addition, we reduced annual 2020 general and administration ("G&A") expenses by 6 percent in comparison to 2019. Finance expenses increased by \$3,419,000 from 2019, as non-cash finance expenses increased by \$1,734,000 predominately as a result of the Company's term loan refinancing. Further, Touchstone recognized a one-time \$1,286,000 income tax interest reversal recorded in net finance expenses in the prior year. Relative to 2019, current income tax expense decreased by \$5,094,000 or 95 percent, reflective of \$4,914,000 in supplemental petroleum taxes incurred in the prior year from higher realized crude oil pricing.

We recorded a net loss of \$11,030,000 (\$0.06 per share) in 2020 compared to a net loss of \$5,620,000 (\$0.04 per share) in 2019. Touchstone recognized net impairment losses of \$11,418,000 in 2020 compared to impairment losses of \$7,960,000 recorded in 2019. 2020 impairments were a result of \$795,000 of licence costs on non-core exploration assets and \$10,623,000 in net property and equipment impairments. \$19,215,000 in impairment losses were recognized in the first quarter of 2020 based on the precipitous decline in forward crude oil pricing, while net property and equipment impairment recoveries of \$8,592,000 were recorded in the fourth quarter of 2020 based on our updated reserve report and a recovery of forward oil prices as at December 31, 2020. The net impairment losses were minimized by their corresponding effect on deferred taxes, as a recovery of \$6,273,000 was recognized during the year ended December 31, 2020 (2019 – \$1,813,000).

On the basis of the successful results from the first three Ortoire exploration wells, we undertook a private placement that closed on November 12, 2020 in order to support the completion of the initial phase of exploration work on the Ortoire block, raising net proceeds of \$28,386,000. Touchstone exited the year with a cash balance of \$24,281,000, a working capital surplus of \$12,933,000 and \$7,500,000 drawn on our term credit facility resulting in a net surplus position of \$5,433,000. Our near-term liquidity is augmented by \$12.5 million of undrawn credit capacity.

The enhanced liquidity provided from our debt refinancing and our 2020 equity financings are expected to allow us to fund our exploration program in 2021, with a core focus on drilling our final work commitment exploration well (Royston-1), completing our 2D seismic program, testing our two exploration wells drilled in 2020, and bringing our Coho-1 and Cascadura-1ST1 discoveries onto production in 2021.

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, 2020 is set forth below.

Property	Working interest	Licence type	Gross acres ⁽¹⁾	Net acres ⁽²⁾
<i>Producing</i>				
Coora 1	100%	Lease Operatorship	1,230	1,230
Coora 2	100%	Lease Operatorship	469	469
WD-4	100%	Lease Operatorship	700	700
WD-8	100%	Lease Operatorship	650	650
New Dome	100%	Farmout Agreement	69	69
South Palo Seco	100%	Farmout Agreement	2,167	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
<i>Exploratory</i>				
Bovallius	100%	Private	827	827
Cory Moruga	16%	Crown	7,443	1,206
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%		55,123	39,885
Total	76%		62,959	47,721

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

Touchstone operates Trinidad based upstream oil and gas activities under Lease Operatorship Agreements ("LOAs") and Farmout Agreements ("FOAs") with Heritage Petroleum Company Limited ("Heritage"), state exploration and production licences with the Trinidad and Tobago Ministry of Energy and Energy Industries ("MEEI") and private exploration and production agreements with individual landowners. The LOAs and FOAs contain marketing arrangements, whereas any oil sold from MEEI licences and private agreements

are marketed under a Heritage crude oil agreement. In addition, the Company executed a long-term natural gas sales agreement related to all future natural gas sales from the Ortoire property in December 2020.

Lease operatorship agreements

The Company's LOAs governing its four core properties (Coora 1, Coora 2, WD-4 and WD-8) with Heritage were amended in December 2020 to extend the maturity dates from December 31, 2020 to March 31, 2021. The LOAs were extended under pre-existing terms and conditions while the Company and Heritage progress on negotiations regarding new ten-year LOAs for each property.

As at the date of this MD&A, the negotiation of the new form of LOA for each property has been concluded by the parties. Upon execution, the Company will be subject to annual minimum production levels and minimum work commitments from 2021 through 2030 under each property agreement. Failing to reach either the annual minimum production levels or complete the annual minimum work obligations will not constitute a breach provided either the minimal productions levels have been attained or the minimum work obligations have been completed, as the case may be. The material terms of the new LOAs are substantially similar to the previous LOAs.

Farmout agreements

The Company's FOAs governing its New Dome and South Palo Seco properties with Heritage expire on December 31, 2021. The Company and Heritage have the option to extend the term of the arrangements by five years subject to the parties agreeing on minimal work obligations.

The agreements are subject to five-year minimum work commitments from 2017 through 2021. As of December 31, 2020, 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 three well recompletions prior to the end of 2021 (see "*Contractual Obligations, Commitments and Guarantees*" for further details). The South Palo Seco property is considered non-core as it represented 0.1 percent of Company crude oil production during the year ended December 31, 2020 (2019 - 0.2 percent).

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 and Ortoire exploration properties. The licences typically are for an initial six-year term, with the option to extend certain acreage a further 19 years upon a commercial discovery.

The Company's Ortoire exploration and production licence (Touchstone 80 percent operating working interest, Heritage 20 percent), which was originally set to expire on October 31, 2020, was extended for an additional nine-month term through July 31, 2021. Pursuant to the licence amendment, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres, and the Company is obligated to drill an additional exploration well to a true vertical depth of 10,000 feet prior to June 2021 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details). In February 2021, the MEEI approved the Company's field development plan for the Coho area, which in effect extends the exploration and production licence for the defined 1,317-acre area through October 31, 2039.

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 or extended. The Palo Seco property is considered non-core as it represented 0.6 percent of Company crude oil production during the year ended December 31, 2020 (2019 - 0.6 percent).

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 has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the year ended December 31, 2020, production volumes produced under expired private lease agreements represented 1.8 percent of total Company production (2019 - 1.8 percent).

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 ("POGL") from various producing properties operating under MEEI licences and private lease agreements. The agreement was novated to Heritage on December 1, 2018. 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 Heritage's equity land blend indexed price, payable in US\$.

Natural gas sales contract

On December 18, 2020, the National Gas Company of Trinidad and Tobago ("NGC") and POGL executed a natural gas sales agreement for all future natural gas production from the Ortoire block. Future natural gas sales are based on a fixed US\$ price per MMBtu, with an annual inflation escalator. The parties may renegotiate the natural gas sales price on each fifth anniversary of the initial production date. Touchstone shall deliver all future natural gas production at the edge of the specific well site battery, with title, risk of loss and other customary matters dealt with at the delivery point, thereby eliminating transportation and processing charges. Payment terms are industry standard and shall be paid in US\$ on a monthly basis. Any potential free liquids associated with future natural gas production on the Ortoire block will be marketed by POGL under a separate arrangement.

Results of Operations

Financial highlights

(\$000's except for per share amounts)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Net earnings (loss)	1,655	(3,549)	n/a	(11,030)	(5,620)	96
Per share – basic and diluted	0.01	(0.02)	n/a	(0.06)	(0.04)	50
Cash from operating activities	167	2,090	(92)	2,296	5,454	(58)
Funds flow (used in) from operations ⁽¹⁾	(736)	2,018	n/a	263	6,840	(96)
Per share – basic and diluted ⁽²⁾	(0.00)	0.01	n/a	0.00	0.04	(100)

Notes:

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

We recorded net earnings of \$1,655,000 (\$0.01 per share) in the fourth quarter of 2020 versus a net loss of \$3,549,000 (\$0.02 per share) in the prior year equivalent quarter. Compared to the fourth quarter of 2019, the variance was a result of impairment recoveries recorded in the fourth quarter of 2020 versus impairment losses recognized in the 2019 quarter, partially offset by a decreased fourth quarter 2020 operating netback of \$2,276,000.

Touchstone recognized a net loss of \$11,030,000 (\$0.06 per share) during the year ended December 31, 2020, representing an increase of \$5,410,000 from the \$5,620,000 (\$0.04 per share) net loss recognized in 2019. In comparison to 2019, the variance was predominately from decreased annual operating netbacks of \$10,326,000, offset by savings in current income tax expenses of \$5,094,000.

Details of the change in net earnings (loss) from the three months and year ended December 31, 2019 to the three months and year ended December 31, 2020 are included in the table below.

<i>(\$000's)</i>	Three months ended December 31,	Year ended December 31,
Net loss – 2019	(3,549)	(5,620)
Sales volume variance	(2,194)	(9,005)
Realized price variance	(2,312)	(10,057)
Royalties	1,422	5,498
Other income	(25)	49
Expenses		
Operating	808	3,238
General and administration	(402)	361
Cash finance	(1,279)	(1,685)
Current income tax	1,179	5,094
Realized foreign exchange	48	(70)
Total cash variances	(2,755)	(6,577)
Loss on financial derivatives	118	171
Unrealized foreign exchange	(2)	194
Equity-based compensation	(46)	(133)
Depletion and depreciation	469	1,667
Impairment	15,587	(3,458)
Non-cash finance expenses	(366)	(1,734)
Deferred income tax	(7,801)	4,460
Total non-cash variances	7,959	1,167
Net earnings (loss) – 2020	1,655	(11,030)

Cash from operating activities and funds flow from operations

Touchstone generated \$167,000 in cash from operating activities in the fourth quarter of 2020 in comparison to \$2,090,000 in the 2019 equivalent quarter. The decrease in 2020 cash flow from operating activities relative to the equivalent prior year period was a result of a decreased funds flow from operations of \$2,754,000, slightly offset by an \$831,000 positive change in non-cash operating working capital.

For the year ended December 31, 2020, cash provided by operations was \$2,296,000, representing a \$3,158,000 decrease from the \$5,454,000 realized in 2019. Relative to 2019, an annual increase in non-cash working capital of \$3,248,000 and 2020 savings of \$171,000 from the purchase of derivative options in the second quarter of 2019 were offset by an annual decrease in funds flow from operations of \$6,577,000.

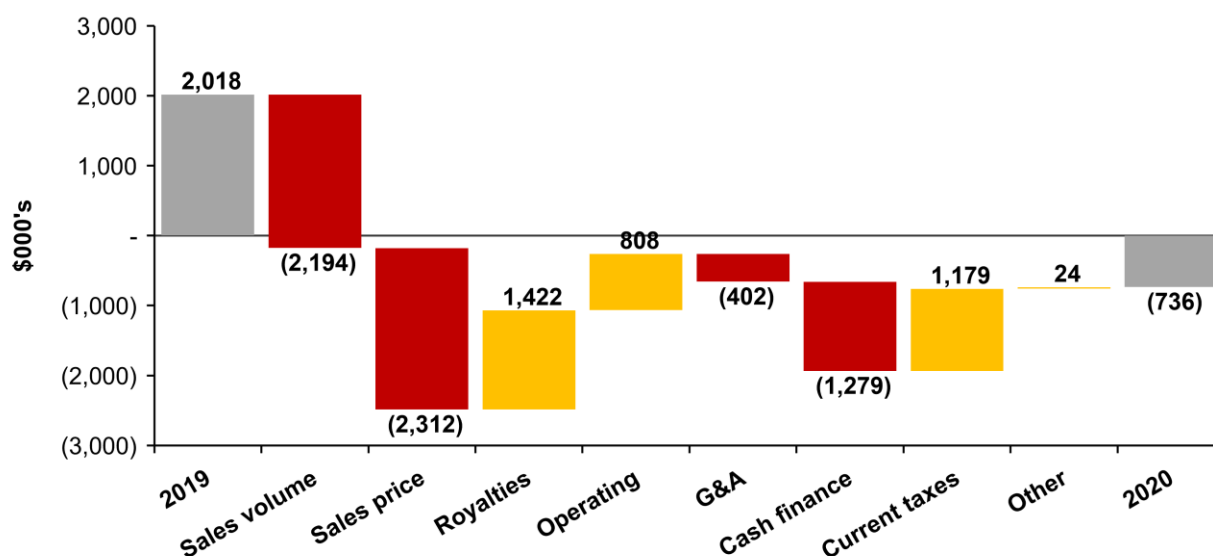
The Company used \$736,000 in funds flow from operations in the fourth quarter of 2020 in comparison to \$2,018,000 generated in the equivalent 2019 period. Relative to the fourth quarter of 2019, the \$2,754,000

variance was mainly a result of an operating netback decrease of \$2,276,000. Increases in 2020 fourth quarter G&A and net finance expenses as a result of recoveries of income tax interest expense accruals in 2019 were offset by a decline in supplemental petroleum taxes incurred in 2020 due to decreases in realized crude oil pricing throughout the year.

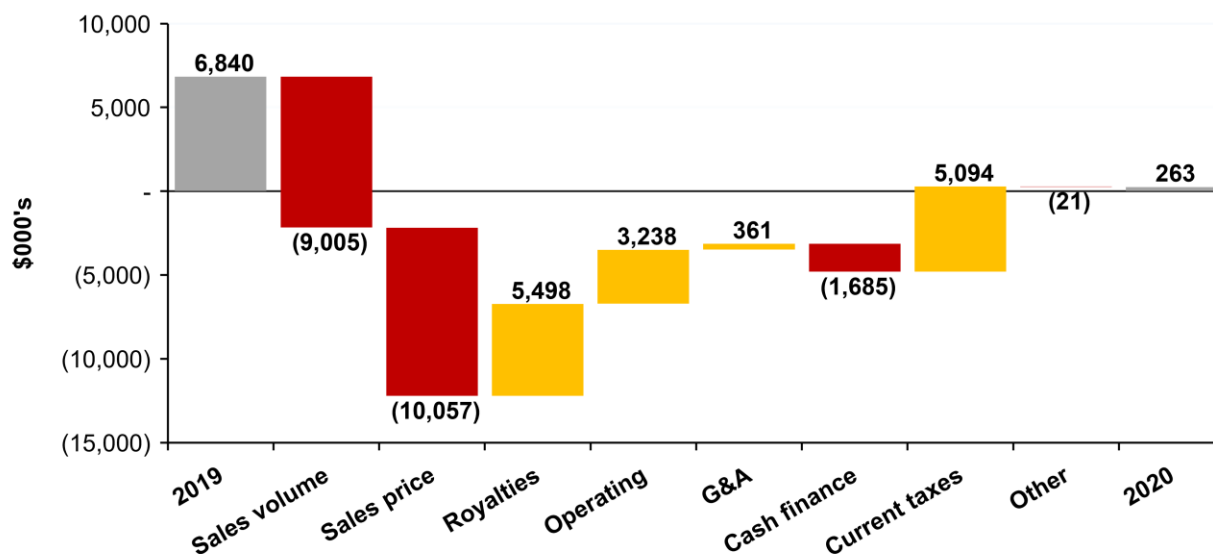
During the year ended December 31, 2020, we generated funds flow from operations of \$263,000, representing a 96 percent decrease relative to the \$6,840,000 recognized in 2019. In comparison to 2019, decreased operating netbacks of \$10,326,000 and a cash net finance expense variance of \$1,685,000 predominately from a prior year recovery were partially offset by savings of \$361,000 in G&A expenses and \$5,094,000 in current income taxes.

The following graphs detail the change in funds flow from operations from the three months and year ended December 31, 2019 to the three months and year ended December 31, 2020.

**Change in Funds Flow From Operations
Three Months Ended December 31**



**Change in Funds Flow From Operations
Year Ended December 31**



Net loss 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 (loss) and funds flow from operations for the year ended December 31, 2020.

	Assumption ⁽²⁾	Change	Impact on annual net loss ⁽¹⁾ (\$000's)	Impact on annual funds flow from operations ⁽¹⁾ (\$000's)
Average realized price (\$/bbl)	38.34	10%	298	608
Average production volumes (bbls/d)	1,392	10%	427	974
Operating expenses (\$/bbl)	13.11	10%	(289)	(640)

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 and non-financial asset impairment tests.
- (2) Assumptions are indicative of actual prices and volumes realized and actual results for the year ended December 31, 2020.

Production volumes

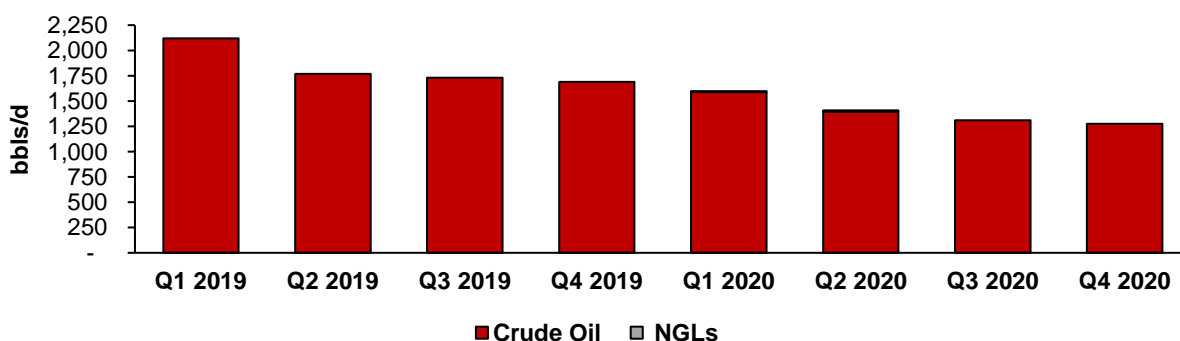
	Three months ended December 31,			% change	Year ended December 31,		
	2020	2019	2019		2020	2019	% change
Production (bbls)							
Crude oil ⁽¹⁾	117,209	155,454	(25)	509,426	666,277	(24)	
Natural gas liquids	-	-	-	1,621	-	n/a	
Total	117,209	155,454	(25)	511,047	666,277	(23)	
Average daily production (bbls/d)							
Crude oil ⁽¹⁾	1,274	1,690	(25)	1,392	1,825	(24)	
Natural gas liquids	-	-	-	4	-	n/a	
Total	1,274	1,690	(25)	1,396	1,825	(24)	

Note:

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

Fourth quarter and annual 2020 crude oil sales declined 25 percent and 24 percent from the prior year equivalent periods, respectively. The decreases were reflective of limited workover activities and natural declines, as the Company has not brought on additional development well production since January 2019. We sold 1,621 net barrels of Ortoire natural gas liquids ("NGLs") produced from the Cascadura-1ST1 production tests during year ended December 31, 2020.

Average Daily Production



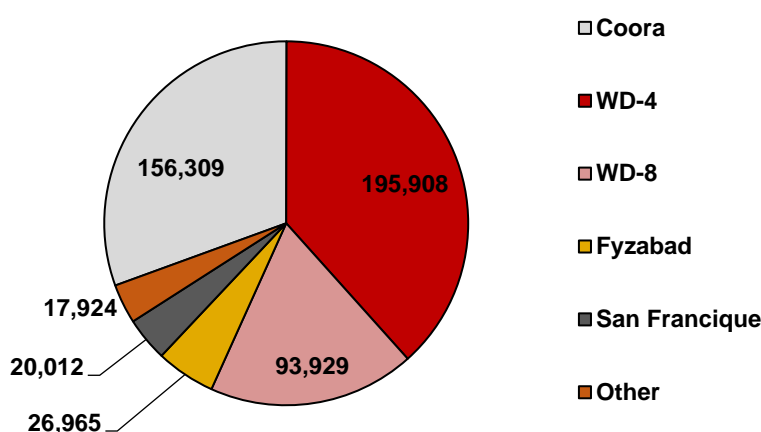
The following table summarizes production by property during the three months and years ended December 31, 2020 and 2019. All properties produced crude oil with the exception of Ortoire, which was comprised of test NGL production.

(bbls)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Coora 1	34,476	41,498	(17)	141,118	149,737	(6)
Coora 2	3,211	4,856	(34)	15,191	24,097	(37)
WD-4	46,373	56,111	(17)	195,908	233,211	(16)
WD-8	19,687	32,793	(40)	93,929	170,591	(45)
New Dome	1,568	2,254	(30)	7,691	9,131	(16)
South Palo Seco	-	145	(100)	405	1,444	(72)
Barrackpore	1,085	1,490	(27)	5,000	5,529	(10)
Fyzabad	6,115	8,723	(30)	26,965	38,866	(31)
Palo Seco	912	1,082	(16)	3,207	3,776	(15)
San Francique	3,782	6,502	(42)	20,012	29,895	(33)
Ortoire	-	-	-	1,621	-	n/a
Production⁽¹⁾	117,209	155,454	(25)	511,047	666,277	(23)

Note:

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

Annual 2020 Production by Core Area (bbls)



Realized crude oil pricing

	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Brent average (\$/bbl)	44.32	63.17	(30)	41.96	64.28	(35)
WTI average (\$/bbl)	42.66	56.96	(25)	39.40	57.03	(31)
Avg. realized price (\$/bbl)	37.66	57.38	(34)	38.34	58.01	(34)
Realized price discount as a % of Brent	(15.0)	(9.2)		(8.6)	(9.8)	
Realized price (discount) premium as a % of WTI	(11.7)	0.7		(2.7)	1.7	

Our crude oil price received is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond our control. Touchstone's crude oil realized price has historically correlated to the Brent benchmark price, as Trinidad oil is classified as water borne crude.

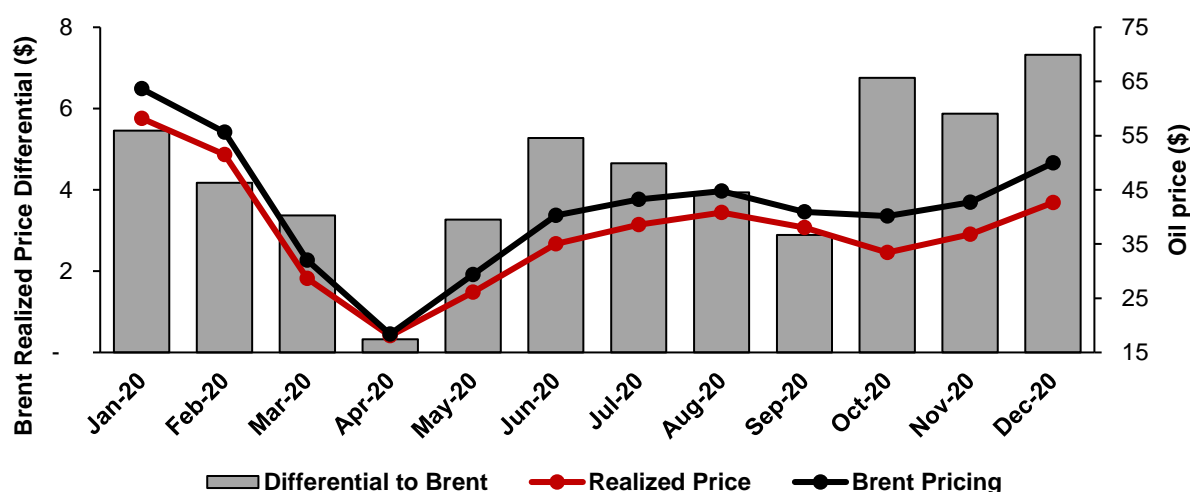
Crude oil benchmark prices were volatile throughout the year due to demand impacts as a result of COVID-19 with worldwide supply curtailment slightly reducing the demand destruction. Dated Brent benchmark crude oil prices ranged from a high of \$70.25 per barrel to a low of \$9.12 per barrel and averaged 35 percent lower than 2019. COVID-19 infection rates, the availability and administration of effective vaccines, global economic performance and political development will continue to impact the pace of demand recovery.

Relative to the fourth quarter of 2019, our Brent differential realized during the fourth quarter of 2020 widened from 9.2 percent to 15.0 percent. However, the realized differential to Brent reference pricing during the year ended December 31, 2020 narrowed to 8.6 percent from 9.8 percent in the 2019 year. Based on revised marketing arrangements with Heritage in October 2020, the Company is forecasting a 14.0 percent discount to Brent throughout 2021.

We realized an average price of \$37.66 per barrel in the fourth quarter of 2020 compared to an average of \$57.38 per barrel in the comparative quarter of 2019. The 34 percent decline was driven by a 30 percent decrease in Brent reference pricing and a widening of the realized differential to Brent.

On an annual basis, the Company's 2020 average realized price of \$38.34 per barrel represented a 34 percent decrease relative to the \$58.01 per barrel average price received in 2019. The annual decline reflected a 35 percent decrease in the average Brent reference price, partially offset by a slight narrowing of our realized pricing differential in relation to Brent.

Realized Price and Differential to Brent



Petroleum sales

(\$000's)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Petroleum sales	4,414	8,920	(51)	19,592	38,654	(49)

We sell all of our crude oil to Heritage, with title transferring at our various sales batteries. As at December 31, 2020, the Company held 4,212 barrels of crude oil inventory versus 4,166 barrels held as at December 31, 2019.

Total fourth quarter petroleum sales decreased 51 percent to \$4,414,000 from \$8,920,000 in the same quarter of 2020. In relation to the fourth quarter of 2019, \$2,194,000 of the aggregate \$4,506,000 decrease in 2020 was a result of decreased sales volumes, with the remaining \$2,312,000 variance based on a reduction in average realized pricing.

Touchstone's 2020 petroleum sales were \$19,592,000, representing a \$19,062,000 or 49 percent decrease from the \$38,654,000 recognized in 2019. \$9,005,000 of the annual variance was attributed to sales volume declines, while \$10,057,000 represented realized price variances.

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. For further information, refer to the "Market Risk Management" section of this MD&A.

Touchstone did not enter into any crude oil financial derivative contracts during the year ended December 31, 2020. In April 2019, the Company purchased crude oil 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.

Other income

The Company recorded \$121,000 of other income during the year ended December 31, 2020, which was mainly comprised of fees received for selling crude oil on behalf of a third-party operator and nominal proceeds received from the sale of used inventory and equipment (2019 - \$55,000).

Operating netback

The components of operating netback for the three months and years ended December 31, 2020 and 2019 are set forth below.

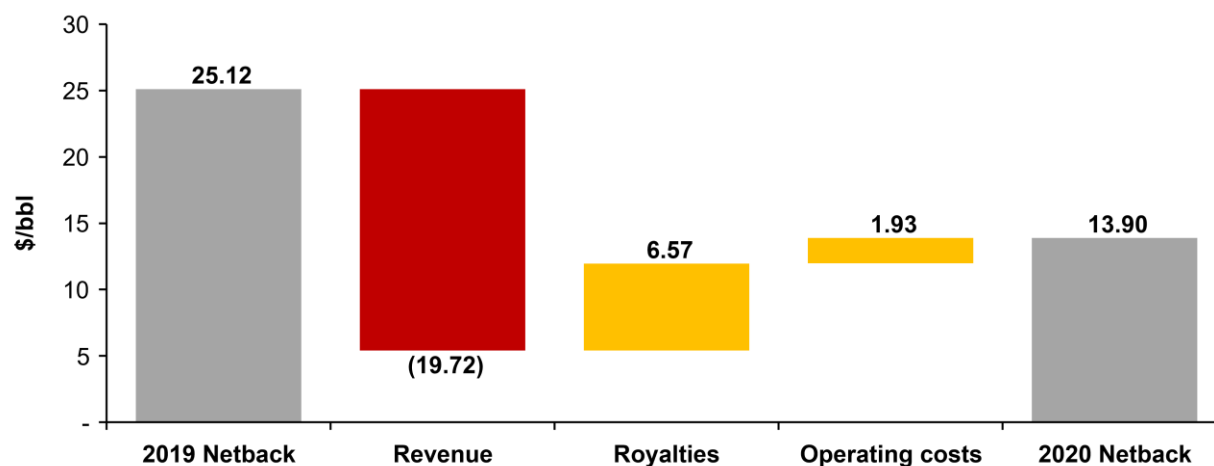
	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
<i>(\$000's)</i>						
Petroleum sales ⁽¹⁾	4,414	8,920	(51)	19,592	38,654	(49)
Royalties	(1,228)	(2,650)	(54)	(5,488)	(10,986)	(50)
Operating expenses	(1,556)	(2,364)	(34)	(6,698)	(9,936)	(33)
Operating netback⁽²⁾	1,630	3,906	(58)	7,406	17,732	(58)
<i>(\$/bbl)</i>						
Brent benchmark price	44.32	63.17	(30)	41.96	64.28	(35)
Discount	(6.66)	(5.79)	(30)	(3.62)	(6.27)	(35)
Realized sales price	37.66	57.38	(34)	38.34	58.01	(34)
Royalties	(10.48)	(17.05)	(39)	(10.74)	(16.49)	(35)
Operating expenses	(13.28)	(15.21)	(13)	(13.11)	(14.91)	(12)
Operating netback⁽²⁾	13.90	25.12	(45)	14.49	26.61	(46)

Notes:

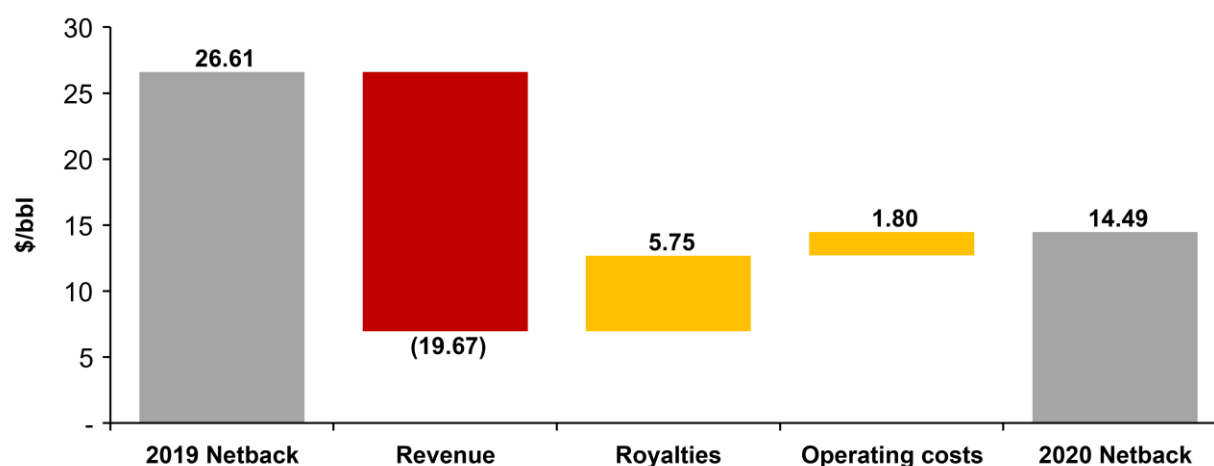
(1) Excludes other income.

(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.

**Change in Operating Netback
Three Months Ended December 31**



**Change in Operating Netback
Year Ended December 31**



Royalties

(\$000's unless otherwise stated)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Crown royalties	515	1,102		2,272	4,440	
Private royalties	41	86		191	398	
Overriding royalties	672	1,462		3,025	6,148	
Royalties	1,228	2,650	(54)	5,488	10,986	(50)
As a percentage of petroleum sales	27.8%	29.7%	(6)	28.0%	28.4%	(1)

Touchstone is obligated to pay a crown royalty rate of 12.5 percent on all petroleum production under MEEI and Heritage licences. For private leases, the Company incurs private royalties between 10 percent and 12.5 percent of petroleum sales.

On the Coora, WD-4 and WD-8 blocks, Touchstone operates under LOAs with Heritage, which in addition to crown royalties apply a sliding scale notional overriding royalty ("ORR") on predefined monthly base

production levels. For any monthly volumes sold in excess of base production levels, the Company incurs an enhanced ORR ("Enhanced ORR"). Our ORR and Enhanced ORR rates are indexed to the average price of oil realized in the production month. The LOA rates attributable to the 2019 and 2020 years are set forth in the table below.

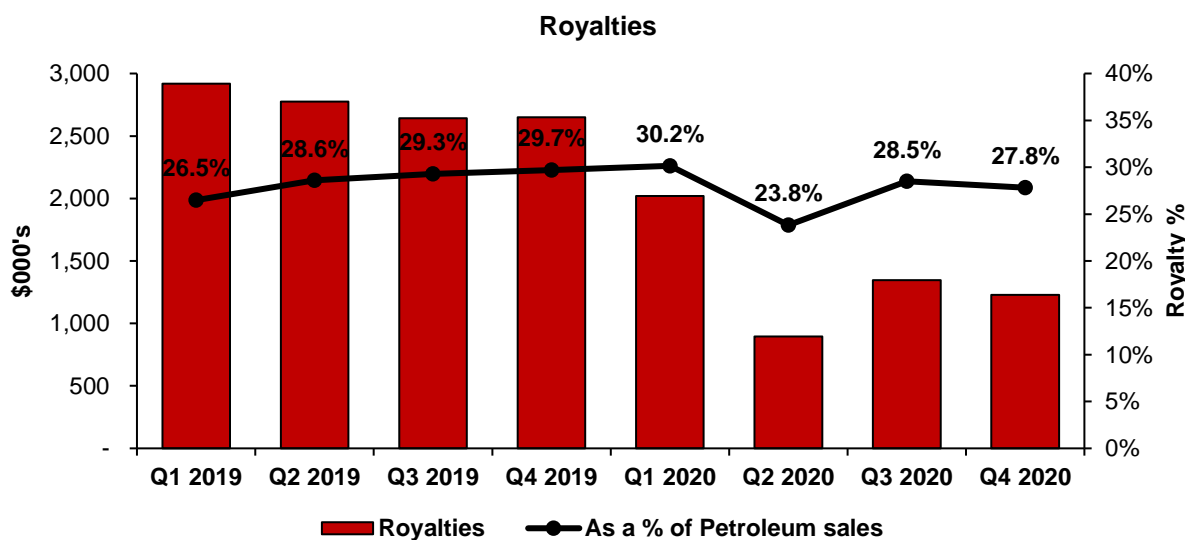
In addition to crown royalties, the FOAs governing the South Palo Seco and New Dome properties stipulate ORR rates on predefined base monthly production levels and Enhanced ORR rates for any incremental monthly production in excess of base amounts. Similar to the LOA structure, the ORR and Enhanced ORR rates are indexed to the average price of oil realized in a production month as reflected in the following table.

Monthly realized oil price	2019 - 2020 LOA Royalty % ⁽¹⁾		2019 - 2021 FOA Royalty % ⁽²⁾	
	ORR	Enhanced ORR	ORR	Enhanced ORR
≤ \$10.00	10.0	8.0	7.0	4.0
\$10.01 - \$20.00	13.0	9.0	10.0	5.0
\$20.01 - \$30.00	15.0	10.0	12.0	6.0
\$30.01 - \$40.00	20.0	12.0	15.0	9.0
\$40.01 - \$50.00	25.0	13.0	18.0	10.0
\$50.01 - \$90.00	33.0	17.5	23.0	15.0

Notes:

- (1) LOA royalty rates included herein are currently effective through March 31, 2021. Touchstone and Heritage have completed negotiations regarding new ten-year LOAs for each property. Accordingly, upon execution the LOA royalty rates effective from 2021 through 2030 will differ from the royalty rates disclosed above.
- (2) FOA royalty rates are currently effective through December 31, 2021.

2020 fourth quarter royalties represented 27.8 percent of petroleum sales compared to 29.7 percent in the prior year comparative period. In 2020, our average effective royalty rate was 28.0 percent compared to 28.4 percent for the prior year. In comparison to both 2019 periods, the lower 2020 effective royalty rates were generally attributable to the depressed oil benchmark prices experienced in 2020, partially offset by enhanced ORR incentives received in 2019 from production relating to wells drilled in 2018.

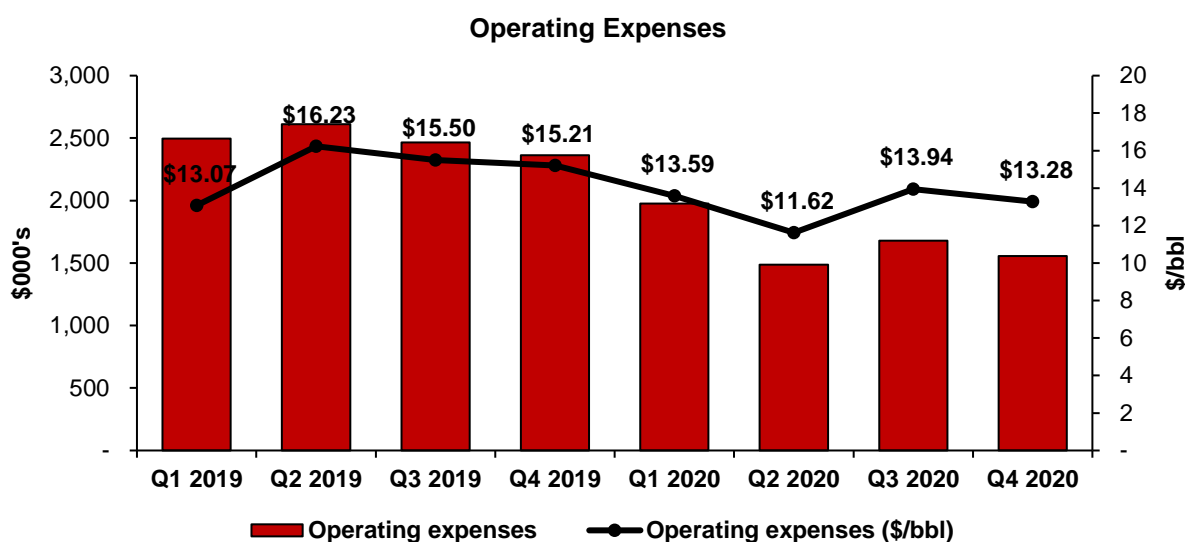


Operating expenses

(\$000's unless otherwise stated)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Operating expenses	1,556	2,364	(34)	6,698	9,936	(33)
On a per barrel basis	13.28	15.21	(13)	13.11	14.91	(12)

Operating expenses include all periodic lease and field-level expenses and include directly attributable employee salaries and benefits. For the fourth quarter 2020, total operating expenses were \$1,556,000 in comparison to \$2,364,000 in the same quarter of 2019, a decrease of 34 percent over a production base decrease of 25 percent over the same period. On a per barrel basis, operating costs decreased from \$15.21 per barrel in the fourth quarter of 2019 to \$13.28 per barrel in the fourth quarter of 2020. The 13 percent decline was reflective of lower discretionary well servicing costs and a reduction in variable operating costs from declines in year-over-year production.

On an annual basis, 2020 operating expenses were \$6,698,000 compared to \$9,936,000 in 2019, reflecting a 33 percent decrease over a production base decrease of 24 percent over the year. 2020 operating costs on a per barrel basis were \$13.11 per barrel, down from \$14.91 per barrel in 2019, reflecting decreases in salaries and benefits, well servicing costs and variable lifting and transportation expenses associated with decreased production.



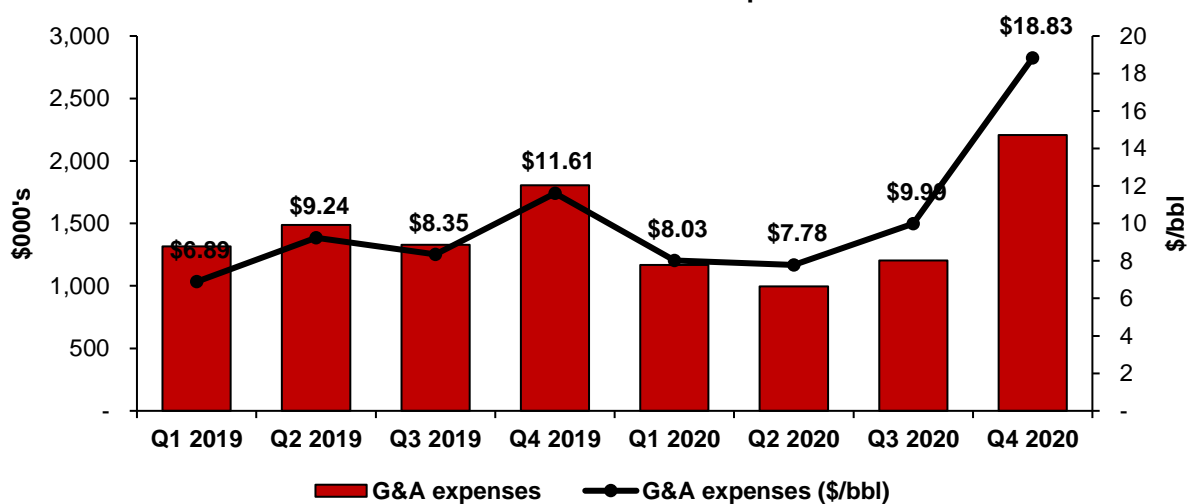
General and administration expenses

(\$000's unless otherwise stated)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Gross G&A	2,623	2,115	24	6,451	6,854	(6)
Capitalized G&A	(416)	(310)	34	(877)	(919)	(5)
G&A expenses	2,207	1,805	22	5,574	5,935	(6)
On a per barrel basis	18.83	11.61	62	10.91	8.91	22

Total G&A expenses in the fourth quarter of 2020 were \$2,207,000 compared to \$1,805,000 for the same quarter of 2019. Compared to the fourth quarter of 2019, fourth quarter 2020 G&A expenses increased primarily from employee incentive plan payments and insurance costs, partially offset by reduced travel due to COVID-19 restrictions.

For the year ended December 31, 2020, G&A expenses were \$5,574,000 versus \$5,935,000 in 2019. The 6 percent decrease was primarily reflective of reduced travel and discretionary costs in response to the COVID-19 pandemic.

General and Administration Expenses



Net finance expenses

(\$000's)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Interest income	(1)	(8)	(88)	(32)	(96)	(67)
Lease liability interest expense	6	7	(14)	21	69	(70)
Term loan interest expense	269	279	(4)	1,151	954	21
Term loan revaluation (gain) loss	-	(379)	n/a	1,158	(656)	n/a
Accretion on term loan	(8)	153	n/a	232	384	(40)
Finance expense	19	-	n/a	199	-	n/a
Production liability revaluation loss	601	452	33	759	622	22
Accretion on decom. liabilities	87	97	(10)	297	372	(20)
Reversal of accrued income tax interest	-	(1,265)	n/a	-	(1,286)	n/a
Other	(1)	(9)	(89)	(50)	(47)	6
Net finance expenses	972	(673)	n/a	3,735	316	100
Cash net finance expenses	292	(987)	n/a	1,343	(342)	n/a
Non-cash net finance expenses	680	314	100	2,392	658	100
Net finance expenses	972	(673)	n/a	3,735	316	100

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

Annual 2020 term loan interest expense increased from 2019, reflecting an increase in the principal balance of the Company's former term loan credit facility from C\$15 million to C\$20 million in October 2019. On June 15, 2020, the Company established a Trinidad based credit facility, and withdrew \$15 million to prepay and extinguish the Canadian based term loan. The refinancing resulting in a revaluation loss of \$1,158,000 and finance expenses of \$180,000, both of which were included in net finance expense. Further, the Company repaid \$7.5 million of the initial \$15 million loan agreement balance in December 2020, incurring

an additional \$19,000 in finance expenses. The debt refinancing reduced fourth quarter and annual 2020 term loan accretion costs in comparison to the equivalent 2019 periods (see "*Liquidity and Capital Management - Term loan*").

Production liability revaluation losses were recognized as a result of increased production liabilities estimated by the Company at each reporting period. The estimated liability will continue to vary in each reporting period based on changes to internally forecasted petroleum production and forward commodity pricing (see "*Liquidity and Capital Management - Production liability*").

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 of principal payments made during the amnesty period, an aggregate \$1,286,000 in previously accrued interest was reversed during the year ended December 31, 2019.

Foreign exchange and foreign currency translation

The Company's presentation currency is the United States dollar. 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 tables below.

Foreign exchange ("FX") rates ⁽¹⁾	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
US\$:C\$ average FX rate	1.30	1.32	(1)	1.34	1.33	1
US\$:TT\$ average FX rate	6.79	6.76	-	6.77	6.77	-
	December 31, 2020	September 30, 2020		December 31, 2020	December 31, 2019	
US\$:C\$ closing FX rate	1.27	1.34	(5)	1.27	1.30	(2)
US\$:TT\$ closing FX rate	6.77	6.79	-	6.77	6.75	-

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\$ and the C\$ to US\$ could have a material effect on the Company's reported results (see "*Market Risk Management: Foreign currency risk*").

During the fourth quarter of 2020, the C\$ appreciated 1 percent relative to the US\$ in comparison to the corresponding average rates observed in the 2019 fourth quarter. On an annual basis, the C\$ depreciated relative to the US\$, with average rates approximately 1% less than average 2019 foreign exchange rates. Relative to the US\$, the TT\$ remained range bound during the three months and year ended December 30, 2020 and 2019. In aggregate, the Company recorded a foreign exchange gain of \$31,000 and a foreign exchange loss of \$23,000 during the three months and year ended December 31, 2020, respectively (2019 – losses of \$15,000 and \$147,000).

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 foreign currency differences recorded in other comprehensive loss. Relative to the US\$, the C\$ closed 5 percent stronger on December 31, 2020 versus September 30, 2020 and 2 percent stronger versus December 31, 2019, while the TT\$ remained consistent in all comparative periods. Touchstone recognized foreign currency translation gains of \$1,054,000 and \$1,267,000 during the three months and year ended December 31, 2020, respectively (2019 - gain of \$3,000 and loss of \$171,000).

Equity 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 volume weighted average trading price per common share for the five consecutive trading days ending on the last trading day preceding the grant date. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the grant date as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant.

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

The Company formerly had an incentive share compensation option plan which provided for the grant of incentive share options to purchase common shares of the Company at a C\$0.05 exercise price. A maximum of one million common shares were approved for issuance under the plan, of which 437,625 were historically issued under the plan as of December 31, 2020. There were no incentive share options outstanding as at December 31, 2020 and 2019, and no incentive options have been awarded since 2014. The Company's Compensation and Governance Committee terminated the plan effective February 16, 2021 in accordance with its terms.

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 percent of the issued and outstanding Company common shares. At December 31, 2020, Touchstone had 9,552,434 share options outstanding, representing 4.6 percent of the Company's outstanding common shares (2019 – 8,740,600 and 5.4 percent, respectively). The following table sets forth equity-compensation expenses recorded in relation to equity-compensation plans for the periods indicated.

(\$000's)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Equity-based compensation	111	51	100	348	192	81
Capitalized equity-based compensation	(19)	(5)	100	(46)	(23)	100
Equity-based compensation	92	46	100	302	169	79

Further information regarding our equity compensation plans is included in Note 17 "Shareholders' Capital" of the Company's audited financial statements.

Depletion and depreciation expense

(\$000's unless otherwise stated)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Depletion expense	692	1,114	(38)	2,998	4,557	(34)
On a per barrel basis	5.90	7.17	(18)	5.87	6.84	(14)
Depreciation expense	130	177	(27)	506	614	(18)
Depletion and depreciation expense	822	1,291	(36)	3,504	5,171	(32)

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, 2020, \$59,064,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (2019 - \$67,134,000).

During the three months and year ended December 30, 2020, depletion decreased both on an absolute basis and on a unit of production basis in comparison to the equivalent periods of 2019. The decline in depletion in both periods predominately reflected reduced carrying values from petroleum asset impairment losses recorded in 2019 and in the first quarter of 2020, and lower 2020 production in comparison to 2019.

Assets in the exploration phase are not amortized. Depreciation expense is recorded on corporate and oilfield service assets on a declining balance basis, and right-of-use ("ROU") assets are depreciated over their estimated useful lives on a straight-line basis. The decrease in depreciation expense reported during the three months and year ended December 31, 2020 relative to the corresponding 2019 periods were predominately a result of lower corporate and oilfield equipment net asset values throughout 2020 as compared to 2019.

Impairment of non-financial assets

Entities are required to conduct an 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 impairment losses for the three months and years ended December 31, 2020 and 2019 by CGU are disclosed in the following table.

CGU (\$000's)	Three months ended			Year ended December 31,		
	2020	December 31, 2019	% change	2020	2019	% change
Cory Moruga	679	14		668	14	
East Brighton	65	131		127	352	
Impairment loss	744	145	100	795	366	100

Impairment losses of \$679,000 and \$668,000 were recorded during the three months and year ended December 31, 2020, respectively, relating to our Cory Moruga concession (2019 - \$14,000 and \$14,000). In the fourth quarter of 2020, Touchstone accrued historical lease rental charges based on updated information from the third-party operator. The Cory Moruga lease expenses were subsequently impaired given the property's estimated recoverable value was \$nil. In addition, during the three months and year ended December 31, 2020, the Company impaired \$65,000 and \$127,000 relating to lease expenses incurred on its East Brighton property, respectively, given the associated licence expired in December 2020 (2019 - \$131,000 and \$352,000).

The Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of \$30,680,000 as at December 31, 2020 (2019 - \$13,579,000).

Property and equipment impairments

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

CGU (\$000's)	Three months ended		% change	Year ended December 31,		% change
	2020	December 31, 2019		2020	2019	
Coora	(2,672)	2,966		4,268	2,966	
WD-4	(4,027)	3,306		1,941	3,306	
WD-8	(2,009)	1,322		4,298	1,322	
Capital inventory	116	-		116	-	
Impairment (recovery) loss	(8,592)	7,594	n/a	10,623	7,594	40

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

On March 31, 2020, indicators of impairment were present due to the significant decline in crude oil forward pricing predominantly from the effects of COVID-19. Based on the results of impairment tests conducted on all petroleum asset CGUs, an aggregate impairment loss of \$19,215,000 was recognized during the first quarter of 2020.

Based on the results of the Company's December 31, 2019 evaluation of potential impairment or related reversals, indicators of impairment were identified on the Company's Coora, WD-4 and WD-8 CGUs due to the forecasted effects of future income tax changes and uncertainty regarding future strip pricing. Impairment tests were conducted on the properties, resulting in an aggregate impairment loss of \$7,594,000 recorded during the year ended December 31, 2019.

Estimating the recoverable amounts of the Company's CGUs involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. Changes in any of the key judgements, such as a revision in reserves, changes in forecast commodity prices, inflation rates, capital and operating expenditures or the discount rate would impact the estimated recoverable amounts. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods. Further information regarding impairment charges recorded during the years ended December 31, 2020 and 2019 is included in Note 8 "Impairments" of the Company's audited 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, 2020, the Company classified \$1,226,000 of accrued or paid contributions into MEEI and Heritage abandonment funds as abandonment fund assets (December 31, 2019 - \$1,125,000).

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.

The Company is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum operations conducted on its private production and exploration agreements.

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$11,919,000 as at December 31, 2020 based on an estimated inflation adjusted future liability of \$18,982,000 (2019 - \$11,547,000 and \$27,153,000, 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, 2020 decommissioning liabilities were estimated using a long-term risk-free rate of 4.9 percent and a long-term inflation rate of 1.8 percent (2019 - 5.5 percent and 3.3 percent, respectively). \$87,000 and \$297,000 of accretion charges were recognized during the three months and year ended December 31, 2020 to reflect the increase in decommissioning liabilities associated with the passage of time, respectively (2019 - \$97,000 and \$372,000). Decommissioning liability details as at December 31, 2020 are summarized in the table below.

Number of net well locations	Undiscounted balance (\$000's)	Inflation adjusted balance (\$000's)	Discounted balance (\$000's)
833	15,913	18,982	11,919

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 future 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 is included in Note 15 "Decommissioning Liabilities and Abandonment Fund" of the audited 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 percent of gross liquids revenue less royalties
- Petroleum Profits Tax ("PPT") 50 percent of net taxable profits
- Unemployment Levy ("UL") 5 percent of net taxable profits
- Green Fund Levy 0.3 percent 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 nil when the weighted average realized price of oil for a given quarter is below \$50.00 per barrel and 18 percent when weighted average realized oil prices fall between \$50.00 and \$90.00. For the years 2021 and 2022, the threshold for SPT was increased from \$50.00 to \$75.00 effective January 1, 2021. The revenue base for the calculation of SPT is petroleum sales less royalties paid, less 25 percent investment tax credits on mature oilfields for allowable tangible and intangible capital expenditures incurred in the applicable fiscal quarter. The Company's Ortoire property is not considered a mature oilfield, and thus no capital spending investment tax credits are applicable.

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 but can only be used to shelter a maximum of 75 percent of income subject to PPT per annum. UL losses cannot be carried forward to reduce future year UL. Developmental and exploratory capital expenditure allowances (tangible and intangible) are amortized on a five-year straight-line basis.

The Company has a Trinidad oilfield service subsidiary, which primarily leases oilfield service equipment to third-party contractors for use in its exploration and production entities. The Company is subject to the greater of a 30 percent corporation income tax calculated on net taxable profits or a 0.6 percent 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, and allowances vary from 10 percent to 33.3 percent 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, 2020 and 2019.

(\$000's)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
SPT	-	1,120		5	4,914	
PPT/UL	(78)	(38)		191	279	
Business levy	1	4		12	25	
Green fund levy	12	28		66	150	
Current income tax (recovery) expense	(65)	1,114	n/a	274	5,368	(95)

Fourth quarter and 2020 current income taxes decreased in comparison to the 2019 equivalent periods as a result of decreased average realized crude oil pricing. The Company incurred SPT in both 2019 comparative periods as realized pricing exceeded \$50.00 per barrel. During the year ended December 31, 2020, Touchstone accrued \$191,000 in PPT and UL expenses primarily based on the change in loss carry forward allowance utilization effective January 1, 2020 (2019 - \$279,000).

Touchstone's \$7,021,000 net 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, 2020 (2019 - \$13,289,000). The deferred tax balance remained in a liability position mainly from the discrepancy between the carrying values and the tax values of the Company's petroleum assets. During the three months and year ended December 31, 2020, Touchstone recorded deferred tax expenses of \$3,856,000 and deferred tax recoveries of \$6,273,000, respectively (2019 – expenses of \$3,945,000 and \$1,813,000). The annual 2020 and 2019 net deferred tax recoveries and expenses were primarily reflective of property and equipment impairment losses and recoveries recorded in each respective year, which reduced or increased financial statement carrying values and affected the corresponding deferred tax liability balance.

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 audited financial statements.

Capital Expenditures

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			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Lease costs	787	203		962	805	
Geological and seismic	438	32		512	180	
Drilling, completions and well testing	6,877	5,552		14,282	8,901	
Production equipment and facilities	220	-		1,155	-	
Capitalized G&A / other	709	51		950	227	
Total expenditures	9,031	5,838	55	17,861	10,113	77

We remained heavily focused on our Ortoire exploration activities in 2020, drilling two gross exploration wells (1.6 net) and production testing two zones in the Cascadura-1ST1 well drilled in December 2019. We invested \$1,155,000 in Coho-1 pipeline and surface facility equipment, with pipeline installation commencing in March 2021. Touchstone also incurred \$512,000 in the year related to our Ortoire 2D seismic program that is expected to be completed by July 2021.

Touchstone drilled two gross exploration wells on our Ortoire property during 2019 (Coho-1 and Cascadura-1ST1), with additional 2019 capital investment focusing on lease preparations for the Chinook-1 well site.

Property and equipment (development) expenditures

(\$000's)	Three months ended			Year ended		
	2020	December 31, 2019	% change	2020	December 31, 2019	% change
Drilling and completions	207	(58)		374	696	
Capitalized G&A	(21)	215		246	692	
Rig equipment and other	-	-		89	-	
Total expenditures	186	157	18	709	1,388	(49)

Touchstone conducted minimal field development activity in the fourth quarter and year to date 2020, as well recompletions were limited based on declines in crude oil pricing. In the 2019 comparative periods, the Company worked on well recompletions and completed two development wells that were drilled in December 2018.

Property disposition

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

Liquidity and Capital Management

The Company's policy is to maintain a strong capital base to preserve investor, creditor, and market confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholder's equity, working capital and bank debt. 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. Exploration activities and 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, 2020, Touchstone had a cash balance of \$24,281,000, a working capital surplus of \$12,933,000 and \$7,500,000 drawn on its term credit facility.

On June 15, 2020, we refinanced our debt by entering into a \$20 million term loan facility with a Trinidad based financial institution. \$15 million was initially advanced to satisfy obligations related to prepaying our former C\$20 million Canadian based term loan, and \$7.5 million of the balance was repaid in December. We currently have \$12.5 million of available funds on the new credit facility, which we may withdraw prior to June 15, 2021. The new credit facility does not require the commencement of principal payments until June 15, 2022, and financial covenants are not tested until the year ended December 31, 2022.

On the basis of the successful results from the first three Ortoire exploration wells, we undertook a private placement on November 12, 2020 in order to support the completion of the initial phase of exploration work on the Ortoire block. The private placement raised net proceeds of approximately \$28.4 million.

The Company's current development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities on our Ortoire property. Touchstone's near-term focus is to bring our current Ortoire exploration discoveries onto production to increase cash flows and decrease the Company's sole reliance on crude oil sales and related pricing. We will continue to take a measured approach to future developmental and exploration drilling in an effort to manage financial liquidity while focusing on bringing our Ortoire wells onto production and continuing our Ortoire exploration and development program.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of 2.0 times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. Our internal capital management calculations for the years ended December 31, 2020 and 2019 are summarized in the table below.

(\$000's)	Target measure	December 31, 2020	December 31, 2019
Current assets		(29,312)	(14,118)
Current liabilities		16,379	15,257
Working capital (surplus) deficit ⁽¹⁾		(12,933)	1,139
Principal non-current balance of term loan		7,500	15,364
Net (surplus) debt ⁽²⁾		(5,433)	16,503
Shareholders' equity		60,365	30,115
Net (surplus) debt plus equity		54,932	46,618
Trailing twelve-month funds flow from operations ⁽³⁾		263	6,840
Net debt to funds flow from operations	at or < 2.0 times	n/a	2.41
Net debt to net debt plus equity	< 0.4 times	n/a	0.35

Notes:

- (1) Working capital (surplus) 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

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

The Term Loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The Term Loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. Principal payments commence on June 15, 2022 with twenty equal and consecutive quarterly principal repayments thereafter. Prepayments are permitted after one year with a 1.0 percent penalty and a 30-day notice period, and no penalty shall apply on principal repayments after three years. The Term Loan is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of Touchstone Exploration (Trinidad) Ltd. and its wholly owned Trinidadian subsidiary, POGL. The Term Loan contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be tested on an annual basis commencing with the year ended December 31, 2022. At all times the Company must maintain a cash reserves balance of not less than the equivalent of two quarterly interest payments (see "*Liquidity and Capital Management - Restricted cash*").

On November 27, 2020, the Company and its lender executed an amending agreement to the Term Loan, allowing the Company to repay \$7.5 million of the \$15 million term loan balance on December 15, 2020 for

a reduced prepayment fee of \$19,000. Pursuant to the Term Loan Amending Agreement, the Company has the option to withdraw the remaining \$12.5 million available balance prior to June 15, 2021.

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

<i>(\$000's)</i>	Retired Term Loan liability	Term Loan liability	Term Loan
Balance, January 1, 2019	10,130	-	10,130
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation gain	(656)	-	(656)
Accretion	384	-	384
Effect of change in foreign exchange rates	518	-	518
Balance, December 31, 2019	13,966	-	13,966
Advance, net of fees	-	14,617	14,617
Payments	(14,750)	(7,500)	(22,250)
Revaluation loss on prepayment	1,158	-	1,158
Accretion	173	59	232
Effect of change in foreign exchange rates	(547)	-	(547)
Balance, December 31, 2020	-	7,176	7,176

Pursuant to the Term Loan, a failure of any covenant constitutes an event of default. Upon an event of default, the lender can declare the principal balance and any accrued interest immediately due and payable. The Company routinely reviews all Term Loan operational and financial 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.

Production liability

In connection with the Retired Term Loan, the Company granted its former lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2023. Upon repayment of the Retired Term Loan, the Company and the lender entered into an amended production payment agreement to continue the obligation under its previous terms and conditions.

The production liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts. During the three months and year ended December 31, 2020, the Company recognized production liability revaluation losses of \$601,000 and \$759,000, respectively (2019 - \$452,000 and \$622,000). At December 31, 2020, the Company's estimated production liability balance was \$1,519,000, of which \$1,357,000 was classified as non-current and included in other liabilities on the consolidated statement of financial position (2019 - \$989,000 and \$769,000, respectively).

Restricted cash

Pursuant to the Term Loan, Touchstone must at all times maintain a minimum cash reserves balance of the equivalent of two subsequent quarterly interest payments. Accordingly, the Company classified \$294,000 as non-current restricted cash on the consolidated statement of financial position as at December 31, 2020 (2019 - \$nil).

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

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 contractor 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. Effective September 1, 2020, the amended lease arrangement was terminated, with the remaining equipment reverting to the Company. As a result of the lease termination, the \$285,000 finance lease receivable carrying value was reclassified to property and equipment.

Subsequent to December 31, 2020, Touchstone entered equipment lease to own arrangements with third-party contractors, whereby the contractors provide oilfield services to Touchstone and pay monthly lease rentals until the purchase prices are paid in full. Given the lease arrangements transfer substantially all of the risk and rewards incidental to ownership of the underlying assets, they will be classified as financing leases.

Lease liabilities

The Company is a party to lease arrangements for head office space, motor vehicles and office equipment. Lease agreements are negotiated on an individual basis and contain varying terms and conditions.

Effective July 1, 2020, an arrangement relating to head office space was amended and extended by a further five-year period. The lease amendment was considered a lease modification, with the remeasured lease liability and associated ROU balances each increasing by \$240,000. The following table details the movements in the Company's lease liabilities for the years ended December 31, 2020 and 2019.

(\$000's)	Year ended December 31,	
	2020	2019
Balance, beginning of year	335	1,352
Lease modifications	235	(670)
Interest expense	21	69
Payments	(222)	(432)
Effect of change in foreign exchange rates	14	16
Balance, end of year	383	335
Current (included in accounts payable and accrued liabilities)	48	230
Non-current	335	105
Lease liabilities	383	335

Shareholders' equity

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The following table summarizes Touchstone's outstanding common shares and share options as at the date of this MD&A, December 31, 2020 and December 31, 2019.

	March 25, 2021	December 31, 2020	December 31, 2019
Common shares outstanding	209,399,627	209,399,627	160,703,095
Share options outstanding	9,552,434	9,552,434	8,740,600
Fully diluted common shares	218,952,061	218,952,061	169,443,695

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

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

Further information regarding the Company's shareholders' capital is included in Note 17 "*Shareholders' Capital*" of the audited financial statements.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Although the effects of COVID-19 had a material effect on the Company's realized crude oil prices in 2020, the Company believes that future cash flows and debt capacity will be adequate to meet financial obligations as they come due.

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 crude oil and natural gas production, crude oil forward 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. Touchstone will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at December 31, 2020.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	16,379	16,379	-	-
Lease liabilities	447	66	127	254
Term loan principal	7,500	-	2,250	5,250
Term loan interest	2,405	589	1,060	756
Estimated production liabilities	2,688	293	2,395	-
Total financial liabilities	29,419	17,327	5,832	6,260

The Company actively monitors its liquidity to ensure that cash flows, credit facility capacity and working capital are adequate to support these financial liabilities, as well as the Company's capital programs.

Market Risk Management

The Company's Board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors have implemented and monitor compliance with risk management policies.

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. Further, Touchstone's realized crude oil price is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond the Company's control. Consequently, any changes in crude oil pricing could 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. The Company has no commodity financial contracts in place as of the date hereof or during the year ended December 31, 2020. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development and exploration capital programs.

Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the TT\$ and the US\$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT\$. In addition, the Company has US\$ denominated debt and related interest payments. This is currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company has further foreign exchange exposure on cash balances denominated in Canadian dollars and pounds sterling, on head office costs and a production liability denominated in Canadian dollars, and costs denominated in pounds sterling required to maintain its AIM listing. Any material movements in the C\$ to US\$ and the pounds sterling to US\$ exchange rates may have a material effect on the Company's reporting results (see "*Results of Operations - 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, 2020 and 2019.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. As at December 31, 2020, the Company was exposed to credit risk with respect to its accounts receivable, and Touchstone determined that the average expected credit loss on its accounts receivable balances was \$nil (2019 - \$nil). The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority that are outstanding greater than 90 days are due from the Trinidad government for value added

taxes ("VAT"), and although the timing of settlement is uncertain, the Company has not historically experienced any material collection issues.

In May 2020, the Trinidad government issued the Company's Trinidad subsidiaries an aggregate \$2,793,000 in bonds in lieu of payment of past due VAT receivable balances. In July 2020, the bonds were sold to a Trinidad financial institution at face value plus accrued interest. The aging of accounts receivable as at December 31, 2020 and 2019 is disclosed in the following table.

(\$000's)	December 31, 2020	December 31, 2019
Not past due	2,781	3,581
Past due (greater than 90 days)	1,904	3,767
Accounts receivable	4,685	7,348

Further details relating to Touchstone's financial assets and credit risk can be found in Note 5 "*Financial Assets and Credit Risk*" of the audited financial statements.

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 directors and officers. 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 the Ortoire exploration and production licence 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, 2020.

(\$000's)	Total	Estimated payments due by year			
		2021	2022	2023	Thereafter
Operating agreement commitments					
Coora blocks	4	4	-	-	-
WD-4 block	9	9	-	-	-
WD-8 block	8	8	-	-	-
New Dome block	2	2	-	-	-
South Palo Seco block	796	796	-	-	-
Fyzabad block	912	74	76	77	685
Ortoire exploration block	8,812	8,812	-	-	-
Office and equipment leases	1,122	440	128	128	426
Minimum payments	11,665	10,145	204	205	1,111

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

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

support the future minimum work obligations (refer to "*Liquidity and Capital Management - Restricted cash*").

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

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

Off-balance Sheet Arrangements

The Company does not believe it has any guarantees or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

Related Parties

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

The Company has determined that the key management personnel of the Company consist of its executive 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 equity-based compensation to its key management personnel under its share option plan. For the year ended December 31, 2020, Touchstone recognized \$1,839,000 in total key management personnel compensation (2019 - \$1,536,000). The compensation paid to the directors of the Company during the year ended December 31, 2020 is set forth in the following table.

Director (\$'000's)	Fees earned	Equity-based compensation	All other compensation	Total compensation
Paul R. Baay ⁽¹⁾	-	-	-	-
Kenneth R. McKinnon	37	19	-	56
Peter Nicol	35	18	-	53
Beverley Smith ⁽²⁾	-	1	-	1
Stanley T. Smith	37	19	-	56
Thomas E. Valentine	34	19	-	53
Dr. Harrie Vredenburg	34	16	-	50
John D. Wright	48	20	-	68
Director compensation	225	112	-	337

Notes:

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

(2) Ms. Smith was appointed to the Company's Board of Directors on December 22, 2020.

Significant Accounting Estimates, Judgements and Assumptions

The preparation of financial statements in conformity with IFRS requires Management to make estimates, judgements, 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.

A full list of the significant estimates and judgements made by Management in the preparation of its audited financial statements is included in Note 4 "*Use of Estimates, Judgements and Assumptions*" of the audited financial statements.

The scale and duration of COVID-19 and subsequent measures to limit the pandemic remain uncertain, and the full extent of the impact on the Company's operations and future financial performance is currently unknown. The COVID-19 outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of the audited financial statements and future period financial statements. The outbreak and volatile market conditions increased the complexity of estimates, judgements and assumptions used to prepare the Company's audited financial statements, particularly related to the recoverability of asset carrying values and the deferred income tax provision.

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, 2020. 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, 2020. There were no changes during the three months and year ended December 31, 2020 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 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 2020 Annual Information Form dated March 25, 2021, which can be found on the Company's SEDAR profile (www.sedar.com). Refer to "*Advisory on Forward-Looking Statements*" in this MD&A for additional information regarding the risks to which Touchstone and its business operations are subject to.

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 commodity prices and foreign exchange. 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 certain key risks, uncertainties and opportunities associated with the Company's business that can impact financial results.

Pandemics

Pandemics, epidemics or outbreaks of an infectious disease in the jurisdictions in which the Company operates, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has resulted in emergency actions taken by governments worldwide which has had an effect in all of the Company's operating jurisdictions. The actions taken by various governments have typically included but have not been limited to travel bans, mandatory and self-imposed quarantines and isolations, physical distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil demand. Additionally, such actions have resulted in volatility and disruptions in regular business operations, supply chains and financial markets as well as declining trade and market sentiment. COVID-19 as well as other factors initially resulted in the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread and resurgence of COVID-19, oil prices and the global equity markets deteriorated significantly in 2020. Despite the approval of certain vaccines by global regulatory bodies, the ongoing evolution of the development and distribution of an effective vaccine also continues to raise uncertainty and global equity markets could remain under pressure. The supply/demand imbalance is anticipated to cause a reduction in industry spending in 2021. These events and conditions caused a significant decrease in the valuation of oil and natural gas companies in 2020 and a decrease in confidence in the oil and natural gas industry.

While market conditions have recently improved, the full extent of the risks surrounding the COVID-19 pandemic is continually evolving in light of an effective distribution of the vaccine and also through subsequent waves, or additional variants of COVID-19 continue to emerge which are more transmissible or cause more severe disease. The risks disclosed in the Company's Annual Information Form for the year ended December 31, 2020 may be exacerbated as a result of the COVID-19 pandemic; market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates, volatility of the market price of the Company's common shares, and hedging arrangements; operational risks related to increasing operating costs or declines in production levels, capital project delays, delays in receiving government regulatory approvals, marketing arrangement counterparty performance or payment delays, and government regulations; ability to obtain additional financing, and other risks related to cyber-security as the Company's workforce predominantly works from remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

Touchstone's field operations are located in areas relatively remote, and in certain facilities, a small concentration of personnel may work in close proximity to one another. Should an employee or visitor become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The Company takes every precaution to strictly follow domestic industrial hygiene and occupational health guidelines. There can be no assurance that COVID-19 or another infectious illness will not impact the Company's personnel and ultimately its operations.

Foreign location of assets and foreign economic and political risk

Touchstone is subject to additional 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; royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which Touchstone's operations will be conducted. The Company's operations may also be adversely

affected by the 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. In addition, there can be no assurance that contracts, licences, licence applications or other legal arrangements will not be adversely affected by changes in governments in foreign jurisdictions, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Commodity prices and marketing

Numerous factors beyond the Company's control do and will continue to affect the marketability and price of crude oil acquired, produced or discovered by the Company. Accordingly, commodity prices are the Company's most significant financial risk. Prices for crude oil are subject to large fluctuations in response to relatively minor changes in the supply of and demand, market uncertainty, and a variety of additional factors beyond the control of the Company. These factors include economic and political conditions in the United States, Canada, Europe, Russia, China and emerging markets, the actions of Organization of Petroleum Exporting Countries and other oil and gas exporting nations, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of crude oil, risks of supply disruption, the price of foreign imports, and the availability of alternative fuel sources. Prices for crude oil are also subject to the availability of foreign markets and Heritage's ability to access such markets. A material decline in commodity prices will result in a reduction of the Company's petroleum revenue and cash from operations. The economics of producing from some wells may change because of lower prices, which could result in reduced production and a reduction in the volumes and the value of the Company's reserves. The Company may also elect not to produce from certain wells at lower prices.

The Company entered into a long-term fixed price natural gas sales agreement in 2020 with NGC, which contains options for price negotiations on each fifth anniversary of the initial production date. The price of natural gas in Trinidad is predominantly based on domestic supply and demand, with demand largely from domestic power generation and petrochemical facilities. There can be no guarantee that the Company may be able to negotiate future price increases for natural gas, and a material decline in future natural gas sales prices will result in a reduction of the Company's petroleum revenue and cash from operations. Lower natural gas prices may also affect the volume and value of the Company's natural gas reserves rendering certain reserves uneconomic.

These factors could result in a material decrease in the Company's expected petroleum revenue and a reduction in its oil and natural gas production, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Company's reserves, borrowing capacity, petroleum revenue, profitability and cash from operations, and may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

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.

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 term credit facility that is secured against the current and future assets of the Company's Trinidad upstream oil and gas subsidiaries. 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.

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 purchasers and ability to market

The Company is exposed to sole purchaser risk in Trinidad as Heritage is the sole purchaser of crude oil, and NGC is the sole purchaser of natural gas. Touchstone's ability to market its petroleum products depends upon numerous factors beyond its control, including: the availability of third-party pipeline capacity; the supply of and demand for petroleum; the availability of alternative fuel sources; the counterparty's future financial viability; 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 prices, taxes, royalties, land tenure, allowable production, the export of crude oil, and domestic usage of natural gas. Because of these factors, Touchstone could be unable to market or to obtain competitive prices for the crude oil and natural gas 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 material 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 Company's 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 licence, sub-licence and marketing agreements, in many cases the forecast economic limit of individual wells is beyond the current term of the relevant agreements; there is no certainty as to any renewal of the Company's existing production and marketing arrangements.

Reserves replacement

Touchstone's crude oil and natural gas reserves and production and its cash flows and net earnings derived therefrom are highly dependent upon the Company developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, Touchstone's reserves and production will decline over time as reserves are depleted. To the extent that petroleum revenue or cash from operations is insufficient and external sources of capital become limited or unavailable, or available on onerous terms, Touchstone's ability to make the necessary capital investments to maintain and expand its crude oil and natural gas reserves may be impaired. There can be no assurance that Touchstone will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs.

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 and state-owned NGC is the sole purchaser of natural gas. 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.

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 Trinidad concessions 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 licences and sub-licences, 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 opinions obtained from Trinidad legal counsel, the Company is continuing to recognize petroleum revenue as operator and 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 matters relating to the Company's assets. Any deterioration of Touchstone's corporate culture could adversely affect its long-term success. To mitigate this risk, the Company focuses on long-term succession planning and provides internal opportunities for advancement.

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 an adverse effect on the Company's business, financial condition and results of operations.

Advisory on Forward-Looking Statements

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

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 COVID-19 outbreak and the impact it will have on the Company's future operations and future petroleum pricing;
- future demand for the Company's petroleum products and economic activity in general;
- the Company's future capital expenditure and seismic programs, including the anticipated timing, allocation and costs thereof and the method of funding;
- the Company's estimated timing of development and ultimate production from its Ortoire exploration wells;
- ultimate production and future marketing of NGLs from the Ortoire block;
- 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;
- forecasted differential to Brent reference pricing realized in the future;
- 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 and future regulatory approvals and exploration and production licence renewals or amendments;
- 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;
- 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;
- the Company's ability to reverse property and equipment impairments in the future;
- 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 Term Loan covenants and its ability to make future scheduled interest and principal payments;
- estimated amounts of the Company's future obligations in connection with its production liability and the Company's ability to make such scheduled payments;
- 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;
- the Company's negotiated new LOA terms with Heritage and anticipated execution of the LOAs;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Estimates, Judgements 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, working capital 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 from operating activities, net earnings, net earnings per share, total assets, total liabilities, or other measures of financial performance as determined in accordance with GAAP. Management uses these non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

Funds flow from operations and funds flow from operations per share

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.

Operating netback

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 affect 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		Year ended	
	2020	December 31, 2019	2020	December 31, 2019
Petroleum sales	4,414	8,920	19,592	38,654
Royalties	(1,228)	(2,650)	(5,488)	(10,986)
Operating expenses	(1,556)	(2,364)	(6,698)	(9,936)
Operating netback	1,630	3,906	7,406	17,732
Production (bbls)	117,209	155,454	511,047	666,277
Operating netback (\$/bbl)	13.90	25.12	14.49	26.61

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

(\$000's)	Three months ended		Year ended	
	2020	December 31, 2019	2020	December 31, 2019
Funds flow (used in) from operations	(736)	2,018	263	6,840
Other income	(30)	(55)	(121)	(72)
Expenses				
G&A	2,207	1,805	5,574	5,935
Net finance	972	(673)	3,735	316
Current income tax	(65)	1,114	274	5,368
Realized foreign exchange	(38)	10	73	3
Change in non-cash other	(680)	(313)	(2,392)	(658)
Operating netback	1,630	3,906	7,406	17,732

Net (surplus) debt

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 (surplus) debt is calculated by summing the Company's working capital and the principal (undiscounted) non-current amount of senior secured debt.

The following table summarizes working capital and net (surplus) debt for the periods indicated.

(\$000's)	December 31, 2020	December 31, 2019
Current assets	(29,312)	(14,118)
Current liabilities	16,379	15,257
Working capital (surplus) deficit	(12,933)	1,139
Principal non-current balance of term loan	7,500	15,364
Net (surplus) debt	(5,433)	16,503

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

(\$000's)	December 31, 2020	December 31, 2019
Total liabilities	44,187	54,933
Lease liabilities	(335)	(105)
Other liabilities	(1,357)	(769)
Decommissioning liabilities	(11,919)	(11,547)
Deferred income tax liability	(7,021)	(13,289)
Variance between carrying value and undiscounted value of term loan	324	1,398
Current assets	(29,312)	(14,118)
Net (surplus) debt	(5,433)	16,503

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 balance of lease liabilities in its calculation of net debt. The Company amended its Retired Term Loan on October 31, 2019, which, among other things, amended certain financial covenants in the Retired Term Loan by excluding lease obligations that were treated as operating leases under IFRS in effect as at December 31, 2018. Effective December 31, 2019, the Company excluded the non-current balance of lease liabilities in its calculation of net debt, restating prior 2019 reporting periods retrospectively. This change aligned with the Company's revised monitoring of its capital structure and is consistent with the definition of financial covenants included in its June 2020 Term Loan.

Selected Quarterly Information

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, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Operating Highlights				
Average daily production ⁽¹⁾ (bbls/d)	1,274	1,310	1,396	1,589
Net wells drilled	1.6	-	-	-
Brent benchmark price ⁽²⁾ (\$/bbl)	44.32	42.91	29.70	50.27
Operating netback ⁽³⁾ (\$/bbl)	13.90	14.09	10.73	18.61
Financial Highlights (<i>\$000's except per share amounts</i>)				
Petroleum sales	4,414	4,725	3,755	6,698
Cash from (used in) operating activities	167	4,126	(1,921)	(76)
Funds flow (used in) from operations ⁽⁴⁾	(736)	192	(450)	1,257
Per share - basic and diluted ⁽³⁾⁽⁴⁾	(0.00)	0.00	(0.00)	0.01
Net earnings (loss)	1,655	(703)	(2,742)	(9,240)
Per share - basic and diluted	0.01	(0.00)	(0.01)	(0.05)
Exploration capital expenditures	9,031	5,758	1,249	1,823
Development capital expenditures	186	211	92	220
Total capital expenditures	9,217	5,969	1,341	2,043
Working capital surplus ⁽³⁾	(12,933)	(869)	(6,534)	(8,094)
Principal non-current balance of term loan	7,500	15,000	15,000	13,338
Net (surplus) debt ⁽³⁾ - end of period	(5,433)	14,131	8,466	5,244
Share Information (000's)				
Weighted average shares outstanding				
Basic	197,686	184,277	183,640	169,361
Diluted	206,072	184,277	183,640	169,361
Outstanding shares - end of period	209,400	184,408	184,161	183,489

Notes:

- (1) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown given the Company's oil sales volumes typically represent blends of more than one type of crude oil.
- (2) Dated Brent average for the quarterly periods indicated. Source: US Energy Information Administration.
- (3) 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 (used in) from operations represents net earnings (loss) excluding non-cash items. See "Non-GAAP Measures" for further information.

Three months ended	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Operating Highlights				
Average daily production ⁽¹⁾ (bbls/d)	1,690	1,729	1,768	2,121
Net wells drilled	0.8	0.8	-	-
Brent benchmark price ⁽²⁾ (\$/bbl)	63.17	61.95	69.04	63.10
Operating netback ⁽³⁾ (\$/bbl)	25.12	24.56	26.85	29.35
Financial Highlights				
<i>(\$000's except per share amounts)</i>				
Petroleum sales	8,920	9,011	9,708	11,015
Cash from (used in) operating activities	2,090	(1,205)	1,832	2,737
Funds flow from operations ⁽⁴⁾	2,018	1,082	1,310	2,430
Per share - basic and diluted ⁽³⁾⁽⁴⁾	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) ⁽³⁾	1,139	805	(2,062)	(1,963)
Principal non-current balance of term loan	15,364	11,328	11,459	11,235
Net debt ⁽³⁾ - 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) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown given the Company's oil sales volumes typically represent blends of more than one type of crude oil.
- (2) Dated Brent average for the quarterly periods indicated. Source: US Energy Information Administration.
- (3) 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.

The oil and gas exploration and production industry is cyclical. The Company's financial position, results of operations and cash flows are principally impacted by production levels and commodity prices, particularly crude oil prices. Commodity price fluctuations can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenue and cash flow available for exploration and development, and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flow generated from operations and access to capital markets.

The following significant items impacted the Company's unaudited financial and operating results over the past eight quarters:

- In the fourth quarter of 2020, the Company completed a private placement that resulted in net proceeds of \$28.4 million. As a result, the Company prepaid \$7.5 million of its term loan balance and increased exploration capital expenditures in the quarter, ending the quarter with a net surplus of \$5.4 million. Predominately based on increased crude oil future pricing, net impairment recoveries of \$7.8 million were recorded. The impairment reversals, which were partially offset by

related \$3.9 million deferred income tax expenses, contributed to the Company recognizing net earnings of \$1.7 million in the quarter.

- In the third quarter of 2020, net debt increased by \$5,665,000 or 67 percent from the second quarter of 2020, reflective of \$5,758,000 in exploration investments in the quarter. Average crude oil pricing increased by 34 percent from the prior quarter, which contributed to a \$642,000 increase in funds flow from operations to positive \$192,000.
- Based on crude oil demand declines caused by COVID-19, second quarter 2020 realized crude oil pricing decreased by 36 percent from the prior quarter. Reduced expenditures on field operations also reduced crude oil production by 12 percent from the first quarter of 2020. These combined effects decreased second quarter operating netbacks by 42 percent, resulting in \$0.5 million in funds flow used in operations. The Company continued with its exploration activities, investing \$1.3 million which was the main driver in the increase in net debt of \$3.2 million or 61 percent from the first quarter of 2020.
- In the first quarter of 2020, the Company recognized property and equipment impairments of \$19.2 million as a result of decreased forecasted crude oil pricing. The impairments were slightly offset by an associated deferred tax recovery of \$10.1 million, resulting in a net loss of \$9.2 million reported in the quarter. Touchstone completed a private placement in February 2020 for net proceeds of \$10.9 million, which increased working capital and decreased net debt as of March 31, 2020.
- 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 a \$0.9 million increase in funds flow from operations relative to the third quarter of 2019. Touchstone recorded \$7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of \$3.9 million, contributing to a net loss of \$3.5 million recognized in the quarter. The Company extended its term loan credit facility by C\$5 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt by 36 percent 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 percent increase in net debt from the second quarter of 2019.
- In the second quarter of 2019, average daily production decreased by 16 percent 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.

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

Beverley Smith

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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Nunez and Co.
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TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

NOMINATED ADVISOR AND JOINT BROKER

Shore Capital
London, United Kingdom

JOINT BROKER

Canaccord Genuity
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:

Oil and Gas Measurement

bbl(s)	barrel(s)
bbls/d	barrels per day
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMBtu	million British Thermal Units
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	Dated Brent
C\$	Canadian dollar
NGLs	Natural gas liquids
TSX	Toronto Stock Exchange
TT\$	Trinidad and Tobago dollar
WTI	Western Texas Intermediate
\$ or US\$	United States dollar
£	Pounds sterling