



Touchstone Exploration Inc.

Management's Discussion and Analysis

March 31, 2020

Management's Discussion and Analysis

As at and for the three months ended March 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 ended March 31, 2020 with comparisons to the three months ended March 31, 2019 is dated May 13, 2020 and should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2020 (the "interim financial statements"), as well with the Company's audited consolidated financial statements as at and for the year ended December 31, 2019. The interim financial statements and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with Touchstone's MD&A for the year ended December 31, 2019, as disclosure which is unchanged from December 31, 2019 may not be duplicated herein.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with the Canadian securities regulatory authorities, including the Company's 2019 Annual Information Form dated March 25, 2020, which can be found on the Company's SEDAR profile (www.sedar.com).

Unless otherwise stated, all financial amounts presented herein are rounded to thousands of United States dollars ("\$" or "US\$"). 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.

This MD&A contains forward-looking statements and non-GAAP measures. Readers are cautioned that the MD&A should be read in conjunction with Touchstone's disclosure under the sections titled "*Forward-looking Statements*", "*Non-GAAP Measures*", and "*Abbreviations*" included in this MD&A.

About Touchstone Exploration Inc.

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

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

Outlook

Current and forecasted crude oil pricing have deteriorated from a significant decrease in worldwide demand as a result of the pandemic and an increase in global supply due to disagreements over production restrictions between members of OPEC and Russia. The Company's realized crude oil price decreased by 44% from February to March. The rapid decline in oil prices had a negative impact on our cash flows during the first quarter and our projections for the balance of the year. The scale and duration of the novel coronavirus ("COVID-19") outbreak remain uncertain, and the full extent of the impact on the Company's operations and future financial performance is currently unknown.

We remain focused on protecting the health of our employees and communities and ensuring a decisive response for our investors. During the quarter, we introduced operating measures to protect the well-being of all stakeholders in line with local public health official guidelines while continuing to maintain safe operations and business continuity. With the continued volatility in crude oil pricing and our focus on effective and efficient operations, we are continuing to preserve liquidity and protect our financial position during this period of economic turmoil. We have reduced all discretionary development and operational spending and have only completed workovers on essential wells. We have also reduced operating and general and administrative costs and are continuing to identify greater reductions. In addition, we expect to store a portion of our second quarter 2020 crude oil production on an interim basis to sell in the future subject to internal and external levels of storage capacity.

Our objective remains to bring our two exploration discoveries onto production as soon as possible, which are expected to not only increase cash flow but insulate us from expected future crude oil price volatility from the continued effects of COVID-19 and worldwide oversupply. We are preparing to drill an exploration well at our Chinook prospect and anticipate drilling the well once domestic restrictions are lifted, subject to maintaining ongoing liquidity targets. We continue to monitor the situation and economic environment, and we will adapt our business operations and drilling program to ensure that we preserve and grow long-term shareholder value. We thank our shareholders and stakeholders for their continuing support and look forward to coming out of this challenging period with a stronger and sustainable Company.

Financial and Operating Results Summary

	Three months ended		%
	2020	March 31, 2019	change
Operating Highlights			
Average daily oil production (<i>bbls/d</i>)	1,589	2,121	(25)
Brent benchmark price (<i>\$/bbl</i>)	50.27	63.10	(20)
Operating netback ⁽¹⁾ (<i>\$/bbl</i>)			
Realized sales price	46.10	57.71	(20)
Royalties	(13.90)	(15.29)	(9)
Operating expenses	(13.59)	(13.07)	4
	18.61	29.35	(37)

Note:

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

(\$000's except as indicated)	Three months ended		% change
	2020	March 31, 2019	
Financial Highlights			
Petroleum sales	6,698	11,015	(39)
Cash (used in) flow from operating activities	(76)	2,737	n/a
Funds flow from operations ⁽²⁾	1,257	2,430	(48)
Per share – basic and diluted ⁽¹⁾⁽²⁾	0.01	0.02	(50)
Net loss	(9,240)	(185)	100
Per share – basic and diluted	(0.05)	(0.00)	n/a
Exploration capital expenditures	1,823	360	100
Development capital expenditures	220	399	(45)
Total capital expenditures	2,043	759	100
Working capital surplus	(8,094)	(1,963)	100
Principal non-current balance of term loan	13,338	11,235	19
Net debt ⁽¹⁾ – end of period	5,244	9,272	(43)
Share Information (000's)			
Weighted average shares outstanding			
Basic and diluted	169,361	140,984	20
Outstanding shares – end of period	183,489	160,688	14

Notes:

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

Operating results

In the first quarter of 2020, Touchstone completed two successful production tests on the Cascadura-1ST1 exploration well on the Ortoire block, investing a total of \$1,536,000 in testing and lease building activities (2019 - \$nil).

We conducted minimal developmental activity in the quarter, with average crude oil sales declining to 1,589 bbls/d, a 6% decrease relative to the 1,690 bbls/d produced in the prior quarter and a 25% reduction from 2,121 bbls/d produced in the first quarter of 2019. Our crude oil sales volumes have decreased due to the ongoing impact of natural declines associated with limited capital investment since the final two wells of the 2018 drilling program were brought onstream in January 2019. In March 2020 we sold 702 net barrels of natural gas liquids produced from the Cascadura-1ST1 production tests.

Financial results

We generated \$1,257,000 in funds flow from operations in the first quarter of 2020, which was down 48% from the prior year first quarter primarily due to a decline in production and weaker crude oil pricing. We recorded a net loss of \$9,240,000 (\$0.05 per share) in the first quarter of 2020 versus a net loss of \$185,000 (\$0.00 per share) generated in the prior year equivalent quarter. The decrease was primarily driven by non-cash property and equipment impairment charges of \$19,215,000 as a result of decreases in forecasted commodity prices, partially offset by an associated deferred tax recovery of \$10,072,000. Impairment charges were incurred due to the material reduction in crude oil price forecasts but may be reversed in future periods if commodity price forecasts improve.

In February we completed a United Kingdom based private placement in order to support the drilling of our third exploration commitment well at the Chinook prospect. The private placement raised net proceeds of approximately \$10,850,000 by way of a placing of 22,500,000 common shares. As a result,

we exited the first quarter with a cash balance of \$12,219,000, a working capital surplus of \$8,094,000 and a C\$20 million principal term loan balance. Net debt on March 31, 2020 was \$5,244,000, which represented a reduction of 68% relative to year end. Our credit facility does not require the commencement of principal payments until January 2021, and we remained comfortably within the financial covenants as at March 31, 2020.

Results of Operations

Financial highlights

(\$000's except for per share amounts)	Three months ended		% change
	2020	March 31, 2019	
Net loss	(9,240)	(185)	100
Per share – basic and diluted	(0.05)	(0.00)	n/a
Cash flow (used in) from operating activities	(76)	2,737	n/a
Funds flow from operations ⁽¹⁾	1,257	2,430	(48)
Per share – basic and diluted ⁽²⁾	0.01	0.02	(50)

Notes:

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

Net loss

We recorded a net loss of \$9,240,000 (\$0.05 per share) in the first quarter of 2020 versus a net loss of \$185,000 (\$0.00 per share) generated in the prior year equivalent quarter. The decrease was primarily due to \$19,215,000 in non-cash property and equipment impairment charges as a result of decreases in forecasted commodity prices, partially offset by deferred tax recoveries of \$10,072,000. Impairment charges were incurred due to crude oil price forecasts deteriorating from decreases in demand as a result of COVID-19 and an increase in supply arising from an oil market share war. Details of the change in net loss from the three months ended March 31, 2019 to the three months ended March 31, 2020 are included in the table below.

(\$000's)	
Net loss – March 31, 2019	(185)
Sales volume variance	(2,630)
Realized price variance	(1,687)
Royalties	900
Other income	33
Operating expenses	520
General and administrative expenses	148
Cash finance expenses	(81)
Current income tax expense	1,586
Realized foreign exchange expense	(6)
Total cash variances	(1,217)
Unrealized foreign exchange	359
Share-based compensation	(13)
Depletion and depreciation	363
Impairment	(19,225)
Non-cash finance expenses	(336)
Deferred income taxes	11,014
Total non-cash variances	(7,838)
Net loss – March 31, 2020	(9,240)

Cash flow from operating activities and funds flow from operations

Touchstone used \$76,000 in cash from operating activities in the first quarter of 2020 versus \$2,737,000 of cash generated from operating activities in the 2019 equivalent quarter. The variance relative to the prior year period was a result of a decrease of \$1,173,000 in funds flow from operations and a net change of \$1,640,000 in non-cash working capital.

During the three months ended March 31, 2020, we generated funds flow from operations of \$1,257,000, representing a 48% decrease relative to the \$2,430,000 recognized in the first quarter of 2019. Decreased operating netbacks of \$2,897,000 were partially offset by savings of \$1,466,000 in supplemental petroleum taxes. Details of the change in funds flow from operations from the three months ended March 31, 2020 to the three months ended March 31, 2019 are reflected in the following table.

(\$000's)	
Funds flow from operations – March 31, 2019 ⁽¹⁾	2,430
Sales volume variance	(2,630)
Realized price variance	(1,687)
Royalties	900
Other income	33
Expenses	
Operating	520
General and administrative	148
Cash finance	(81)
Current income tax	1,586
Realized foreign exchange	(6)
Change in non-cash other	28
Decommissioning expenditures	16
Funds flow from operations – March 31, 2020⁽¹⁾	1,257

Note:

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

Production volumes

	Three months ended		% change
	2020	March 31, 2019	
Production (bbls)			
Crude oil	144,599	190,880	(24)
Natural gas liquids	702	-	n/a
Total	145,301	190,880	(24)
Average daily production (bbls/d)			
Crude oil	1,589	2,121	(25)
Natural gas liquids	8	-	n/a
Total	1,597	2,121	(25)

First quarter 2020 crude oil sales decreased 24% compared to the prior year equivalent period, averaging 1,589 bbls/d. The decrease is reflective of natural declines, as the Company has not brought on additional development well production since January 2019. In March 2020 Touchstone sold 702 net barrels of Ortoire natural gas liquids produced from the Cascadura-1ST1 production tests.

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

(bbls)	Three months ended		% change
	2020	March 31, 2019	
Coora 1	38,842	45,333	(14)
Coora 2	4,694	6,954	(32)
WD-4	54,067	60,032	(10)
WD-8	27,882	55,237	(50)
New Dome	2,077	2,296	(10)
South Palo Seco	241	679	(65)
Barrackpore	1,423	1,457	(2)
Fyzabad	8,000	9,979	(20)
Palo Seco	832	942	(12)
San Francique	6,541	7,971	(18)
Ortoire	702	-	n/a
Production	145,301	190,880	(24)

Realized crude oil pricing

	Three months ended		% change
	2020	March 31, 2019	
Average crude oil benchmark prices			
Brent (\$/bbl)	50.27	63.10	(20)
WTI (\$/bbl)	46.17	54.90	(16)
Avg. realized price (\$/bbl)	46.10	57.71	(20)
Realized price discount as a % of Brent	(8.3)	(8.5)	
Realized price (discount) premium as a % of WTI	(0.2)	5.1	

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. Relative to the first quarter of 2019, the Brent reference pricing differential observed during the first quarter of 2020 narrowed slightly from 8.5% to 8.3%. The Company is expecting differentials to increase in the second quarter of 2020 based on the current worldwide oversupply of crude oil.

We realized an average price of \$46.10 per barrel in the first quarter of 2020 compared to an average of \$57.71 per barrel in the comparative period of 2019. The 20% decrease was predominately driven by the year-over-year decrease in the average Brent reference price over each period.

Petroleum sales

(\$000's)	Three months ended		% change
	2020	March 31, 2019	
Petroleum sales	6,698	11,015	(39)

We recognized petroleum sales of \$6,698,000 during the three months ended March 31, 2020 versus \$11,015,000 recorded in the prior year comparative quarter. \$2,630,000 of the aggregate \$4,317,000 decrease from the prior year reflected decreased production with the remaining \$1,687,000 variance from reductions in realized pricing.

We sell all of our crude oil to Heritage Petroleum Company Limited ("Heritage"), with title transferring at our various sales batteries. As at March 31, 2020, the Company held 5,210 barrels of crude oil inventory versus 4,166 barrels held as at December 31, 2019.

Operating netback

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

	Three months ended		%
	2020	March 31, 2019	change
<i>(\$000's)</i>			
Petroleum sales ⁽¹⁾	6,698	11,015	(39)
Royalties	(2,019)	(2,919)	(31)
Operating expenses	(1,975)	(2,495)	(21)
Operating netback⁽²⁾	2,704	5,601	(52)
<i>(\$/bbl)</i>			
Brent benchmark price	50.27	63.10	(20)
Discount	(4.17)	(5.39)	
Realized sales price	46.10	57.71	(20)
Royalties	(13.90)	(15.29)	(9)
Operating expenses	(13.59)	(13.07)	4
Operating netback⁽²⁾	18.61	29.35	(37)

Notes:

(1) Excludes other income.

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

Royalties

	Three months ended		%
<i>(\$000's unless otherwise stated)</i>	2020	March 31, 2019	change
Crown royalties	775	1,214	
Private royalties	69	100	
Overriding royalties	1,175	1,605	
Royalties	2,019	2,919	(31)
As a % of petroleum sales	30.1%	26.5%	14

Touchstone is obligated to pay a crown royalty rate of 12.5% on crude oil production under Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") and Heritage licences. For private leases, the Company incurs private royalties between 10% and 12.5% of petroleum sales.

On the WD-8, Coora and WD-4 blocks, Touchstone operates under lease operatorship agreements ("LOAs"), 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"). The ORR and enhanced ORR rates are indexed to the average price of oil realized in the production month as noted in the table below. The LOAs allow for ORR and enhanced ORR incentives for the drilling or sidetracking of a replacement well as follows:

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

In addition to crown royalties, the farmout agreements ("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 table below. There are no incentives for drilling under the FOAs.

Monthly realized oil price (US\$)	LOAs		FOAs	
	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%
\$20.00 - \$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%

2020 first quarter royalties represented 30.1% of petroleum sales compared to 26.5% in the prior year comparative period. Relative to the first quarter of 2019, the increase in royalties as a percentage of sales was primarily a result of an average increase in overriding royalties, as production from wells drilled in 2018 did not incur overriding royalties in the prior year.

Operating expenses

(\$000's)	Three months ended		% change
	2020	March 31, 2019	
Operating expenses	1,975	2,495	(21)

Our first quarter operating expenses were \$1,975,000, representing \$13.59 per barrel. In comparison to the first quarter of 2019, current period operating expenses declined 21%, primarily based on decreased well servicing costs and decreased variable operating costs from declines in production. On a per barrel basis, first quarter 2020 operating expenses increased 4% from the \$13.07 per barrel incurred in the prior year comparative period. Although we decreased discretionary operating costs in the first quarter of 2020, 2019 first quarter operating costs per barrel benefited from increased production, which spread the fixed component of operating costs over a larger production base.

General and administrative expenses ("G&A")

(\$000's unless otherwise stated)	Three months ended		% change
	2020	March 31, 2019	
Gross G&A	1,335	1,565	(15)
Capitalized G&A	(168)	(250)	(33)
G&A expenses	1,167	1,315	(11)
On a per barrel basis	8.03	6.89	17

First quarter 2020 G&A expenses decreased by 11% from the first quarter of 2019 primarily due to decreased salaries and benefits, which were slightly offset by decreased capitalized G&A in the current quarter.

Net finance expenses

(\$000's)	Three months ended		% change
	2020	March 31, 2019	
Interest income	(6)	(31)	(81)
Term loan interest expense	299	222	35
Term loan revaluation gain	-	(277)	n/a
Production payment liability revaluation loss	260	232	12
Accretion on term loan	124	73	70
Accretion on decommissioning liabilities	102	90	13
Lease liability interest expense	5	26	(81)
Other	(46)	(14)	100
Net finance expenses	738	321	100
Cash finance expenses	302	221	37
Non-cash finance expenses	436	100	100
Net finance expenses	738	321	100

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

Term loan interest expenses increased in the first quarter of 2020 from 2019, reflecting an increase in the principal balance of the Company's term loan credit facility from C\$15 million to C\$20 million effective October 31, 2019 (see "*Liquidity and Capital Resources - Term loan*"). The first quarter 2019 term loan revaluation gain represented the impact of a one-year extension of the credit facility in March 2019. The term credit facility principal expansion also served to increase related term loan accretion in the first quarter of 2020 relative to the 2019 corresponding period, as the discounted term loan balance is unwound using the effective interest rate method to the principal value at maturity. Production payment liability revaluation losses were a result of increased production payment liabilities estimated by the Company at each reporting period. The estimated liability will continue to vary in each reporting period based on changes to internally forecasted production and forward commodity pricing.

In comparison to the first quarter of 2019, 2020 first quarter lease liability interest expenses decreased as a result of decreased lease liability balances throughout 2019 (refer to "*Liquidity and Capital Resources - Lease liabilities*").

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 table below.

	Three months ended		% change
	2020	March 31, 2019	
Average foreign exchange rates⁽¹⁾			
US\$:C\$	1.33	1.33	-
US\$:TT\$	6.76	6.77	-

Note:

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

	March 31, 2020	December 31, 2019	%
			change
Closing foreign exchange rates⁽¹⁾			
US\$:C\$	1.42	1.30	9
US\$:TT\$	6.78	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\$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT\$. This is currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company is also subject to foreign exchange exposure relating to Canadian head office expenses and its term loan, which are denominated in C\$. Any material movements in the C\$ to US\$ exchange rate may have a material effect on the Company's reporting results. The Company also has foreign exchange exposure on costs denominated in pounds sterling required to maintain its AIM listing.

During the first quarter of 2020, the C\$ depreciated relative to the US\$; however, the average quarterly rate was consistent with the corresponding average rate observed in the 2019 first quarter. During the three months ended March 31, 2020 and 2019, the TT\$ remained range bound to the US\$. The Company recorded a foreign exchange gain of \$315,000 in the first quarter of 2020 compared to a loss of \$38,000 realized in the equivalent 2019 period. The majority of the first quarter 2020 translation differences were unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

The assets and liabilities of the Company's subsidiaries are translated to US\$ dollars at the exchange rate on the reporting period date for presentation purposes, with all foreign currency differences recorded in other comprehensive loss. Relative to the US\$, the C\$ closed 9% weaker on March 31, 2020 versus December 31, 2019, while the TT\$ remained consistent in both periods. As a result, a foreign currency translation gain of \$101,000 was recognized during the first quarter of 2020 versus a loss of \$33,000 in the comparative quarter of 2019.

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.

On March 30 and 31, 2020, an aggregate 286,300 share options were exercised. On April 6, 2020, the Company granted 2,611,000 share options to officers, directors and employees at an exercise price of C\$0.48 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.

The Company has an incentive share compensation option plan which provides for the grant of incentive share options to purchase common shares of the Company at a C\$0.05 exercise price. A maximum of one million common shares have been approved for issuance under this plan, of which 437,625 have been historically issued under the plan as of March 31, 2020. There were no incentive share options outstanding as at March 31, 2020; no incentive options have been awarded since 2014.

The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding Company common shares. At March 31, 2020, Touchstone had 8,306,800 share options outstanding, with a weighted average exercise price of C\$0.23 per share, representing 4.5% of the Company's outstanding common shares (December 31, 2019 - 5.4%).

During the three months ended March 31, 2020, the Company recorded share-based compensation expenses of \$44,000 in relation to share option plans (2019 - \$31,000).

Depletion and depreciation expense

(\$000's unless otherwise stated)	Three months ended		% change
	2020	March 31, 2019	
Depletion expense	958	1,287	(26)
On a per barrel basis	6.59	6.74	(2)
Depreciation expense	130	164	(21)
Depletion and depreciation expense	1,088	1,451	(25)

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 March 31, 2020, \$66,610,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2019 - \$67,134,000). In the first quarter of 2020, depletion decreased 26% on an absolute basis and 2% on a unit of production basis from the first quarter of 2019. The decline in depletion reflected lower production in the first quarter of 2020 versus the prior year equivalent quarter.

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 assets are depreciated over their estimated useful lives on a straight-line basis. The decrease in depreciation expense reported in the first quarter of 2020 relative to the first quarter of 2019 was predominately a result of lower net asset values.

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

During the three months ended March 31, 2020, the Company incurred \$88,000 in lease expenses (2019 - \$78,000) relating to its East Brighton property, which were impaired given the property's estimated recoverable value was \$nil.

The Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of \$15,223,000 as at March 31, 2020 (December 31, 2019 - \$13,579,000).

Property and equipment impairments

At March 31, 2020, indicators of impairment were present due to the significant decline in crude oil forward pricing. Impairment tests were conducted on all CGUs, resulting in an impairment charge of \$19,215,000 recognized during the three months ended March 31, 2020 as reflected in the table below.

(\$000's)	Three months ended		% change
	2020	March 31, 2019	
Coora	6,940	-	
WD-4	5,968	-	
WD-8	6,307	-	
Property and equipment impairments	19,215	-	n/a

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, capital expenditures, operating costs or the discount rate would impact the estimated recoverable amounts. Further information regarding impairment charges recorded during the three months ended March 31, 2020 is included in Note 7 "Property and Equipment Impairments" of the Company's March 31, 2020 interim 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 March 31, 2020, the Company classified \$1,153,000 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.

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$11,451,000 as at March 31, 2020 based on a total inflation adjusted future liability of \$26,653,000 (December 31, 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. March 31, 2020 decommissioning liabilities were valued using a long-term risk-free rate of 5.6% and a long-term inflation rate of 3.3% (December 31, 2019 - 5.5% and 3.3%, respectively). \$102,000 of accretion charges were recognized during the three months ended March 31, 2020 to reflect the increase in decommissioning liabilities associated with the passage of time (2019 - \$90,000). Decommissioning obligation details as at March 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	15,708	26,653	11,451

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the three months ended March 31, 2020 is included in Note 10 "Decommissioning Liabilities and Abandonment Fund" of the Company's March 31, 2020 interim financial statements.

Income taxes

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

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

SPT is computed and remitted on a quarterly basis and is applicable to produced petroleum liquids. Actual rates vary based on the realized selling prices of crude oil in the applicable quarter. The SPT rate is 0% when the weighted average realized price of oil for a given quarter is below \$50.00 per barrel and 18% when weighted average realized oil prices fall between \$50.00 and \$90.00. The revenue base for the calculation of SPT is gross revenue less royalties paid, less 25% 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 investment tax credits are applicable for exploration spending.

Annual PPT and UL taxes are calculated based on net taxable profits. Net taxable profits are determined by calculating gross revenue less: royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses. PPT losses may be carried forward indefinitely to reduce PPT in future years. Effective January 1, 2020, PPT losses can only be used to shelter a maximum of 75% of PPT per annum. UL losses cannot be carried forward to reduce future year UL. Effective January

1, 2020, 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 that is subject to the greater of a 30% corporation income tax calculated on net taxable profits or a 0.6% business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above. All corporate income tax losses can be carried forward indefinitely. Allowances vary from 10% to 33.3% for various capital expenditures incurred in the year.

The following table sets forth current income tax expense for the three months ended March 31, 2020 and 2019.

(\$000's)	Three months ended		% change
	2020	March 31, 2019	
SPT	5	1,471	
PPT/UL	-	115	
Business levy	4	4	
Green fund levy	23	28	
Current income tax expense	32	1,618	(98)

First quarter 2020 current income taxes were \$32,000 versus \$1,618,000 recorded in the prior year equivalent quarter. The decrease observed in the first quarter of 2020 was predominately from minimal SPT, as realized quarterly pricing was below \$50.00 per barrel.

Touchstone's \$3,200,000 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 March 31, 2020 (December 31, 2019 - \$13,289,000). The Company recorded a deferred tax recovery of \$10,072,000 in the first quarter of 2020, primarily reflective of property and equipment impairment charges recorded in the quarter, which reduced financial statement carrying values and the corresponding deferred tax liability balance (2019 – expense of \$942,000).

Touchstone's deferred tax balance continues to be in a net liability position, mainly from the discrepancy between the carrying values and the tax values of the Company's petroleum assets. The Company's March 31, 2020 net deferred tax liability includes \$7,923,000 of deferred tax assets (December 31, 2019 - \$8,477,000). The deferred tax asset is reviewed at each reporting date to assess whether it is probable that the related tax benefit will be realized in the future. As at March 31, 2020, the Company estimated that future taxable income was sufficient to realize the deferred tax asset. The estimates used to determine future taxable income are subject to measurement uncertainty, and actual results could differ from estimates.

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 income taxes during the three months ended March 31, 2020 is included in Note 11 "Income Taxes" of the Company's March 31, 2020 interim 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		% change
	2020	March 31, 2019	
Lease payments	225	200	
Geological	-	103	
Drilling, completions and well testing	1,536	-	
Capitalized G&A / other	62	57	
Total expenditures	1,823	360	100

During the first quarter of 2020, the Company focused on Cascadura-1ST1 production testing, performing two tests in February and March. Capital investment was also focused on Chinook-1 well site lease preparation.

Property and equipment (development) expenditures

(\$000's)	Three months ended		% change
	2020	March 31, 2019	
Drilling and completions	114	206	
Capitalized G&A	106	193	
Total expenditures	220	399	(45)

Touchstone conducted minimal field development activity in the first quarter of 2020, with only well recompletions performed. In the 2019 comparative quarter, the Company completed two wells that were drilled in December 2018.

Liquidity and Capital Resources

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

As at March 31, 2020, Touchstone had a cash balance of \$12,219,000, a working capital surplus of \$8,094,000 and a C\$20 million principal term loan balance. The Company's net debt was \$5,244,000 as at March 31, 2020, representing net debt to trailing twelve-month annual funds flow from operations of 0.9 times. Touchstone's credit facility does not require the commencement of principal payments until January 1, 2021, and the Company continued to be comfortably within the financial covenants as at March 31, 2020.

On the basis of the successful results from the first two Ortoire exploration wells, the Company undertook a private placement in February 2020 in order to support the drilling of a further Ortoire exploration well at the Chinook prospect. The private placement raised net proceeds of \$10,850,000 by way of a placing of 22,500,000 common shares at a price of approximately C\$0.69.

The Company's near-term development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities on the Ortoire property. Touchstone's near-term focus is to bring the Coho-1 natural gas well onto production to increase cash flows and decrease the Company's sole reliance on volatile crude oil forward pricing. Touchstone will continue to take a measured approach to future developmental and exploration drilling in an effort to manage financial liquidity while focusing on bringing its two successful Ortoire wells onto production and continuing its Ortoire exploration opportunity.

Management's long-term strategy is to maintain net debt to annual funds flow from operations at or below a ratio of 2.0 times. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Touchstone also monitors its capital management through the net debt to net debt plus equity ratio. Management's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. The Company's internal capital management calculations for the three months ended March 31, 2020 and year ended December 31, 2019 are summarized in the table below.

(\$000's)	Target measure	March 31, 2020	December 31, 2019
Current assets		(19,961)	(14,118)
Current liabilities		11,867	15,257
Working capital (surplus) deficit ⁽¹⁾		(8,094)	1,139
Principal non-current balance of term loan		13,338	15,364
Net debt ⁽²⁾		5,244	16,503
Shareholders' equity		31,930	30,115
Net debt plus equity		37,174	46,618
Trailing twelve-month funds flow from operations ⁽³⁾		5,667	6,840
Net debt to funds flow from operations	at or < 2.0 times	0.93	2.41
Net debt to net debt plus equity	< 0.4 times	0.14	0.35

Notes:

- (1) Working capital deficit is a Non-GAAP measure and is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position.
- (2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
- (3) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information. Trailing twelve-month funds flow from operations as at March 31, 2020 include funds flow from operations for the three months ended March 31, 2020 plus funds flow from operations for the April 1 through December 31, 2019 interim period.

Term loan

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

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

- June 15, 2018: The Second Amending Agreement to the Credit Agreement extended the term credit facility maturity date by one year to November 22, 2022 and deferred all principal payments

by one year. The First Amendment to the Production Payment Agreement extended the maturity date by one year as well.

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

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

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

At inception the term loan liability was measured at fair value, net of all transaction fees, using a discount rate of 12%. In the first quarter of 2019, the term loan was revalued based on the Third Amending Agreement, resulting in a gain of \$277,000 recognized during the three months ended March 31, 2019. The discount on the term loan liability is unwound using the effective interest rate method to the face value at maturity, resulting in \$124,000 recognized to accretion during the three months ended March 31, 2020 (2019 - \$73,000). The term loan liability balance was \$12,958,000 as at March 31, 2020, with \$776,000 classified as a current liability on the consolidated statement of financial position (December 31, 2019 - \$13,966,000 and \$nil, respectively).

The production payment liability is revalued at each reporting period based on internal estimated future production and forward crude oil pricing forecasts using a discount rate of 15%. As a result of these changes in estimates, revaluation losses of \$260,000 and \$232,000 were recognized during the three months ended March 31, 2020 and 2019, respectively. The production payment liability balance was estimated at \$1,079,000 as at March 31, 2020, with \$119,000 classified as a current liability on the consolidated statement of financial position (December 31, 2019 - \$989,000 and \$220,000, respectively).

The Amended Credit Agreement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at March 31, 2020 are set forth below.

Covenant	Covenant threshold	Three months ended March 31, 2020
Net funded debt to equity ratio ⁽¹⁾	< 0.50 times	0.03 times
Net funded debt to EBITDA ratio ⁽²⁾	< 2.50 times	0.21 times

Notes:

- (1) Net funded debt is defined in the Amended Credit Agreement as interest-bearing debt less cash and lease liabilities. Equity is defined as the book value of shareholders' equity less accumulated other comprehensive loss, less the effects of impairment expenses or recoveries.
- (2) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined in the Amended Credit Agreement as net earnings before interest, income taxes and all non-cash items.

Pursuant to the Amended Credit Agreement, a failure of any covenant constitutes an event of default. Upon an event of default, the lender can declare the principal credit facility balance and any accrued

interest immediately due and payable. The Company routinely reviews Credit Agreement covenants based on actual and forecasted results and can make changes to development and exploration plans to comply with the covenants. The Company is committed to having an adaptable capital expenditure program that can be adjusted to a tightening of liquidity sources if necessary.

Restricted cash

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

Finance lease

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

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. At March 31, 2020, the Company's finance lease receivable was \$342,000, of which \$205,000 was classified as non-current and included in other assets on the consolidated statement of financial position (December 31, 2019 - \$376,000 and \$239,000, respectively).

Lease liabilities

The Company has lease liabilities for head office space, motor vehicles and office equipment, with contracts effective from one to three years (as of March 31, 2020). Leases are negotiated on an individual basis and contain varying terms and conditions. Discount rates used in calculating the present values of lease payments at March 31, 2020 and December 31, 2019 were between 5 and 10%.

The following table details the movements of the Company's lease liabilities for the three months ended March 31, 2020 and the year ended December 31, 2019.

<i>(\$000's)</i>	Three months ended March 31, 2020	Year ended December 31, 2019
Balance, beginning of year	335	1,352
Interest expense	5	69
Payments	(64)	(432)
Derecognition of liabilities	-	(670)
Effect of change in foreign exchange rates	(14)	16
Balance, end of period	262	335
Current (included in accounts payable and accrued liabilities)	196	230
Non-current	66	105
Lease liabilities	262	335

Shareholders' equity

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

	May 13, 2020	March 31, 2020	December 31, 2019
Common shares outstanding	183,489,395	183,489,395	160,703,095
Share options outstanding	10,917,800	8,306,800	8,740,600
Fully diluted common shares	194,407,195	191,796,195	169,443,695

On February 26, 2020, the Company completed a private placement directed toward United Kingdom institutional investors, whereby gross proceeds of \$11,653,000 were raised by way of issuing 22,500,000 new common shares at a price of approximately C\$0.69 per common share. Fees incurred from the private placement were \$803,000, which included brokerage commissions and legal and corporate finance advisory fees, resulting in net proceeds of \$10,850,000.

On April 6, 2020, the Company granted 2,611,000 share options to officers, directors and employees at an exercise price of C\$0.48 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.

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. While the decrease in commodity prices as a result of the COVID-19 pandemic will negatively impact the Company's financial performance and position, the Company believes that future cash flows 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 production, crude oil and natural gas 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. Given that the Company currently has minimal development work obligations and guarantees, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. The Company has applied for an extension of its Ortoire licence, as two exploration commitment wells must be drilled prior to October 2020.

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at March 31, 2020.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	4 to 5 years
Accounts payable and accrued liabilities	10,758	10,758	-	-
Income taxes payable	214	214	-	-
Term loan principal	14,114	776	6,210	7,128
Estimated term loan production payments	2,098	260	1,298	540
Term loan interest payments	2,983	1,111	1,576	296
Lease liabilities	273	206	67	-
Total financial liabilities	30,440	13,325	9,151	7,964

Market Risk Management

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

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

Commodity price risk

The Company is exposed to commodity price movements as part of its operations. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. Touchstone maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. Touchstone's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases. The Company had no commodity financial contracts in place as of January 1, 2020. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development and exploration capital programs.

Foreign currency risk

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

the C\$ to US\$ exchange rate may have a material effect on the Company's reporting results (see "Foreign exchange and foreign currency translation").

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company has no contracts in place to manage foreign currency risk as at the date hereof or during the three months ended March 31, 2020 and year ended December 31, 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 March 31, 2020, the Company was exposed to credit risk with respect to its accounts receivable and other assets, which include finance lease receivable and deferred consideration from a 2018 property disposition.

As at March 31, 2020, the Company determined that the average expected credit loss on the Company's accounts receivables was \$nil (December 31, 2019 - \$nil). The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from the Trinidad government for value added taxes, and although the timing of settlement is uncertain, the Company has not historically experienced any material collection issues. The aging of accounts receivable as at March 31, 2020 and December 31, 2019 is disclosed in the following table.

(\$000's)	March 31, 2020	December 31, 2019
Not past due	2,568	3,581
Past due (greater than 90 days)	4,070	3,767
Accounts receivable	6,638	7,348

Further details relating to Touchstone's credit risk can be found in Note 4 "Financial Assets and Credit Risk" of the Company's March 31, 2020 interim 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 officers and directors. The Company is party to various legal claims associated with the ordinary conduct of business, and the Company does not expect that these claims will have a material impact on its financial position.

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

The following table outlines the Company's estimated minimum contractual capital requirements as at March 31, 2020.

(\$000's)	Total	Estimated payments due by period			
		2020	2021	2022	Thereafter
Operating agreement commitments					
Coora blocks	100	11	16	16	57
WD-4 block	233	26	37	39	131
WD-8 block	215	24	34	36	121
New Dome block	15	2	2	2	9
South Palo Seco block	1,437	67	800	101	469
Fyzabad block	967	55	74	76	762
Exploration agreement commitments					
Ortoire block	6,222	6,222	-	-	-
East Brighton block	238	238	-	-	-
Office and equipment leases	323	176	147	-	-
Minimum payments	9,750	6,821	1,110	270	1,549

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

Under the terms of its Ortoire exploration licence, the Company has drilled two of four commitment wells and must also acquire and process 85-line kilometres of 2D seismic. The initial stage of the licence expires in October 2020, and the Company has applied for an extension based on its two commercial discoveries to date.

Operating Agreements

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

In addition to LOAs and FOAs governed by Heritage, the Company operates under state exploration and production licences with the MEEI and private exploration and production agreements with individual landowners.

Lease operatorship agreements

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

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

Farmout agreements

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

As of March 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 four well recompletions. Wells scheduled to be drilled in 2018 and 2019 remain outstanding (see "*Contractual Obligations, Commitments and Guarantees*" for further details). The South Palo Seco property is considered non-core as it represented 0.2% of total Company crude oil production during the three months ended March 31, 2020 (2019 - 0.4%).

MEEI exploration and production licences

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

The Company's Fyzabad and Palo Seco agreements with the MEEI contain no major work obligations or covenants. The Palo Seco licence expired on August 19, 2013, and Touchstone is currently negotiating a renewal or an extension. The Company has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed. The Palo Seco property is also considered non-core as it represented 0.5% of total Company crude oil production during the three months ended March 31, 2020 (2019 - 0.5%).

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 three months ended March 31, 2020, production volumes produced under expired private lease agreements represented 2.0% of total Company production (2019 – 1.8%).

Crude oil marketing agreement

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

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.

The scale and duration of the COVID-19 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 March 31, 2020 interim financial statements and future period financial statements.

A full list of the significant estimates and judgements made by Management in the preparation of its financial statements are included in Note 5 "Use of Estimates, Judgements and Assumptions" of the December 31, 2019 consolidated financial statements. The outbreak and volatile market conditions increased the complexity of estimates, judgements and assumptions used to prepare the Company's March 31, 2020 interim consolidated 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 March 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 March 31, 2020. There were no changes during the three months ended March 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 2019 Annual Information Form dated March 25, 2020, which can be found on the Company's SEDAR profile (www.sedar.com).

The Company is exposed to a variety of risks including, but not limited to, political, operational, financial, and environmental risks. As discussed in the "*Market Risk Management*" section of this MD&A, the Company is exposed to normal financial risks inherent in the international oil and gas industry including commodity price risk, exchange rate risk, and credit risk. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in foreign exchange and commodity prices. The Company operates the majority of its properties and, therefore, has significant

control over the timing and costs related to exploration commitments and development opportunities. The following are key risks, uncertainties and opportunities associated with the Company's business that can impact financial results.

Foreign location of assets and foreign economic and political risk

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

Volatility of commodity prices

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

Adverse economic conditions

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

Touchstone's results of operations and cash flows.

Refinancing and debt service

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of crude oil and natural gas reserves in the future. From time to time, the Company may have to raise additional funds to finance business development activities. The Company's ability to raise additional capital will depend on a number of factors such as general economic and market conditions that are beyond the Company's control. Internally generated funds will also fluctuate with changing commodity prices. The Company is committed to having an adaptable capital expenditure program that can be adjusted to capitalize on acquisition opportunities and, if necessary, a tightening of liquidity sources.

Touchstone currently has a C\$20,000,000 term credit facility that is secured against the current and future assets of the Company. Touchstone is required to comply with covenants under this facility, and in any event on non-compliance, access to capital could be restricted or repayment may be required. The Company routinely reviews the covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants under the credit facility. If Touchstone becomes unable to pay its debt service charges or otherwise commits an event of default, the lender may foreclose on such assets of Touchstone or sell the working interests.

Access to capital markets

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

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

Operational matters

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 operation of oil and gas wells and sales facilities involves a number of operational and natural hazards. Operational risks include competition, reservoir performance uncertainties, well blow-outs and other operating hazards, lack of infrastructure or transportation to access markets and monetize reserves, and regulatory, environment and safety concerns. The Company works to mitigate these risks by employing highly skilled personnel and utilizing available technology. The Company maintains a corporate insurance program in amounts consistent with industry practices to protect against insurable losses. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce cash flows and may reduce future capital investments. Furthermore, the Company may be subject to specific project risks that may be required to process and market its natural gas reserves.

The oil and natural gas industry is intensely competitive, with the Company competing against companies that may have greater technical and financial resources. There is competition for new exploration and

development properties, for infrastructure and sales contracts, for drilling and other specialized technical equipment and for experienced key human resources.

Sole purchaser and the ability to market

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

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

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.

Trinidad exploration and production agreements

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

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

Advisory on Forward-Looking Statements

Certain information regarding Touchstone set forth in this MD&A, including assessments by the Company's Management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "believe" and other similar expressions.

Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production rates, production decline rates, the magnitude of and ability to recover oil and gas reserves, plans for and results of drilling and recompletion activities, well abandonment costs, the ability to secure necessary personnel, equipment and services, environmental matters, future commodity prices, changes to prevailing regulatory, royalty, tax and environmental laws and regulations, the impact of competition, future capital and other expenditures (including the amount, nature and sources of funding thereof), future financing sources, business prospects and opportunities, risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties and risks related to lawsuits.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Touchstone. In particular, forward-looking statements contained in this MD&A may include, but are not limited to, statements with respect to:

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

- terms and estimated future expenditures of the Company's contractual commitments and their timing of settlement;
- terms and title of exploration and production licences and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated or future regulatory approvals;
- access to facilities and infrastructure;
- expected levels of operating costs, G&A costs and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil and natural gas;
- treatment under current and future governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future liquidity and future sources of liquidity;
- the Company's future compliance with its Credit Agreement covenants and its ability to make future scheduled interest, principal and production obligation payments;
- estimated amounts of the Company's future production payment obligations in connection with its Production Payment Agreement;
- the potential of future acquisitions or dispositions;
- general economic and political developments in Trinidad;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning liabilities;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Estimates, 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 and net debt. These terms do not have a standardized meaning prescribed under GAAP and therefore may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash flow from operating activities, net earnings, net earnings per share, total liabilities, or other measures of financial performance as determined in accordance with GAAP. Management uses these non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

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

The Company uses operating netback as a key performance indicator of field results. Operating netback is presented on a total and per barrel basis and is calculated by deducting royalties and operating expenses from petroleum sales. If applicable, the Company also discloses operating netback both prior to realized gains or losses on derivatives and after the impacts of derivatives are included. Realized gains or losses represent the portion of risk management contracts that have settled in cash during the period, and disclosing this impact provides Management and investors with transparent measures that reflect how the Company's risk management program can 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	
	2020	March 31, 2019
Petroleum sales	6,698	11,015
Royalties	(2,019)	(2,919)
Operating expenses	(1,975)	(2,495)
Operating netback	2,704	5,601
Production (bbls)	145,301	190,880
Operating netback (\$/bbl)	18.61	29.35

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

(\$000's)	Three months ended	
	2020	March 31, 2019
Funds flow from operations	1,257	2,430
Other income	(41)	(8)
Expenses		
G&A	1,167	1,315
Net finance	738	321
Current income tax	32	1,618
Realized foreign exchange	(14)	(20)
Change in non-cash other	(435)	(71)
Decommissioning expenditures	-	16
Operating netback	2,704	5,601

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

(\$000's)	March 31, 2020	December 31, 2019	March 31, 2019
Current assets	(19,961)	(14,118)	(18,648)
Current liabilities	11,867	15,257	16,685
Working capital (surplus) deficit	(8,094)	1,139	(1,963)
Principal non-current balance of term loan	13,338	15,364	11,235
Net debt	5,244	16,503	9,272

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

(\$000's)	March 31, 2020	December 31, 2019
Total liabilities	39,726	54,933
Provisions	-	-
Lease liabilities	(66)	(105)
Decommissioning liabilities	(11,451)	(11,547)
Deferred income tax liability	(3,200)	(13,289)
Variance between carrying value and undiscounted value of term loan	196	629
Current assets	(19,961)	(14,118)
Net debt	5,244	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 term loan on October 31, 2019, which among other things amended certain financial covenants in the term loan by excluding lease obligations that were treated as operating leases under IFRS in effect as at December 31, 2018 (refer to "*Liquidity and Capital Resources – Term loan*"). 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.

Summary of Quarterly Results

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

Three months ended	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Operating Highlights				
Average daily production (<i>bb/d</i>)	1,589	1,690	1,729	1,768
Net wells drilled	-	0.8	0.8	-
Brent benchmark price ⁽¹⁾ (<i>\$/bbl</i>)	50.27	63.17	61.95	69.01
Operating netback ⁽²⁾ (<i>\$/bbl</i>)	18.61	25.12	24.56	26.85
Financial Highlights				
<i>(\$000's except per share amounts)</i>				
Petroleum sales	6,698	8,920	9,011	9,708
Cash flow from (used in) operating activities	(76)	2,090	(1,205)	1,832
Funds flow from operations ⁽³⁾	1,257	2,018	1,082	1,310
Per share - basic and diluted ⁽²⁾⁽³⁾	0.01	0.01	0.01	0.01
Net loss	(9,240)	(3,549)	(1,053)	(833)
Per share - basic and diluted	(0.05)	(0.02)	(0.01)	(0.01)
Exploration capital expenditures	1,823	5,838	3,234	681
Development capital expenditures	220	157	517	315
Total capital expenditures	2,043	5,995	3,751	996
Working capital (surplus) deficit	(8,094)	1,139	805	(2,062)
Principal non-current balance of term loan	13,338	15,364	11,328	11,459
Net debt ⁽²⁾ - end of period	5,244	16,503	12,133	9,397

Three months ended	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Share Information (000's)				
Weighted average shares outstanding - basic and diluted	169,361	160,691	160,688	160,688
Outstanding shares - end of period	183,489	160,703	160,688	160,688

Notes:

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

Three months ended	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Operating Highlights				
Average daily production (bbls/d)	2,121	1,851	1,758	1,717
Net wells drilled	-	3.0	3.0	3.0
Brent benchmark price ⁽¹⁾ (\$/bbl)	63.10	68.76	75.10	74.53
Operating netback ⁽²⁾ (\$/bbl)	29.35	22.55	28.39	29.58
Financial Highlights (\$000's except per share amounts)				
Petroleum sales	11,015	9,970	9,862	9,685
Cash flow from operating activities	2,737	1,810	831	4,711
Funds flow from operations ⁽³⁾	2,430	1,482	2,497	2,507
Per share - basic and diluted ⁽²⁾⁽³⁾	0.02	0.01	0.02	0.02
Net (loss) earnings	(185)	552	199	(523)
Per share - basic and diluted	(0.00)	0.00	0.00	(0.00)
Exploration capital expenditures	360	1,603	443	334
Development capital expenditures	399	4,773	3,475	3,506
Total capital expenditures	759	6,376	3,918	3,840
Working capital (surplus) deficit	(1,963)	3,318	(1,568)	(2,844)
Principal non-current balance of term loan	11,235	11,004	11,627	11,420
Net debt ⁽²⁾ - end of period	9,272	14,322	10,059	8,576
Share Information (000's)				
Weighted avg. shares outstanding - basic	140,984	129,021	129,021	129,021
Weighted avg. shares outstanding - diluted	140,984	130,532	130,728	129,021
Outstanding shares - end of period	160,688	129,021	129,021	129,021

Notes:

- (1) Average for the quarterly periods indicated. Source: US Energy Information Administration.
- (2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "Non-GAAP Measures" for further information.
- (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.

Trends in net earnings and funds flow from operations are primarily associated with fluctuations in revenues which reflect changes in production levels and commodity prices. In addition, net earnings and total asset values are affected by exploration asset and development property and equipment impairments and reversals.

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

- In the 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 \$10.5 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 the \$0.9 million quarterly increase in funds flow from operations. Touchstone recorded net \$7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of \$3.9 million, leading to a net loss of \$3.5 million recognized in the quarter. The Company extended its term loan credit facility by C\$5.0 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt by 36% from the third quarter of 2019.
- In the third quarter of 2019, Touchstone drilled its first Ortoire exploration well. The investment led to a 29% increase in net debt from the second quarter of 2019.
- In the second quarter of 2019, average daily production decreased by 16% from the first quarter of 2019 as production from wells drilled in the fourth quarter of 2018 stabilized. The production decline decreased funds flow from operations and increased the Company's net loss from the first quarter of 2019.
- In the first quarter of 2019, flush production from wells drilled in the fourth quarter of 2018 increased average daily production by 15%, thereby increasing petroleum sales and funds flow from operations and decreasing net debt from the previous quarter.
- In the fourth quarter of 2018, the Company drilled three net development wells and commenced exploration activities on the Ortoire property, thereby increasing 2018 capital expenditures to \$6.4 million and increasing net debt by \$4.3 million. Touchstone recorded net \$3.2 million of property and equipment impairment reversals, leading to net earnings of \$0.5 million recognized in the quarter.

Currency and References to Touchstone

All information included in this MD&A is shown on a United States dollar basis unless otherwise stated. For convenience, references in this document to the "Company", "we", "us", "our", and "its" may, where applicable, refer only to Touchstone.

Additional Information

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

CORPORATE INFORMATION

DIRECTORS

John D. Wright
Chairman of the Board

Paul R. Baay

Kenneth R. McKinnon

Peter Nicol

Stanley T. Smith

Thomas E. Valentine

Harrie Vredenburg

EXECUTIVE OFFICERS

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

STOCK EXCHANGE LISTING

Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

HEAD OFFICE

Touchstone Exploration Inc.
4100, 350 7th Avenue SW
Calgary, Alberta, Canada
T2P 3N9

OPERATING OFFICE

Touchstone Exploration (Trinidad) Ltd.
#30 Forest Reserve Road
Fyzabad, Trinidad, W.I.

AUDITOR

Ernst and Young LLP
Calgary, Alberta
Port of Spain, Trinidad

RESERVES EVALUATOR

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright LLP
Calgary, Alberta
London, United Kingdom

Nunez and Co.
Port of Spain, Trinidad

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

NOMINATED ADVISOR AND JOINT BROKER

Shore Capital
London, United Kingdom

JOINT BROKER

Cannacord 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:

Measurement

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

Other

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