



**Touchstone Exploration Inc.**

**Management's Discussion and Analysis**

**September 30, 2020**

## **Management's Discussion and Analysis**

### **As at and for the three and nine months ended September 30, 2020 and 2019**

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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 and nine months ended September 30, 2020 with comparisons to the three and nine months ended September 30, 2019 is dated November 12, 2020 and should be read in conjunction with the Company's unaudited consolidated interim financial statements as at and for the three and nine months ended September 30, 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](http://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.**

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

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

## Financial and Operating Results Summary

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% change	2020	2019	% change
<b>Operating Highlights</b>						
Average daily oil production <sup>(1)</sup> (bbls/d)	1,310	1,729	(24)	1,431	1,871	(24)
Net wells drilled	-	0.8	n/a	-	0.8	n/a
Brent benchmark price (\$/bbl)	42.91	61.95	(31)	41.15	64.65	(36)
Operating netback <sup>(2)</sup> (\$/bbl)						
Realized sales price	39.20	56.67	(31)	38.54	58.21	(34)
Royalties	(11.17)	(16.61)	(33)	(10.82)	(16.32)	(34)
Operating expenses	(13.94)	(15.50)	(10)	(13.06)	(14.82)	(12)
	14.09	24.56	(43)	14.66	27.07	(46)
<b>Financial Highlights</b> (\$000's except as indicated)						
Petroleum sales	4,725	9,011	(48)	15,178	29,734	(49)
Cash flow from (used in) operating activities	4,126	(1,205)	n/a	2,129	3,364	(37)
Funds flow from operations <sup>(3)</sup>	192	1,082	(82)	999	4,822	(79)
Per share – basic and diluted <sup>(2)(3)</sup>	0.00	0.01	(100)	0.01	0.03	(67)
Net loss	(703)	(1,053)	(33)	(12,685)	(2,071)	100
Per share – basic and diluted	(0.00)	(0.01)	(100)	(0.07)	(0.01)	100
Exploration capital expenditures	5,758	3,234	78	8,830	4,275	100
Development capital expenditures	211	517	(59)	523	1,231	(58)
Total capital expenditures	5,969	3,751	59	9,353	5,506	70
Working capital (surplus) deficit <sup>(2)</sup>				(869)	805	n/a
Principal non-current balance of term loan				15,000	11,328	32
Net debt <sup>(2)</sup> – end of period				14,131	12,133	16
<b>Share Information (000's)</b>						
Weighted average shares outstanding – basic and diluted	184,277	160,688	15	179,112	154,192	16
Outstanding shares – end of period				184,408	160,688	15

### Notes:

- (1) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown since the Company's oil sales volumes typically represent blends of more than one type of crude oil.
- (2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "Non-GAAP Measures" for further information.
- (3) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net loss excluding non-cash items. See "Non-GAAP Measures" for further information.

Despite the ongoing challenges as a result of COVID-19, we continued to manage our business prudently during the quarter, achieving positive cash flows despite limited developmental capital activity since 2018 and progressing with our Ortoire exploration program while maintaining safe and reliable operations. Our investment focus remains on the Ortoire exploration block, as we spudded our third drilling prospect (Chinook-1) in the quarter which reached total depth in mid-October. We believe our operating and general and administrative ("G&A") cost reductions initiated in the second quarter of 2020 have enhanced our financial resilience and financial capability to maintain our base production and to deliver safe operations.

We remain focused on protecting the health of our employees and communities while ensuring a decisive response for our investors. We will continue to follow the advice of public health officials in supporting our employees, their families and our business partners. Our objective remains to bring our two natural gas exploration discoveries onto production as soon as possible, which are expected to not only increase cash flow but insulate us from further crude oil price volatility from the continued effects of COVID-19. Drilling operations are ongoing at our Cascadura Deep-1 prospect, and we anticipate commencing production testing at our Chinook-1 discovery upon completion.

The rapid decline in oil prices had a negative impact on our cash flows during the nine months ended September 30, 2020 and our projections for the balance of the year. Ongoing weakness in commodity prices resulting from COVID-19 impacts on demand and market volatility may adversely affect our future financial and operational results. We continue to monitor the situation and economic environment, and we will continue to adapt our business operations and exploration program to ensure that we preserve and grow long-term shareholder value.

On the basis of the successful results from the first three Ortoire exploration wells, we undertook a private placement that closed on November 12, 2020 in order to support the completion of the initial phase of exploration work on the Ortoire block. The private placement raised gross proceeds of approximately \$30.3 million by way of a placing of 24,291,866 common shares at a price of 95 pence (C\$1.64). We believe this enhanced liquidity will allow us to continue with our exploration program at an optimal pace, with a focus on bringing our initial exploration discoveries onto production in 2021.

### ***Operating results***

In the third quarter of 2020, we invested \$5,758,000 in exploration activities, which was predominantly Chinook-1 drilling and Coho-1 tie-in expenditures. The Chinook-1 well reached its target depth on October 13, 2020, and we are awaiting regulatory approval to commence installation of the Coho-1 surface facility equipment and pipeline operations.

We conducted minimal developmental activity in the quarter, with average crude oil sales declining to 1,310 bbls/d, a 6 percent decrease relative to the 1,396 bbls/d produced in the second quarter of 2020 and a 24 percent reduction from 1,729 bbls/d produced in the third 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. Further, since March 2020 we have deliberately reduced discretionary operating expenditures in response to lower crude oil pricing, focusing on performing well interventions on those deemed high priority. Development capital activity for the fourth quarter of 2020 is expected to be minimal as we continue to focus on our exploration program.

### ***Financial results***

We reported nominal funds flow from operations of \$192,000 in the third quarter of 2020 versus \$1,082,000 generated in the 2019 third quarter. The decrease reflected a 31 percent reduction in our average realized crude oil prices as a result of the impact of the COVID-19 pandemic and a 24 percent decline in crude oil production from limited capital and operational investment.

We recorded a net loss of \$703,000 (\$0.00 per share) in the third quarter of 2020 versus a net loss of \$1,053,000 (\$0.01 per share) in the prior year equivalent quarter despite a 47 percent reduction in petroleum revenues over the equivalent period. The decrease in petroleum revenues was driven by a 24 percent decline in crude oil production, a 31 percent reduction in realized average crude oil pricing, and a corresponding 49 percent decrease in royalty expenses. We continued with our cost-saving initiatives in the third quarter, as quarterly operating costs decreased 32 percent and 10 percent on an absolute and per barrel basis from the third quarter of 2019. In addition, we reduced third quarter 2020 G&A expenses by 9 percent in comparison to the third quarter of 2019. Relative to the third quarter of 2019, current income tax expense decreased by \$1,146,000 or 95 percent, reflective of \$1,087,000 of supplemental petroleum taxes incurred in the prior year third quarter from higher realized crude oil pricing.

Touchstone exited the quarter with a working capital surplus of \$869,000, \$15 million withdrawn on our term credit facility and net debt of \$14,131,000. Our liquidity is augmented by \$5 million of undrawn credit capacity, as well as the net proceeds from the private placement that closed subsequent to quarter-end.

## Results of Operations

### Financial highlights

(\$000's except for per share amounts)	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% change	2020	2019	% change
Net loss	(703)	(1,053)	(33)	(12,685)	(2,071)	100
Per share – basic and diluted	(0.00)	(0.01)	(100)	(0.07)	(0.01)	100
Cash flow from (used in) operating activities	4,126	(1,205)	n/a	2,129	3,364	(37)
Funds flow from operations <sup>(1)</sup>	192	1,082	(82)	999	4,822	(79)
Per share – basic and diluted <sup>(2)</sup>	0.00	0.01	(100)	0.01	0.03	(67)

Notes:

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

### Net loss

We recorded a net loss of \$703,000 (\$0.00 per share) in third quarter of 2020 versus a net loss of \$1,053,000 (\$0.01 per share) in the prior year equivalent quarter. The decreased third quarter 2020 loss was predominantly from non-cash variances, as a reduction in deferred income taxes and depletion expenses were offset by decreases in operating netbacks.

Net loss for the nine months ended September 30, 2020 was \$12,685,000 (\$0.07 per share), representing an increase of \$10,614,000 from the \$2,071,000 net loss recognized in the corresponding 2019 period. In comparison to the nine months ended September 30, 2019, the current year to date period included \$19,045,000 in non-cash impairment charges, partially offset by deferred tax recoveries of \$12,261,000. Impairment charges were recognized in the first quarter of 2020 due to crude oil price forecasts deteriorating from decreases in demand as a result of COVID-19. In addition, year to date September 30, 2020 operating netbacks decreased by \$8,050,000 from the comparative 2019 period, reflecting decreases in production and realized pricing, partially offset by \$3,915,000 in reduced current income taxes.

Details of the change in net loss from the three and nine months ended September 30, 2019 to the three and nine months ended September 30, 2020 are included in the table below.

(\$000's)	Three months ended September 30	Nine months ended September 30
Net loss – 2019	(1,053)	(2,071)
Sales volume variance	(2,181)	(6,810)
Realized price variance	(2,105)	(7,746)
Royalties	1,295	4,076
Other income	22	74
Expenses		
Operating	785	2,430
General and administrative	124	763
Cash finance	15	(406)
Current income tax	1,146	3,915
Realized foreign exchange	9	(118)
<b>Total cash variances</b>	<b>(890)</b>	<b>(3,822)</b>
Loss on financial derivatives	78	53
Unrealized foreign exchange	78	196
Share-based compensation	(42)	(87)
Depletion and depreciation	400	1,198
Impairment	1	(19,045)
Non-cash finance expense	145	(1,368)
Deferred income taxes	580	12,261
<b>Total non-cash variances</b>	<b>1,240</b>	<b>(6,792)</b>
<b>Net loss – 2020</b>	<b>(703)</b>	<b>(12,685)</b>

#### ***Cash flows from operating activities and funds flow from operations***

Touchstone generated \$4,126,000 in cash from operating activities in the third quarter of 2020 in comparison to using \$1,205,000 of cash from operating activities in the 2019 equivalent quarter. The variance relative to the prior year period was a result of a positive change in non-cash working capital of \$6,221,000, slightly offset by a decrease of \$890,000 in funds flow from operations. In the third quarter of 2020, the Company collected past due VAT balances while it paid historical income tax balances owing in the prior year comparative quarter.

During the nine months ended September 30, 2020, operating activities provided \$2,129,000 of cash flows, versus \$3,364,000 generated in the corresponding 2019 period. Relative to the 2019 nine-month period, a decrease in funds flow from operations of \$3,823,000 was partially offset by a net change of \$2,417,000 in non-cash working capital and \$171,000 incurred for the purchase of derivative options in the second quarter of 2019.

The Company generated \$192,000 in funds from operations in the third quarter of 2020. Relative to the third quarter of 2019, the \$890,000 variance was mainly a result of a decrease in \$2,206,000 in operating netbacks, offset by savings in supplemental petroleum taxes due to reduced realized crude oil pricing.

During the nine months ended September 30, 2020, we generated funds flow from operations of \$999,000, representing a 79 percent decrease relative to the \$4,822,000 recognized in the prior year equivalent period. In comparison to the nine months ended September 30, 2019, decreased operating netbacks of \$8,050,000 were partially offset by savings of \$763,000 in G&A expenses and \$3,915,000 in current income taxes.

Details of the change in funds flow from operations from the three and nine months ended September 30, 2019 to the three and nine months ended September 30, 2020 are reflected in the following table.

(\$000's)	Three months ended September 30	Nine months ended September 30
Funds flow from operations – 2019 <sup>(1)</sup>	1,082	4,822
Sales volume variance	(2,181)	(6,810)
Realized price variance	(2,105)	(7,746)
Royalties	1,295	4,076
Other income	22	74
Expenses		
Operating	785	2,430
General and administrative	124	763
Cash finance	15	(406)
Current income tax	1,146	3,915
Realized foreign exchange	9	(118)
Change in non-cash other	-	(1)
<b>Funds flow from operations – 2020<sup>(1)</sup></b>	<b>192</b>	<b>999</b>

Note:

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

### Production volumes

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	% change	2020	2019	% change
<b>Production (bbls)</b>						
Crude oil <sup>(1)</sup>	120,543	159,022	(24)	392,217	510,823	(23)
Natural gas liquids	-	-	-	1,621	-	n/a
<b>Total</b>	<b>120,543</b>	<b>159,022</b>	<b>(24)</b>	<b>393,838</b>	<b>510,823</b>	<b>(23)</b>
<b>Average daily production (bbls/d)</b>						
Crude oil <sup>(1)</sup>	1,310	1,729	(24)	1,431	1,871	(24)
Natural gas liquids	-	-	-	6	-	n/a
<b>Total</b>	<b>1,310</b>	<b>1,729</b>	<b>(24)</b>	<b>1,437</b>	<b>1,871</b>	<b>(23)</b>

Note:

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

Third quarter and year to date 2020 crude oil sales declined 24 percent and 23 percent from the prior year equivalent periods, respectively. The decreases were reflective of limited workover activities and natural declines, as the Company has not brought on additional development well production since January 2019. In addition, we sold 1,621 net barrels of Ortoire natural gas liquids ("NGLs") produced from the Cascadura-1ST1 production tests during the nine months ended September 30, 2020.

The following table summarizes production by property during the three and nine months ended September 30, 2020 and 2019. All properties produced crude oil with the exception of Ortoire, which was comprised of test NGL production.

(bbls)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Coora 1	33,402	32,895	2	106,642	108,239	(1)
Coora 2	3,358	5,541	(39)	11,980	19,241	(38)
WD-4	46,967	58,625	(20)	149,535	177,100	(16)
WD-8	22,118	38,243	(42)	74,242	137,798	(46)
New Dome	2,047	2,397	(15)	6,123	6,877	(11)
South Palo Seco	164	229	(28)	405	1,299	(69)
Barrackpore	1,154	1,573	(27)	3,915	4,039	(3)
Fyzabad	5,998	10,386	(42)	20,850	30,143	(31)
Palo Seco	761	864	(12)	2,295	2,694	(15)
San Francique	4,574	8,269	(45)	16,230	23,393	(31)
Ortoire	-	-	-	1,621	-	n/a
<b>Production<sup>(1)</sup></b>	<b>120,543</b>	<b>159,022</b>	<b>(24)</b>	<b>393,838</b>	<b>510,823</b>	<b>(23)</b>

Note:

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

### Realized crude oil pricing

	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Brent average (\$/bbl)	42.91	61.95	(31)	41.15	64.65	(36)
WTI average (\$/bbl)	40.93	56.45	(27)	38.32	57.06	(33)
Avg. realized price (\$/bbl)	39.20	56.67	(31)	38.54	58.21	(34)
Realized price discount as a % of Brent	(8.6)	(8.5)		(6.3)	(10.0)	
Realized price (discount) premium as a % of WTI	(4.2)	0.4		0.6	2.0	

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.

Throughout the third quarter, crude oil benchmarks improved relative to the second quarter, with average Brent and WTI crude oil benchmark rising 44 percent and 47 percent, respectively. While global demand for crude oil in the third quarter improved from second quarter lows and global production shut-ins and restrictions aided in stabilizing the market, demand for crude oil was still under pressure due to the effects of COVID-19. The impacts of the global demand destruction from the pandemic resulted in year-over-year declines in benchmark pricing. COVID-19 infection rates, global economic performance and political development will continue to impact the pace of demand recovery.

Relative to the third quarter of 2019, the Brent differential realized during the third quarter of 2020 slightly widened from 8.5 percent to 8.6 percent. However, the realized differential to Brent reference pricing during the nine months ended September 30, 2020 narrowed to 6.3 percent versus 10.0 percent in the equivalent period of 2019.



We realized an average price of \$39.20 per barrel in the third quarter of 2020 compared to an average of \$56.67 per barrel in the comparative quarter of 2019. The 31 percent decrease was predominately driven by a similar year-over-year decrease in the average Brent reference price.

On a year to date basis, Touchstone realized an average crude oil price of \$38.54 per barrel, a 34 percent decrease relative to the \$58.21 price received during the nine months ended September 30, 2019. The annual decrease was attributed to a 36 percent decrease in the average Brent reference price, partially offset by a 3.7 percent narrowing of our realized pricing differential in relation to Brent.

### **Petroleum sales**

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
<b>Petroleum sales</b>	<b>4,725</b>	9,011	(48)	<b>15,178</b>	29,734	(49)

We sell all of our crude oil to Heritage Petroleum Company Limited ("Heritage"), with title transferring at our various sales batteries. As at September 30, 2020, the Company held 3,909 barrels of crude oil inventory versus 4,166 barrels held as at December 31, 2019.

Touchstone recognized petroleum sales of \$4,725,000 during the three months ended September 30, 2020 versus \$9,011,000 recorded in the prior year comparative quarter. In relation to the third quarter of 2019, \$2,181,000 of the aggregate \$4,286,000 decrease was a result of decreased production, with the remaining \$2,105,000 variance based on a reduction in average realized pricing.

For the nine months ended September 30, 2020, petroleum sales were \$15,178,000, representing a \$14,556,000 or 49 percent decrease from the \$29,734,000 recognized in the equivalent 2019 period. \$7,746,000 of the annual decrease was attributed to realized price variances, with the remaining \$6,810,000 variance from decreased sales volumes.

### **Operating netback**

The components of operating netback for the three and nine months ended September 30, 2020 and 2019 are set forth below.

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Petroleum sales <sup>(1)</sup>	<b>4,725</b>	9,011	(48)	<b>15,178</b>	29,734	(49)
Royalties	<b>(1,346)</b>	(2,641)	(49)	<b>(4,260)</b>	(8,336)	(49)
Operating expenses	<b>(1,680)</b>	(2,465)	(32)	<b>(5,142)</b>	(7,572)	(32)
<b>Operating netback<sup>(2)</sup></b>	<b>1,699</b>	3,905	(56)	<b>5,776</b>	13,826	(58)
(\$/bbl)						
Brent benchmark price	<b>42.91</b>	61.95	(31)	<b>41.15</b>	64.65	(36)
Discount	<b>(3.71)</b>	(5.28)	(33)	<b>(2.61)</b>	(6.44)	(34)
Realized sales price	<b>39.20</b>	56.67	(31)	<b>38.54</b>	58.21	(34)
Royalties	<b>(11.17)</b>	(16.61)	(33)	<b>(10.82)</b>	(16.32)	(34)
Operating expenses	<b>(13.94)</b>	(15.50)	(10)	<b>(13.06)</b>	(14.82)	(12)
<b>Operating netback<sup>(2)</sup></b>	<b>14.09</b>	24.56	(43)	<b>14.66</b>	27.07	(46)

Notes:

(1) Excludes other income.

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

## Royalties

(\$000's unless otherwise stated)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Crown royalties	549	943		1,757	3,338	
Private royalties	45	103		150	312	
Overriding royalties	752	1,595		2,353	4,686	
<b>Royalties</b>	<b>1,346</b>	<b>2,641</b>	<b>(49)</b>	<b>4,260</b>	<b>8,336</b>	<b>(49)</b>
<b>As a percentage of petroleum sales</b>	<b>28.5%</b>	<b>29.3%</b>	<b>(3)</b>	<b>28.1%</b>	<b>28.0%</b>	<b>-</b>

Touchstone is obligated to pay a crown royalty rate of 12.5 percent 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 percent and 12.5 percent 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 percent ORR or enhanced ORR rate; and
- Year 2 of production from the new/replacement well: 10 percent 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\$)	LOA Royalty %		FOA Royalty %	
	ORR	Enhanced ORR	ORR	Enhanced ORR
<= \$10.00	10.0	8.0	7.0	4.0
\$10.01 - \$20.00	13.0	9.0	10.0	5.0
\$20.01 - \$30.00	15.0	10.0	12.0	6.0
\$30.01 - \$40.00	20.0	12.0	15.0	9.0
\$40.01 - \$50.00	25.0	13.0	18.0	10.0
\$50.01 - \$90.00	33.0	17.5	23.0	15.0

2020 third quarter royalties represented 28.5 percent of petroleum sales compared to 29.3 percent in the prior year comparative period. For the nine months ended September 30, 2020, royalties represented 28.1 percent of petroleum sales compared to 28.0 percent in the prior year comparative period. In comparison to both 2019 periods, decreases in 2020 royalties driven by reductions in realized pricing were offset by enhanced ORR incentives received in 2019 from production relating to wells drilled in 2018.

## Operating expenses

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
<b>Operating expenses</b>	<b>1,680</b>	2,465	(32)	<b>5,142</b>	7,572	(32)

Our third quarter operating expenses were \$1,680,000, representing \$13.94 per barrel. In comparison to the third quarter of 2019, current period operating expenses declined 32 percent, and per barrel operating expenses decreased 10 percent, reflective of salary reductions, decreased well servicing costs and a reduction in variable operating costs from declines in production.

Operating expenses for the nine months ended September 30, 2020 were \$5,142,000 or \$13.06 per barrel, representing decreases of 32 percent and 12 percent from the prior year equivalent period, respectively. Similar to the third quarter variances noted above, 2020 year to date operating expenses decreased in comparison to the prior year equivalent period primarily from decreases in fixed salaries, well servicing and variable expenses associated with decreased production. Decreases in 2020 year to date operating expenses were partially offset by \$179,000 in storage fees incurred to store May production volumes that were sold in June at a higher price.

## General and administrative expense

(\$000's unless otherwise stated)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Gross G&A	1,348	1,534	(12)	3,828	4,739	(19)
Capitalized G&A	(144)	(206)	(30)	(461)	(609)	(24)
<b>G&amp;A expenses</b>	<b>1,204</b>	1,328	(9)	<b>3,367</b>	4,130	(18)
<b>On a per barrel basis</b>	<b>9.99</b>	8.35	20	<b>8.55</b>	8.08	6

Compared to the third quarter of 2019 and the year to date 2019 period, 2020 G&A expenses decreased primarily from employee salary reductions and COVID-19 related travel restrictions, partially offset by increased insurance premiums.

## Net finance expense

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Interest income	(6)	(28)	(79)	(31)	(88)	(65)
Term loan interest expense	295	230	28	882	675	31
Term loan revaluation loss (gain)	-	-	-	1,158	(277)	n/a
Production liability revaluation loss (gain)	(137)	(39)	100	158	170	(7)
Accretion on term loan	17	80	(79)	240	231	4
Accretion on decom. liabilities	87	95	(8)	210	275	(24)
Lease liability interest expense	5	12	(58)	15	62	(76)
Finance expense	-	-	-	180	-	n/a
Other	(4)	67	n/a	(49)	(59)	(17)
<b>Net finance expense</b>	<b>257</b>	417	(38)	<b>2,763</b>	989	100

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Cash finance expense	293	308	(5)	1,051	645	63
Non-cash finance expense	(36)	109	n/a	1,712	344	100
<b>Net finance expense</b>	<b>257</b>	<b>417</b>	<b>(38)</b>	<b>2,763</b>	<b>989</b>	<b>100</b>

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 third quarter and year to date periods of 2020 from the equivalent 2019 periods, reflecting an increase in the principal balance of the Company's former term loan credit facility from C\$15 million to C\$20 million effective October 31, 2019 (see "Liquidity and Capital Resources - Term loan"). On June 15, 2020, the Company repaid its Canadian based term loan, resulting in a revaluation loss of \$1,158,000 and expenses of \$180,000, both of which were included in net finance expense.

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

In comparison to the equivalent 2019 periods, 2020 third quarter and year to date lease liability interest expense 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 tables below.

	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
<b>Average foreign exchange rates<sup>(1)</sup></b>						
US\$:C\$	1.33	1.32	1	1.35	1.33	2
US\$:TT\$	6.77	6.77	-	6.76	6.77	-
	September 30, 2020	June 30, 2020		September 30, 2020	December 31, 2019	
<b>Closing foreign exchange rates<sup>(1)</sup></b>						
US\$:C\$	1.34	1.36	(2)	1.34	1.30	3
US\$:TT\$	6.79	6.78	-	6.79	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\$. In addition, the Company has US\$

denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company has further foreign exchange exposure on head office costs and production payment liabilities denominated and payable in Canadian dollars, as well as costs payable 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.

During the three and the nine months ended September 30, 2020, the C\$ depreciated 1 percent and 2 percent relative to the US\$ in comparison to the equivalent periods of 2019, respectively. Relative to the US\$, the TT\$ remained range bound during the three and nine months ended September 30, 2020 and 2019. In aggregate, the Company recorded a foreign exchange gain of \$84,000 and a foreign exchange loss of \$54,000 during the three and nine months ended September 30, 2020, respectively (2019 – losses of \$3,000 and \$132,000). \$67,000 of the \$84,000 foreign exchange gain in the third quarter of 2020 was 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 2 percent stronger on September 30, 2020 versus June 30, 2020 and 3 percent weaker on September 30, 2020 versus December 31, 2019, while the TT\$ remained consistent in all comparative periods. As a result, foreign currency translation gains of \$141,000 and \$213,000 were recognized during the three and nine months ended September 30, 2020, respectively (2019 - gain of \$47,000 and loss of \$174,000).

### ***Equity compensation plans***

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

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. During the nine months ended September 30, 2020, employees and directors exercised 1,204,666 share options, while 147,500 share options expired, and 28,000 share options were cancelled.

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 September 30, 2020. There were no incentive share options outstanding as at September 30, 2020, and 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 percent of the issued and outstanding Company common shares. At September 30, 2020, Touchstone had 9,971,434 share options outstanding, with a weighted average exercise price of C\$0.29 per share, representing 5.4 percent of the Company's outstanding common shares (December 31, 2019 - 5.4 percent). During the three and nine months ended September 30, 2020, the Company recorded share-based compensation expenses of \$85,000 and \$210,000 in relation to share option plans, respectively (2019 - \$43,000 and \$123,000).

### Depletion and depreciation expense

(\$000's unless otherwise stated)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Depletion expense	656	1,070	(39)	2,306	3,443	(33)
On a per barrel basis	5.44	6.73	(19)	5.86	6.74	(13)
Depreciation expense	124	110	13	376	437	(14)
<b>Depletion and depreciation expense</b>	<b>780</b>	<b>1,180</b>	<b>(34)</b>	<b>2,682</b>	<b>3,880</b>	<b>(31)</b>

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

Assets in the exploration phase are not amortized. Depreciation expense is recorded on corporate and oilfield service assets on a declining balance basis, and right-of-use assets are depreciated over their estimated useful lives on a straight-line basis. The decrease in depreciation expense reported during the nine months ended September 30, 2020 relative to the corresponding 2019 period 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 and nine months ended September 30, 2020, the Company impaired \$81,000 and \$82,000 relating to lease expenses incurred on our East Brighton property, respectively, as the CGU had an estimated recoverable value of \$nil (2019 - \$80,000 and \$221,000). Further, non-cash impairment reversals of \$2,000 and \$31,000 were recorded during the three and nine months ended September 30, 2020, respectively, reflecting decommissioning liability change in estimates relating to our East Brighton and Cory Moruga CGUs.

The Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of \$22,307,000 as at September 30, 2020 (December 31, 2019 - \$13,579,000).

#### Property and equipment impairments

At September 30, 2020 and 2019, Touchstone evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of these assessments, no indicators were identified,

and no impairment or related reversal was recorded. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

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 nine months ended September 30, 2020 as reflected in the table below.

CGU (\$000's)	Nine months ended		% change
	2020	September 30, 2019	
Coora	6,940	-	
WD-4	5,968	-	
WD-8	6,307	-	
<b>Property and equipment impairments</b>	<b>19,215</b>	-	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 unaudited condensed consolidated 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 September 30, 2020, the Company classified \$1,195,000 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 \$9,692,000 as at September 30, 2020 based on an estimated inflation adjusted future liability of \$21,486,000 (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. September 30, 2020 decommissioning liabilities were estimated using a long-term risk-free rate of 5.8 percent and a long-term inflation rate of 2.0 percent (December 31, 2019 - 5.5 percent and 3.3 percent, respectively). \$87,000 and \$210,000 of accretion charges were recognized during the three and nine months ended September 30, 2020 to reflect the increase in decommissioning liabilities associated with the passage of time, respectively (2019 - \$95,000 and \$275,000). Decommissioning liability details as at September 30, 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	15,803	21,486	9,692

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to future decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the three and nine months ended September 30, 2020 is included in Note 12 "Decommissioning Liabilities and Abandonment Fund" of the 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 percent of gross oil revenue less royalties
- Petroleum Profits Tax ("PPT") 50 percent of net taxable profits
- Unemployment Levy ("UL") 5 percent of net taxable profits
- Green Fund Levy 0.3 percent of gross revenue

SPT is computed and remitted on a quarterly basis and is applicable to produced petroleum liquids. Actual rates vary based on the realized selling prices of crude oil in the applicable quarter. The SPT rate is nil when the weighted average realized price of oil for a given quarter is below \$50.00 per barrel and 18 percent when weighted average realized oil prices fall between \$50.00 and \$90.00. The revenue base for the calculation of SPT is gross revenue less royalties paid, less 25 percent investment tax credits on mature oilfields for allowable tangible and intangible capital expenditures incurred in the applicable fiscal quarter. The Company's Ortoire property is not considered a mature oilfield, and thus no capital spending investment tax credits are applicable.



Annual PPT and UL taxes are calculated based on net taxable profits. Net taxable profits are determined by calculating gross revenue less: royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses. PPT losses may be carried forward indefinitely to reduce PPT in future years. Effective January 1, 2020, PPT losses can only be used to shelter a maximum of 75 percent 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, which primarily leases its oilfield equipment to a third-party contractor for a monthly fee based on services rendered. The Company is subject to the greater of a 30 percent corporation income tax calculated on net taxable profits or a 0.6 percent business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above. All corporate income tax losses can be carried forward indefinitely, and allowances vary from 10 percent to 33.3 percent for various capital expenditures incurred in the year.

The following table sets forth current income tax expense for the three and nine months ended September 30, 2020 and 2019.

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
SPT	-	1,087		5	3,794	
PPT/UL	32	73		269	317	
Business levy	4	7		11	21	
Green fund levy	19	34		54	122	
<b>Current income tax expense</b>	<b>55</b>	<b>1,201</b>	<b>(95)</b>	<b>339</b>	<b>4,254</b>	<b>(92)</b>

Third quarter and year to date 2020 current income taxes decreased in comparison to the 2019 comparative periods as a result of decreased average realized crude oil pricing. The Company incurred SPT in both 2019 comparative periods as realized pricing exceeded \$50.00 per barrel. During the three and nine months ended September 30, 2020, Touchstone accrued \$32,000 and \$269,000 in PPT and UL expenses, respectively, based on the change in loss carry forward allowance utilization effective January 1, 2020 (2019 - \$73,000 and \$317,000).

Touchstone's \$3,144,000 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 September 30, 2020 (December 31, 2019 - \$13,289,000). During the three and nine months ended September 30, 2020, Touchstone recorded net deferred tax expenses of \$54,000 and net deferred tax recoveries of \$10,129,000, respectively (2019 – expenses of \$634,000 and \$2,132,000). The year to date 2020 net deferred tax recovery was primarily reflective of property and equipment impairment charges recorded in the first quarter which reduced financial statement carrying values and the corresponding deferred tax liability balance.

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 September 30, 2020 net deferred tax liability includes \$8,220,000 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 September 30, 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 and nine months ended September 30, 2020 is included in Note 13 "Income Taxes" of the 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			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Lease costs	212	209		175	602	
Geological	-	-		74	148	
Drilling, completions and well testing	4,861	2,957		7,405	3,349	
Production equipment and facilities	592	-		935	-	
Capitalized G&A / other	93	68		241	176	
<b>Total expenditures</b>	<b>5,758</b>	<b>3,234</b>	<b>78</b>	<b>8,830</b>	<b>4,275</b>	<b>100</b>

In the third quarter of 2020, we spudded the Chinook-1 well exploration well and continued with Coho-1 well surface facilities operations. Year to date September 30, 2020 exploration investments consisted of two production tests on Cascadura-1ST1 well, Chinook-1 drilling costs and Coho-1 well tie-in project expenditures.

In the third quarter of 2019, Touchstone drilled its first exploration well on Ortoire and incurred lease construction costs for its second location, spending \$2,957,000 and \$3,349,000 in drilling costs during the third quarter and on a year to date basis, respectively.

### Property and equipment (development) expenditures

(\$000's)	Three months ended			Nine months ended		
	2020	September 30, 2019	% change	2020	September 30, 2019	% change
Drilling and completions	44	348		167	754	
Capitalized G&A	78	169		267	477	
Rig equipment and other	89	-		89	-	
<b>Total expenditures</b>	<b>211</b>	<b>517</b>	<b>(59)</b>	<b>523</b>	<b>1,231</b>	<b>(58)</b>

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

## 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. Exploration activities and profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. Touchstone uses share equity and term debt as primary sources of capital.

As at September 30, 2020, Touchstone had a cash balance of \$7,673,000, a working capital surplus of \$869,000 and \$15 million drawn on its term credit facility, resulting in net debt of \$14,131,000.

On June 15, 2020, we refinanced our debt by entering into a \$20 million term loan facility with a Trinidad based financial institution. \$15 million was initially withdrawn to satisfy obligations related to prepaying our former C\$20 million Canadian based term loan. We currently have \$5 million of available funds on the new credit facility, which we may withdraw prior to June 15, 2021. The new credit facility does not require the commencement of principal payments until June 15, 2022, and financial covenants are not tested until the year ended December 31, 2022.

On the basis of the successful results from the first three Ortoire exploration wells, we undertook a private placement on November 12, 2020 in order to support the completion of the initial phase of exploration work on the Ortoire block. The private placement raised gross proceeds of approximately \$30.3 million by way of a placing of 24,291,866 common shares at a price of 95 pence (C\$1.64).

The Company's near-term development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities on our Ortoire property. Touchstone's near-term focus is to bring the Coho-1 and Cascadura-1ST1 natural gas wells onto production to increase cash flows and decrease the Company's sole reliance on crude oil sales. We will continue to take a measured approach to future developmental and exploration drilling in an effort to manage financial liquidity while focusing on bringing our two Ortoire wells onto production and continuing our Ortoire exploration program.

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. Our internal capital management calculations for the nine months ended September 30, 2020 and year ended December 31, 2019 are summarized in the table below.

(\$000's)	Target measure	September 30, 2020	December 31, 2019
Current assets		(12,299)	(14,118)
Current liabilities		11,430	15,257
Working capital (surplus) deficit <sup>(1)</sup>		(869)	1,139
Principal non-current balance of term loan		15,000	15,364
Net debt <sup>(2)</sup>		14,131	16,503
Shareholders' equity		28,979	30,115
Net debt plus equity		43,110	46,618
Trailing twelve-month funds flow from operations <sup>(3)</sup>		3,017	6,840
<b>Net debt to funds flow from operations</b>	<b>at or &lt; 2.0 times</b>	<b>4.68</b>	2.41
<b>Net debt to net debt plus equity</b>	<b>&lt; 0.4 times</b>	<b>0.33</b>	0.35

Notes:

- (1) Working capital (surplus) deficit is a Non-GAAP measure and is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position.
- (2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
- (3) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information. Trailing twelve-month funds flow from operations as at September 30, 2020 equals the sum of funds flow from operations for the nine months ended September 30, 2020 and funds flow from operations for the October 1, 2019 through December 31, 2019 interim period.

## Term loan

Touchstone Exploration (Trinidad) Ltd., the Company's indirectly wholly owned Trinidadian subsidiary, entered into a \$20 million, seven-year term credit facility arrangement (the "New Term Loan") from a Trinidad based financial institution effective June 15, 2020. On closing, the Company withdrew \$15 million to satisfy the Company's obligations relating to prepaying the C\$20 million Canadian based term loan (the "Retired Term Loan").

Pursuant to the New Term Loan, we have the option to withdraw the remaining \$5 million available balance prior to June 15, 2021. The New Term Loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The New Term Loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. Principal payments commence on June 15, 2022 with twenty equal and consecutive quarterly principal repayments thereafter. Prepayments are permitted after one year with a 1.0 percent penalty and a 30-day notice period, and no penalty shall apply on principal repayments after three years. The New Term Loan is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of the Touchstone Exploration (Trinidad) Ltd. and its wholly owned Trinidadian subsidiary, Primera Oil and Gas Limited. The New Term Loan contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be tested on an annual basis commencing with the year ended December 31, 2022.

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

(\$000's)	Retired Term Loan liability	New Term Loan liability	Term Loan
<b>Balance, January 1, 2019</b>	<b>10,130</b>	-	<b>10,130</b>
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation gain	(656)	-	(656)
Accretion	384	-	384
Effect of change in foreign exchange rates	518	-	518
<b>Balance, December 31, 2019</b>	<b>13,966</b>	-	<b>13,966</b>
(Payments), advances net of fees	(14,750)	14,617	(133)
Revaluation loss on prepayment	1,158	-	1,158
Accretion	173	67	240
Effect of change in foreign exchange rates	(547)	-	(547)
<b>Balance, September 30, 2020</b>	<b>-</b>	<b>14,684</b>	<b>14,684</b>

Pursuant to the New Term Loan, 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 all New Term Loan operational and financial covenants based on actual and forecasted results and can make changes to development and exploration plans to comply with the covenants. The Company is committed to having an adaptable capital expenditure program that can be adjusted to a tightening of liquidity sources if necessary.

## Production liability

In connection with the Retired Term Loan, the Company previously granted its former lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2023. Upon repayment of the Retired Term Loan, the Company and the lender agreed not to buyout the production payment liability and as such entered into an amended production payment agreement to continue the obligation under its previous terms and conditions.

The production payment liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts. During the three and nine months ended September

30, 2020, the Company recognized a \$137,000 gain and a net \$158,000 production liability revaluation loss, respectively (2019 - \$39,000 gain and \$170,000 loss). At September 30, 2020, the Company's estimated production liability balance was \$928,000, of which \$793,000 was classified as non-current and included in other liabilities on the consolidated statement of financial position (December 31, 2019 - \$989,000 and \$769,000, respectively).

### **Restricted cash**

As at September 30, 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).

Pursuant to the New Term Loan, Touchstone must at all times maintain a minimum cash reserves balance of the equivalent of two subsequent quarterly interest payments. Accordingly, the Company classified \$589,000 as non-current restricted cash on the consolidated statement of financial position as at September 30, 2020 (December 31, 2019 - \$nil).

### **Finance lease**

The Company entered into a five-year, \$1,836,000 contractual agreement to lease its coil tubing unit, four service rigs and ancillary equipment to a third-party contractor on October 1, 2017. Effective September 30, 2019, the parties amended the lease arrangement to exclude a service rig, reducing the principal balance by \$900,000. Effective September 1, 2020, the amended lease arrangement was terminated, with the remaining equipment reverting to the Company. As a result of the lease termination, the \$285,000 finance lease receivable carrying value was reclassified to property and equipment. The parties subsequently entered into an equipment lease arrangement, whereby the contractor will provide oilfield services by renting the Company's equipment for a monthly fee based on services rendered.

### **Lease liabilities**

The Company has lease liabilities for head office space, motor vehicles and office equipment. 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 September 30, 2020 and December 31, 2019 were between 5 and 10 percent.

Effective July 1, 2020, an arrangement relating to head office space was amended and extended by a further five-year period. The lease amendment was considered a lease modification, with the remeasured lease liability and associated right-of-use asset balances each increasing by \$178,000. The following table details the movements of the Company's lease liabilities for the nine months ended September 30, 2020 and the year ended December 31, 2019.

(\$000's)	Nine months ended September 30, 2020	Year ended December 31, 2019
<b>Balance, beginning of year</b>	<b>335</b>	1,352
Interest expense	15	69
Payments	(183)	(432)
Lease modification	178	-
Derecognition of liabilities	(5)	(670)
Effect of change in foreign exchange rates	(4)	16
<b>Balance, end of period</b>	<b>336</b>	335
Current (included in accounts payable and accrued liabilities)	79	230
Non-current	257	105
<b>Lease liabilities</b>	<b>336</b>	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 and share options as at the date of this MD&A, September 30, 2020 and December 31, 2019.

	November 12, 2020	September 30, 2020	December 31, 2019
Common shares outstanding	208,699,627	184,407,761	160,703,095
Share options outstanding	9,971,434	9,971,434	8,740,600
<b>Fully diluted common shares</b>	<b>218,671,061</b>	<b>194,379,195</b>	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 November 12, 2020, Touchstone completed a private placement directed toward United Kingdom and Canadian investors. The private placement raised gross proceeds of approximately \$30.3 million by way of a placing of 24,291,866 common shares at a price of 95 pence (C\$1.64).

## 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 exploration capital expenditures to reflect current financial resources in the interest of sustaining long-term viability.

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at September 30, 2020.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	11,152	11,152	-	-
Income taxes payable	278	278	-	-
Term loan principal	15,000	-	3,750	11,250
Term loan interest	5,103	1,178	2,196	1,729
Estimated production liabilities	1,684	182	1,161	341
Lease liabilities	392	93	91	208
<b>Total financial liabilities</b>	<b>33,609</b>	<b>12,883</b>	<b>7,198</b>	<b>13,528</b>

## 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\$. In addition, the Company has US\$ denominated debt and related interest payments. This is currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company has further foreign exchange exposure on cash balances denominated in Canadian dollars and pounds sterling, on head office costs and production payment liabilities denominated in Canadian dollars, as well as costs denominated in pounds sterling required to maintain its AIM listing. Any material movements in the C\$ to

US\$ and the pounds sterling to US\$ exchange rates may have a material effect on the Company's reporting results (see "Results of Operations - Foreign exchange and foreign currency translation").

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company has no contracts in place to manage foreign currency risk as at the date hereof or during the three and nine months ended September 30, 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 September 30, 2020, the Company was exposed to credit risk with respect to its accounts receivable, and Touchstone determined that the average expected credit loss on its accounts receivable balances was \$nil (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 ("VAT"), and although the timing of settlement is uncertain, the Company has not historically experienced any material collection issues.

In May 2020, the Trinidad government issued the Company's Trinidad subsidiaries an aggregate \$2,793,000 in bonds in lieu of payment of past due VAT receivable balances. In July 2020, the bonds were sold to a Trinidad financial institution at face value plus accrued interest. The aging of accounts receivable as at September 30, 2020 and December 31, 2019 is disclosed in the following table.

(\$000's)	September 30, 2020	December 31, 2019
Not past due	2,675	3,581
Past due (greater than 90 days)	1,188	3,767
<b>Accounts receivable</b>	<b>3,863</b>	<b>7,348</b>

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

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under 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 September 30, 2020.

(\$000's)	Total	Estimated payments due by period			
		2020	2021	2022	Thereafter
Operating agreement commitments					
Coora blocks	87	3	15	16	53
WD-4 block	204	8	35	37	124
WD-8 block	188	8	32	34	114
New Dome block	12	-	2	2	8
South Palo Seco block	1,353	21	795	95	442
Fyzabad block	930	18	74	76	762
Exploration agreement commitments					
Ortoire block	7,415	2,069	5,346	-	-
East Brighton block	71	71	-	-	-
Office and equipment leases	897	64	144	129	560
<b>Minimum payments</b>	<b>11,157</b>	<b>2,262</b>	<b>6,443</b>	<b>389</b>	<b>2,063</b>

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*").

Subsequent to September 30, 2020, Touchstone was formally notified by the MEEI that the exploration phase of the Ortoire exploration and production licence was formally approved by the government of Trinidad and Tobago for a nine-month extension to July 31, 2021. In addition, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres. In exchange for the extension and seismic program reduction, the Company agreed to drill an additional well to a true vertical depth of 10,000 feet prior to June 2021. The formal amending document has yet to be executed by all participating parties. As of the date of this MD&A, the Company has drilled three of five commitment wells, and the required seismic program remains outstanding.

## 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. The Company is currently negotiating ten-year extensions for each LOA with Heritage.

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 September 30, 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.

Touchstone and Heritage are currently in negotiations to renew the LOAs prior to the end of 2020.

### ***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 September 30, 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 0.1 percent of total Company crude oil production during the nine months ended September 30, 2020 (2019 - 0.3 percent).

### ***MEEI exploration and production licences***

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

The Company's Fyzabad and Palo Seco agreements with the MEEI contain no major work obligations or covenants. The Palo Seco licence expired on August 19, 2013, and Touchstone is currently negotiating a renewal or an extension. The Company has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed. The Palo Seco property is also considered non-core as it represented 0.6 percent of total Company crude oil production during the nine months ended September 30, 2020 (2019 - 0.5 percent).

### ***Private lease agreements***

Touchstone also negotiates private lease agreements with individual landowners. Lease terms are typically 35 years in duration and contain no minimum work obligations. The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, Touchstone is continuing to recognize petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the nine months ended September 30, 2020, production volumes produced under expired private lease agreements represented 1.9 percent of total Company production (2019 – 1.9 percent).

### ***Crude oil marketing agreement***

On January 14, 1974, Premier Consolidated Oilfields Limited, the Company's predecessor in interest, and Texaco Trinidad Inc., Petrotrin's predecessor, entered into a Crude Oil Purchase Agreement whereby

Petrotrin committed to purchase all petroleum crude oil produced by Primera Oil and Gas Limited 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**

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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 COVID-19 and subsequent measures to limit the pandemic remain uncertain, and the full extent of the impact on the Company's operations and future financial performance is currently unknown. The COVID-19 outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of the September 30, 2020 consolidated 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 September 30, 2020 consolidated interim financial statements, particularly related to the recoverability of asset carrying values and the deferred income tax provision.

## **Control Environment**

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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 September 30, 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 September 30, 2020. There were no changes during the three months ended September 30, 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**

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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](http://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 certain key risks, uncertainties and opportunities associated with the Company's business that can impact financial results.

### **COVID-19**

The COVID-19 pandemic has resulted in emergency actions taken by governments worldwide which has had an effect in Canada and Trinidad. The actions taken by various governments have typically included but have not been limited to travel bans, mandatory and self-imposed quarantines and isolations, physical distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil demand. Additionally, such actions have resulted in volatility and disruptions in regular business operations, supply chains and financial markets as well as declining trade and market sentiment. COVID-19 as well as other factors have resulted in the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread and resurgence of COVID-19, oil prices and the global equity markets have deteriorated significantly and are expected to remain under pressure. These events and conditions have caused a significant decrease in the valuation of oil and natural gas companies and a decrease in confidence in the oil and natural gas industry. COVID-19 also poses a risk on the financial capacity of the Company's contract counterparties and potentially their ability to perform contractual obligations.

The full extent of the risks surrounding the COVID-19 pandemic is continually evolving. The risks disclosed in our 2019 Annual Information Form may be exacerbated as a result of the COVID-19 pandemic; market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates, volatility of the market price of our common shares, and hedging arrangements; operational risks related to increasing operating costs or declines in production levels, capital project delays, delays in receiving government regulatory approvals, marketing arrangement payment delays, and government regulations; ability to obtain additional financing; and other risks related to cyber-security as our workforce moves to remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

### **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.

### **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 exploration and production agreements, 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 opinions obtained from Trinidad legal counsel, the Company is continuing to recognize revenue as operator and is paying all associated royalties and taxes, and no title to its lands in Trinidad has been disputed. However, there is no certainty that such expired lease agreements will be renewed, on terms satisfactory to the Company or at all, or that the Company's rights as operator will not be challenged or impugned.

### **Advisory on Forward-Looking Statements**

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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 future operations and future petroleum pricing;
- future demand for the Company's petroleum products and economic activity in general;

- 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 and future regulatory approvals or exploration and production licence amendments;
- access to facilities and infrastructure;
- expected levels of operating costs, G&A costs and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil 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 New Term Loan covenants, its ability to make future scheduled interest and principal payments;
- estimated amounts of the Company's future obligations in connection with its production liability;
- 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](http://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**

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

measurement and to provide stakeholders with measures to compare the Company's operations over time.

Funds flow from operations 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Petroleum sales	4,725	9,011	15,178	29,734
Royalties	(1,346)	(2,641)	(4,260)	(8,336)
Operating expenses	(1,680)	(2,465)	(5,142)	(7,572)
<b>Operating netback</b>	<b>1,699</b>	<b>3,905</b>	<b>5,776</b>	<b>13,826</b>
Production (bbls)	120,543	159,022	393,838	510,823
<b>Operating netback (\$/bbl)</b>	<b>14.09</b>	<b>24.56</b>	<b>14.66</b>	<b>27.07</b>

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

(\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Funds flow from operations</b>	<b>192</b>	<b>1,082</b>	<b>999</b>	<b>4,822</b>
Other income	(28)	(6)	(91)	(17)
Expenses				
G&A	1,204	1,328	3,367	4,130
Net finance	257	417	2,763	989
Current income tax	55	1,201	339	4,254
Realized foreign exchange	(17)	(8)	111	(7)
Change in non-cash other	36	(109)	(1,712)	(345)
<b>Operating netback</b>	<b>1,699</b>	<b>3,905</b>	<b>5,776</b>	<b>13,826</b>

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)	September 30, 2020	December 31, 2019	September 30, 2019
Current assets	(12,299)	(14,118)	(12,858)
Current liabilities	11,430	15,257	13,663
Working capital (surplus) deficit	(869)	1,139	805
Principal non-current balance of term loan	15,000	15,364	11,328
<b>Net debt</b>	<b>14,131</b>	<b>16,503</b>	<b>12,133</b>

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

(\$000's)	September 30, 2020	December 31, 2019	September 30, 2019
<b>Total liabilities</b>	<b>40,000</b>	54,933	50,489
Lease liabilities	(257)	(105)	(153)
Other liabilities	(793)	(769)	(461)
Decommissioning liabilities	(9,692)	(11,547)	(8,777)
Deferred income tax liability	(3,144)	(13,289)	(17,165)
Variance between carrying value and undiscounted value of term loan	316	1,398	1,058
Current assets	(12,299)	(14,118)	(12,858)
<b>Net debt</b>	<b>14,131</b>	<b>16,503</b>	<b>12,133</b>

In the Company's March 31, 2019, June 30, 2019 and September 30, 2019 management's discussion and analysis and related continuous disclosure documents, Touchstone included the non-current balance of lease liabilities in its calculation of net debt. The Company amended its Retired Term Loan on October 31, 2019, which, among other things, amended certain financial covenants in the Retired Term Loan by excluding lease obligations that were treated as operating leases under IFRS in effect as at December 31, 2018. Effective December 31, 2019, the Company excluded the non-current balance of lease liabilities in its calculation of net debt, restating prior 2019 reporting periods retrospectively. This change aligned with the Company's revised monitoring of its capital structure and is consistent with the definition of financial covenants included in its New Term Loan.

## 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	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
<b>Operating Highlights</b>				
Average daily production <sup>(1)</sup> (bbls/d)	1,310	1,396	1,589	1,690
Net wells drilled	-	-	-	0.8
Brent benchmark price <sup>(2)</sup> (\$/bbl)	42.91	29.70	50.27	63.17
Operating netback <sup>(3)</sup> (\$/bbl)	14.09	10.73	18.61	25.12
<b>Financial Highlights</b> ( <i>\$000's except per share amounts</i> )				
Petroleum sales	4,725	3,755	6,698	8,920
Cash flow from (used in) operating activities	4,126	(1,921)	(76)	2,090
Funds flow from (used in) operations <sup>(4)</sup>	192	(450)	1,257	2,018
Per share - basic and diluted <sup>(3)(4)</sup>	0.00	(0.00)	0.01	0.01
Net loss	(703)	(2,742)	(9,240)	(3,549)
Per share - basic and diluted	(0.00)	(0.01)	(0.05)	(0.02)
Exploration capital expenditures	5,758	1,249	1,823	5,838
Development capital expenditures	211	92	220	157
Total capital expenditures	5,969	1,341	2,043	5,995
Working capital (surplus) deficit <sup>(3)</sup>	(869)	(6,534)	(8,094)	1,139
Principal non-current balance of term loan	15,000	15,000	13,338	15,364
Net debt <sup>(3)</sup> - end of period	14,131	8,466	5,244	16,503
<b>Share Information</b> (000's)				
Weighted average shares outstanding - basic and diluted	184,277	183,640	169,361	160,691
Outstanding shares - end of period	184,408	184,161	183,489	160,703

Notes:

- (1) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown since the Company's oil sales volumes typically represent blends of more than one type of crude oil.
- (2) Average for the quarterly periods indicated. Source: US Energy Information Administration.
- (3) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "Non-GAAP Measures" for further information.
- (4) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow (used in) from operations represents net earnings (loss) excluding non-cash items. See "Non-GAAP Measures" for further information.

Three months ended	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
<b>Operating Highlights</b>				
Average daily production <sup>(1)</sup> (bbls/d)	1,729	1,768	2,121	1,851
Net wells drilled	0.8	-	-	3.0
Brent benchmark price <sup>(2)</sup> (\$/bbl)	61.95	69.04	63.10	68.76
Operating netback <sup>(3)</sup> (\$/bbl)	24.56	26.85	29.35	22.55
<b>Financial Highlights</b>				
<i>(\$000's except per share amounts)</i>				
Petroleum sales	9,011	9,708	11,015	9,970
Cash flow (used in) from operating activities	(1,205)	1,832	2,737	1,810
Funds flow from operations <sup>(4)</sup>	1,082	1,310	2,430	1,482
Per share - basic and diluted <sup>(3)(4)</sup>	0.01	0.01	0.02	0.01
Net (loss) earnings	(1,053)	(833)	(185)	552
Per share - basic and diluted	(0.01)	(0.01)	(0.00)	0.00
Exploration capital expenditures	3,234	681	360	1,603
Development capital expenditures	517	315	399	4,773
Total capital expenditures	3,751	996	759	6,376
Working capital deficit (surplus) <sup>(3)</sup>	805	(2,062)	(1,963)	3,318
Principal non-current balance of term loan	11,328	11,459	11,235	11,004
Net debt <sup>(3)</sup> - end of period	12,133	9,397	9,272	14,322
<b>Share Information (000's)</b>				
Weighted avg. shares outstanding - basic	160,688	160,688	140,984	129,021
Weighted avg. shares outstanding - diluted	160,688	160,688	140,984	130,532
Outstanding shares - end of period	160,688	160,688	160,688	129,021

Notes:

- (1) The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown since the Company's oil sales volumes typically represent blends of more than one type of crude oil.
- (2) Average for the quarterly periods indicated. Source: US Energy Information Administration.
- (3) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "Non-GAAP Measures" for further information.
- (4) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net earnings (loss) excluding non-cash items. See "Non-GAAP Measures" for further information.

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 unaudited financial and operating results over the past eight quarters:

- Net debt increased by \$5,665,000 or 67 percent from the second quarter of 2020, reflective of \$5,758,000 in exploration investments in the quarter. Average crude oil pricing increased by 34 percent from the prior quarter, which contributed to a \$642,000 increase in funds flow from operations to positive \$192,000.
- Based on crude oil demand declines caused by COVID-19, second quarter 2020 realized crude oil pricing decreased by 36 percent from the prior quarter. Reduced expenditures on field operations also reduced crude oil production by 12 percent from the first quarter of 2020. These combined effects decreased second quarter operating netbacks by 42 percent, resulting in \$0.5 million in funds flow used in operations. The Company continued with its exploration activities,

investing \$1.3 million which was the main driver in the increase in net debt of \$3.2 million or 61 percent from the first quarter of 2020.

- In the first quarter of 2020, the Company recognized property and equipment impairments of \$19.2 million as a result of decreased forecasted crude oil pricing. The impairments were slightly offset by an associated deferred tax recovery of \$10.1 million, resulting in a net loss of \$9.2 million reported in the quarter. Touchstone completed a private placement in February 2020 for net proceeds of \$10.9 million, which increased working capital and decreased net debt as of March 31, 2020.
- In the fourth quarter of 2019, the Company recognized a reversal of \$1.3 million in previously accrued interest on income tax balances, which predominately led to a \$0.9 million increase in funds flow from operations relative to the third quarter of 2019. Touchstone recorded \$7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of \$3.9 million, contributing to a net loss of \$3.5 million recognized in the quarter. The Company extended its term loan credit facility by C\$5 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt by 36 percent from the third quarter of 2019.
- In the third quarter of 2019, Touchstone drilled its first Ortoire exploration well. The investment led to a 29 percent increase in net debt from the second quarter of 2019.
- In the second quarter of 2019, average daily production decreased by 16 percent from the first quarter of 2019 as production from wells drilled in the fourth quarter of 2018 stabilized. The production decline decreased funds flow from operations and increased the Company's net loss from the first quarter of 2019.
- In the first quarter of 2019, flush production from wells drilled in the fourth quarter of 2018 increased average daily production by 15 percent, 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, incurring capital expenditures of \$6.4 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**

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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**

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Additional information regarding Touchstone Exploration Inc., including Touchstone's Annual Information Form, can be accessed online on SEDAR at [www.sedar.com](http://www.sedar.com) or from the Company's website at [www.touchstoneexploration.com](http://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 Budaw**  
*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 7<sup>th</sup> 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 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

**Canaccord Genuity**  
London, United Kingdom

### PUBLIC RELATIONS

**Camarco**  
London, United Kingdom

### ABBREVIATIONS

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

#### Measurement

bbl(s)	barrel(s)
bbls/d	barrels per day
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousand barrels of oil equivalent

#### Other

AIM	AIM market of the London Stock Exchange plc
Brent	Dated Brent
C\$	Canadian dollar
NGLs	Natural gas liquids
TSX	Toronto Stock Exchange
TT\$	Trinidad and Tobago dollar
WTI	Western Texas Intermediate
\$ or US\$	United States dollar
£	Pounds sterling