Touchstone Exploration Inc.

Management's Discussion and Analysis

December 31, 2017

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. (the "Company" or "Touchstone") for the year ended December 31, 2017, with comparisons to the year ended December 31, 2016 is dated March 26, 2018 and should be read in conjunction with the audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included in the Company's December 31, 2017 Annual Information Form, which can be found on the Company's SEDAR profile (www.sedar.com).

Unless otherwise stated, tabular amounts herein are in thousands of Canadian dollars ("$" or "Cdn$"), and amounts in text are rounded to thousands of Canadian dollars. The Company may also reference United States dollars ("US$") and Trinidad and Tobago dollars ("TT$") herein, which are the functional and operational currencies of the Company's subsidiaries. All production volumes disclosed herein are sales volumes. Certain prior year amounts have been reclassified to conform to current year presentation. This MD&A contains forward-looking statements and non-GAAP measures. Readers are cautioned that the MD&A should be read in conjunction with Touchstone's disclosure under the headings "*Forward-looking Statements*," "*Non-GAAP Measures*," and "*Abbreviations*" included at the end of this MD&A.

About Touchstone Exploration Inc.

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

Touchstone's strategy is to leverage western Canadian enhanced oil recovery experience and capability to international onshore properties to create shareholder value. 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 in place.

2017 Fourth Quarter Highlights

- Achieved quarterly average crude oil sales of 1,448 barrels per day, representing increases of 1% and 16% from the third quarter of 2017 and the fourth quarter of 2016, respectively.
- Realized operating netback of $22.14 per barrel, representing decreases of 9% from the third quarter of 2017 and 5% from the prior year comparative quarter.
- Generated funds flow from operations of $892,000 ($0.01 per basic share), a 36% decrease quarter over quarter and a 153% increase from the fourth quarter of 2016.
- The Company's exploration and development expenditures for the quarter were $1,093,000, with seven recompletions performed.
- Completed a private placement raising net proceeds of $4,552,000 by placing 25,784,285 new common shares at a price of $0.20 share.
- Secured bonding to fully support the Company's US$2,150,000 letter of credit relating to East Brighton exploration work commitments.
- Divested the Company's oil services assets by entering into a five-year, US$1,836,000 contractual agreement to lease its four service rigs and coil tubing unit to a third party.
- Exited 2017 with cash of $13,920,000 and reduced net debt by 42% from 2016 to $8,192,000.

2017 Annual Highlights

- Achieved average crude oil production of 1,375 barrels per day, representing a 6% increase from 2016 annual average production of 1,301 bbls/d.
- Increased petroleum revenues 33% from the prior year, generating $32,020,000 versus $24,036,000 in 2016.
- Realized operating netback prior to derivatives of $22.56 per barrel, an increase of 50% from the $15.08 per barrel generated in 2016.
- Generated funds flow from operations of $3,110,000 ($0.03 per basic share) compared to $6,117,000 ($0.07 per basic share) realized in 2016.
- Recorded a net loss of $947,000 ($0.01 per basic share) versus a net loss of $12,853,000 ($0.15 per basic share) in 2016.
- Executed a $9,378,000 exploration and development program to drill four successful wells and perform 20 recompletions.
- Reduced the Company's US$6,000,000 letter of credit related to the East Brighton exploration property to US$2,150,000 and secured a financing facility to support the full amount.
- Completed an admission and listing on the AIM market of the London Stock Exchange in June 2017 and raised net proceeds of $5,329,000 from two United Kingdom private placements.

Financial and Operating Results Summary

	Three months ended December 31, **2017**	2016	Year ended December 31, **2017**	2016
Operating				
Average daily oil production *(bbls/d)*	**1,448**	1,245	**1,375**	1,301
Operating netback[1] *($/bbl)*				
Brent benchmark price[2]	**78.11**	65.53	**70.22**	57.68
Discount	**(8.23)**	(3.68)	**(6.43)**	(7.19)
Realized sales price	**69.88**	61.85	**63.79**	50.49
Royalties	**(20.16)**	(16.69)	**(17.89)**	(12.43)
Operating expenses	**(27.58)**	(21.76)	**(23.34)**	(22.99)
Operating netback prior to derivatives	**22.14**	23.40	**22.56**	15.07
Realized gain on derivatives	**-**	-	**-**	13.57
Operating netback after derivatives	**22.14**	23.40	**22.56**	28.64
Financial *($000's except share and per share amounts)*				
Funds flow from operations	**892**	353	**3,110**	6,117
Per share – basic and diluted[1]	**0.01**	0.01	**0.03**	0.07
Net earnings (loss)	**3,653**	(7,154)	**(947)**	(12,853)
Per share – basic and diluted	**0.03**	(0.09)	**(0.01)**	(0.15)
Capital expenditures				
Exploration	**330**	553	**1,240**	2,029
Property and equipment	**763**	819	**8,138**	1,852
Total	**1,093**	1,372	**9,378**	3,881
Total assets – end of period			**91,336**	89,285
Net debt[1] – end of period			**8,192**	14,154
Weighted average shares outstanding				
Basic	**105,955,000**	83,137,143	**94,203,562**	83,121,842
Diluted	**106,542,151**	83,137,143	**94,203,562**	83,121,842
Outstanding shares – end of period			**129,021,428**	83,137,143

Notes:
(1) See "*Non-GAAP Measures"*.
(2) Source: US Energy Information Administration.

Subsequent to a balance sheet restructuring in November 2016, the Company's focus was to resume a growth strategy through an organic drilling and recompletion program. 2017 results exceeded expectations, as the Company successfully drilled four development wells and performed 20 well recompletions. The four new wells contributed a combined average of 312 barrels of oil per day of incremental production over an average of 177 production days, outperforming the Company's forecasted type curve.

The Company invested $9,378,000 in 2017 on exploration and development expenditures, of which $6,960,000 related to drilling and well recompletions. As a result, fourth quarter 2017 and annual 2017 average crude oil production were 1,448 and 1,375 barrels per day respectively, representing increases of 16% and 6% from the respective prior year comparative periods.

Realized 2017 pricing for crude oil was $63.79 (US$49.18) per barrel versus $50.49 (US$38.10) per barrel received in 2016. Petroleum revenues increased 33% from the prior year based on a 26% year-over-year increase in realized crude oil prices and a 5% increase in total production. Royalty expenses represented 28.1% of petroleum revenue during the year ended December 31, 2017 versus 24.6% in the prior year. The increase reflected the rising scale effect of increased commodity prices to royalty rates, slightly offset by increased new drilling production which qualified for royalty incentives. Annual operating costs increased 7% on an absolute basis and 2% on a per barrel basis from 2016, primarily driven from a one-time $811,000 prior period abandonment fee adjustment recorded in 2017. Excluding the adjustment, annual operating costs decreased 6% on a per barrel basis from 2016. 2017 general and administrative costs remained consistent with the prior year; reductions in salaries were offset by increased fees associated with the Company's AIM listing. Finance costs increased by $1,626,000 from the prior year, as the Company incurred a full year of interest and royalty fees relating to its term loan established in November 2016.

The Company generated funds flow from operations of $3,110,000 ($0.03 per basic share) for the year ended December 31, 2017 versus $6,117,000 ($0.07 per basic share) recognized in the prior year. The Company's 2016 commodity derivative contracts increased 2016 funds flow by $6,462,000. The Company liquidated its outstanding hedge book in June 2016 and did not enter into any commodity based derivative contracts in 2017.

The Company recorded a net loss of $947,000 ($0.01 per basic share) during the year ended December 31, 2017 versus a net loss of $12,853,000 ($0.15 per basic share) recognized in the prior year. The year over year change was primarily the result of net impairment recoveries of $7,851,000 recorded in 2017 versus net impairment charges of $5,337,000 expensed in 2016.

In June 2017 the Company completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the AIM admission, the Company placed an additional 20,000,000 new common shares at a price of $0.12, resulting in gross and net proceeds of $2,446,000 and $777,000, respectively. Touchstone completed an additional private placement with United Kingdom investors in December 2017. The Company placed an additional 25,784,285 new common shares at a price of $0.20, resulting in gross and net proceeds of $5,052,000 and $4,552,000, respectively.

In March 2017, Touchstone reduced the Company's cash collateralized US$6,000,000 letter of credit related to its East Brighton exploration property to US$2,150,000. In November 2017, the Company secured a performance security guarantee for the letter of credit with Export Development Canada ("EDC"), resulting in an increase of available cash.

The Company exited 2017 with a cash balance of $13,920,000, a working capital surplus of $6,808,000, and a term loan balance of $15,000,000. Primarily based on the proceeds received from the two private placements and the reduction in the cash collateralized letter of credit, Touchstone's December 31, 2017 net debt was $8,192,000, which represented a decrease of 42% from year-end 2016. In response, the Company commenced a 10 well drilling and 24 well recompletion program in February 2018.

Principal Properties

The Company holds interests in producing and exploration properties in southern Trinidad and undeveloped acreage in Saskatchewan. All properties are operated by Touchstone apart from the Cory Moruga exploration block. A full schedule of the Company's property interests as of December 31, 2017 is set out in the table below:

Property	Working interest	Lease type	Gross acres[(1)]	Net acres[(2)]
Trinidad				
Producing				
Coora 1	100%	Lease Operatorship	1,230	1,230
Coora 2	100%	Lease Operatorship	469	469
WD-4	100%	Lease Operatorship	700	700
WD-8	100%	Lease Operatorship	650	650
New Dome	100%	Farmout Agreement	69	69
South Palo Seco	100%	Farmout Agreement	2,019	2,019
Barrackpore	100%	Private	211	211
Fyzabad	100%	Crown	94	94
Fyzabad	100%	Private	470	470
Icacos	50%	Private	1,947	974
Palo Seco	100%	Crown	499	499
San Francique	100%	Private	1,351	1,351
	90%		**9,709**	**8,736**
Exploratory				
Bovallius	100%	Private	827	827
Cory Moruga	16%	Crown	11,969	1,939
East Brighton	70%	Crown	20,589	14,412
Moruga	100%	Private	1,416	1,416
New Grant	100%	Private	193	193
Ortoire	80%	Crown	44,731	35,785
Rousillac	100%	Private	235	235
Siparia	50%	Private	111	56
St. John	100%	Private	179	179
	69%		**80,250**	**55,042**
	71%		**89,959**	**63,778**
Canada				
Exploratory[(3)]				
Beadle	100%	Freehold	2,241	2,241
Druid	100%	Crown	8,641	8,641
Luseland	100%	Crown & Freehold	6,849	6,849
Winter	100%	Crown	11,323	11,323
	100%		**29,054**	**29,054**
Total	**78%**		**119,013**	**92,832**

Notes:
(1) "Gross" means acres in which the Company has an interest.
(2) "Net" means the Company's interest in the gross acres.
(3) Approximately 74% of the Company's Canadian based exploration acreage will expire in 2018, including 100% of the Druid and Winter acreages noted above.

Operating Agreements

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

Lease operatorship agreements

The Company's LOAs in respect of its four core properties (Coora 1, Coora 2, WD-4 and WD-8) with Petrotrin expire on December 31, 2020, with the Company holding a five-year renewal option upon reaching agreement regarding the proposed work program and financial obligations. The practice in Trinidad is for extensions to be issued in most cases on terms substantially similar to those in effect at the time. Presently, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details). Under the LOAs, failing to reach minimum production levels does not constitute a breach provided the minimum work obligations have been completed.

In 2016, the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 1, Coora 2 and WD-8 LOAs or the minimum work obligations specified in the WD-4 LOA. The Company fulfilled its 2016 and 2017 work commitments on its Coora 1 and WD-4 properties by drilling four approved wells in 2017.

In 2017, the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 2 and WD-8 LOAs. Subsequent to December 31, 2017, the Company received all necessary approvals to drill two well locations on Coora 2 and two well locations on WD-8. Drilling commenced on March 16, 2018. Upon completion of the four wells, all 2016 through 2017 associated work commitments will be satisfied on the two properties.

The minimum work obligations are set out on a "period basis" rather than on an annual basis. The period is defined as five years. The way in which the term "Work Obligation" is defined in the LOAs is ambiguous, and it is not clear whether the obligations must be satisfied each year (i.e. on an annual basis) or whether the obligations only need to be completed within the period (i.e. whether the obligations may be deferred from one year into the next year, provided that the obligations are ultimately completed prior to the last year in the period). The practice of Petrotrin has been to audit the work obligations and, in the event that they have not been satisfied, request that the operator submit a plan for the completion of the obligations. Although the LOAs provide that the minimum production levels and work obligations are to be achieved on a best endeavors basis, the LOAs also describe the failure to achieve the minimum production levels or the failure to complete the work obligations as potentially constituting a material breach of the LOAs.

Farmout agreements

The Company's farmout agreements with Petrotrin expire on December 31, 2021. The Company holds a five-year renewal option, and the agreements are subject to five-year minimum work commitments from 2017 through 2021 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details).

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 but both expired on August 19, 2013. The Company is currently negotiating licence renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licences will not be renewed.

During the year ended December 31, 2017, production volumes produced under expired MEEI production licences represented 4.5% of total production (2016 – 5.4%). As at December 31, 2017, the net book value of the properties operating under expired MEEI production licences was approximately $1,866,000, representing 3.0% of the Company's property and equipment balance (2016 – $3,364,000 and 5.6%, respectively).

Private lease agreements

Touchstone also negotiates private lease agreements with individual land owners. 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 revenue on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the revenue 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.

During the year ended December 31, 2017, production volumes produced under expired private lease agreements represented 3.0% of total production (2016 – 2.8%).

Crude oil marketing agreement

On January 14, 1974, Premier Consolidated Oilfields Limited, Primera Group's predecessor in interest, and Trinidad and Tobago Oil Company Limited, Petrotrin's predecessor, entered into a Crude Oil Agreement whereby Petrotrin committed to purchase all petroleum crude oil produced by Primera Group from producing Trinidad properties. The agreement has an indefinite term and may be terminated by either party on three months' notice. The price was historically based upon a Venezuelan posted place; however, the index has been discontinued. The price currently paid is a premium to the Petrotrin indexed price, paid in US$.

Economic Environment

Selected benchmark prices and exchange rates

Touchstone's 2017 financial and operating results were impacted by commodity prices and foreign exchange rates which are outlined below.

	Three months ended December 31,		% change	Year ended December 31,		% change
	2017	2016		**2017**	2016	
Crude oil benchmark prices						
Brent average (US$/bbl)[(1)]	**61.45**	49.11	25	**54.17**	43.67	24
Brent average (Cdn$/bbl)[(2)]	**78.11**	65.53	19	**70.22**	57.68	22
WTI average (US$/bbl)[(1)]	**55.27**	49.14	12	**50.80**	43.29	17
WTI average (Cdn$/bbl)[(2)]	**70.25**	64.53	9	**65.92**	56.28	17
Average foreign exchange rates[(3)]						
Cdn$:US$	**0.79**	0.75	5	**0.77**	0.76	2
Cdn$:TT$	**5.30**	5.03	5	**5.20**	5.01	4
US$:TT$	**6.74**	6.71	-	**6.74**	6.63	2

Notes:
(1) Source: US Energy Information Administration. Benchmark prices do not reflect the Company's realized sales prices. Refer to "*Realized prices excluding derivative contracts*" below.
(2) Canadian reference prices are calculated using average Oanda Corporation daily exchange rates for the specified periods.
(3) Source: Average Oanda Corporation daily exchange rates for the specified periods.

Touchstone's crude oil realized price has historically correlated to the Brent benchmark price. Global crude oil prices improved in the fourth quarter of 2017, with the US$ denominated Brent reference price averaging 18% higher than the third quarter of 2017 and 25% higher than the fourth quarter of 2016. Rising crude oil prices were driven by strong global demand and forecasted demand, as well as continued discipline from OPEC and its allies in their efforts to rebalance global crude inventories in the quarter and their decision to further extend production cuts into 2018.

The Canadian dollar weakened relative to US$ during the fourth quarter of 2017, averaging US$0.79 (US$/Cdn$ - 1.27). The US$ was aided by strong economic data and the approval of a new tax reform bill. The TT$ remained range-bound relative to the US$ during the fourth quarter of 2017, averaging US$0.15 (US$/TT$ - 6.74).

2017 Fourth Quarter and Annual Financial and Operating Results

The Company's operations are conducted in Trinidad. The Company's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purposes of resource allocation and assessing performance.

Production volumes

	Three months ended December 31,		% change	Year ended December 31,		% change
	2017	2016		**2017**	2016	
Oil production (bbls)	**133,191**	114,527	16	**501,985**	476,057	5
Average daily oil production (bbls/d)	**1,448**	1,245	16	**1,375**	1,301	6

Production volumes by property

(bbls)	Three months ended December 31, 2017	2016	% change	Year ended December 31, 2017	2016	% change
Coora 1	**34,040**	11,942	100	**91,846**	48,024	91
Coora 2	**4,846**	6,294	(23)	**23,364**	29,153	(20)
WD-4	**45,417**	41,438	10	**175,001**	181,254	(3)
WD-8	**22,888**	25,964	(12)	**97,322**	98,834	(2)
New Dome	**2,074**	1,928	8	**8,871**	7,408	20
South Palo Seco	**754**	688	10	**2,180**	2,194	(1)
Barrackpore	**2,357**	2,747	(14)	**13,573**	16,729	(19)
Fyzabad	**10,725**	14,105	(24)	**50,062**	59,284	(16)
Icacos	**1,077**	964	12	**4,026**	4,343	(7)
Palo Seco	**1,302**	1,367	(5)	**5,130**	5,508	(7)
San Francique	**7,711**	7,090	9	**30,610**	23,326	31
Production	**133,191**	114,527	16	**501,985**	476,057	5

Fourth quarter 2017 crude oil production increased 16% from the fourth quarter of 2016, primarily based on incremental production achieved from the Company's 2017 drilling and recompletion program.

2017 annual crude oil production increased 5% from 2016 due to the incremental production achieved from the Company's recompletion and drilling efforts noted above, partially offset by natural declines.

Realized prices excluding derivative contracts

	Three months ended December 31, 2017	2016	% change	Year ended December 31, 2017	2016	% change
Realized price (*US$/bbl*)	**54.83**	46.22	19	**49.18**	38.10	29
US$ realized price discount as a % of Brent	**10.8**	5.9		**9.2**	12.8	
US$ realized price discount as a % of WTI	**0.8**	5.9		**3.2**	12.0	
Realized price (*Cdn$/bbl*)	**69.88**	61.85	13	**63.79**	50.49	26

Over the past three years, the Company's realized US$ Trinidad crude oil prices averaged a 11% discount to Brent reference pricing. The price differential realized during the three months ended December 31, 2017 remained consistent with historical results. On an annual basis, the realized 2017 price differential to Brent tightened to 9%.

In the fourth quarter of 2017, the Company's realized Trinidad crude oil price was $69.88 per barrel as compared to $61.85 per barrel in the same period of 2016. The 13% increase was a result of a 19% increase in the Brent reference price over the same period, partially offset by both an increase in the realized Brent reference differential from 6% to 11% and a stronger Canadian dollar.

On an annual basis, the Company's realized Trinidad crude oil price in 2017 was 26% higher compared to the comparative 2016 period. The realized price increase was a result of a 29% increase in the Brent reference price over the same period and a narrowing of the realized Brent reference differential from 13% to 9%, partially offset by a stronger Canadian dollar.

Petroleum revenue

($000's)	Three months ended December 31, **2017**	2016	% change	Year ended December 31, **2017**	2016	% change
Petroleum revenue	**9,308**	7,084	31	**32,020**	24,036	33

The Company recognized petroleum revenue of $9,308,000 during the three months ended December 31, 2017. This represented a 31% increase from the corresponding 2016 period as realized pricing, and production increased by 13% and 16%, respectively.

For the year ended December 31, 2017, petroleum revenue was $32,020,000, representing an increase of 33% from revenue recognized in 2016. During the year, realized pricing and production increased by 26% and 5%, respectively.

The Company sells its crude oil to Petrotrin, whom establishes a monthly net price for Trinidad oil. As at December 31, 2017, the Company had 8,612 barrels of crude oil inventory versus 6,092 barrels held as at December 31, 2016. The Company's crude oil is typically sold from its various sales batteries to Petrotrin three days per week. Crude oil sales are sold with no additional transportation costs because title transfers at the Company's various operating batteries.

Commodity price financial derivatives

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

The Company had no commodity risk management contracts in place as at or during the year ended December 31, 2017. During the year ended December 31, 2016, the Company realized a net loss of $1,970,000 related to commodity risk management contracts. The Company's then outstanding commodity price contracts were liquidated on June 2, 2016. For further information, refer to the *"Risk Management"* section of this MD&A.

Royalties

($000's unless otherwise stated)	Three months ended December 31, **2017**	2016	% change	Year ended December 31, **2017**	2016	% change
Crown royalties	**962**	638		**3,553**	2,166	
Private royalties	**141**	174		**575**	489	
Overriding royalties	**1,582**	1,100		**4,854**	3,262	
Royalties	**2,685**	1,912	40	**8,982**	5,917	52
As a percentage of petroleum revenue	**28.8%**	27.0%		**28.1%**	24.6%	

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

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

The LOAs allow for NORR and enhanced NORR incentives for the drilling or sidetracking of a replacement well as follows:

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

In addition to crown royalties, the South Palo Seco and New Dome blocks are subject to farmout agreements that stipulate NORR rates ranging from 7% to 27% and enhanced NORR rates ranging from 4% to 17%. Similar to the LOA structure, the NORR and enhanced NORR rates are indexed to the price of oil realized in the production month. However, there are no incentives for drilling under the farmout agreements. Production from the farmout properties incur a TT$3.20 per barrel charge for transportation and handling fees.

For the three months ended December 31, 2017, Trinidad royalties represented 28.8% of petroleum revenues compared to 27.0% in the prior year comparative period. The increase reflected the rising scale effect of increased commodity prices to royalty rates, slightly offset by increased new drilling production which qualified for enhanced NORR incentives.

Royalty expenses represented 28.1% of petroleum revenue during the year ended December 31, 2017 versus 24.6% in the prior year. The increase was based on increases in year-over-year realized pricing and a one-time $353,000 adjustment recognized in the first quarter of 2017 related to prior period impost levies that were invoiced in 2017.

Operating expenses

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2017	2016		**2017**	2016	
Operating expenses	**3,673**	2,492	47	**11,716**	10,943	7

In 2017, the Company received notification from Petrotrin that amounts were due for contributions to a Petrotrin / MEEI head licence pollution and well abandonment fund. The Company confirmed a total of $954,000 was owing, representing US$0.28 per barrel for production from 2011 through 2017 on all Petrotrin concessions. Approximately $811,000 related to the 2011 through 2016 periods. As the Company cannot access the contributions for its future well abandonments and all contributions are non-refundable, the full $954,000 was expensed in 2017. Going forward, US$0.28 per barrel sold will be accrued and expensed as stipulated in the Company's Petrotrin operating agreements (see "*Decommissioning obligations and abandonment fund*" for further details).

Exclusive of the prior period adjustment, the Company's fourth quarter operating expenses were $2,862,000, representing $21.49 per barrel. In comparison to the same period of 2016, operating costs increased 15% on an absolute basis and decreased 1% on a per barrel basis. The per barrel decrease was primarily attributable increased production.

Exclusive of the $811,000 prior period adjustment, annual operating costs were consistent with 2016 on a an absolute basis and decreased 6% on a per barrel basis. The Company realized the benefits of fixed operating cost control efforts throughout 2017. The Company expects to continue to control these costs in 2018 as the majority of its service operations were leased to a third party in October 2017.

Operating netback[1]

($/bbl)	Three months ended December 31, 2017	2016	% change	Year ended December 31, 2017	2016	% change
Brent benchmark price	**78.11**	65.53	19	**70.22**	57.68	22
Discount	**(8.23)**	(3.68)		**(6.43)**	(7.19)	
Realized sales price	**69.88**	61.85	13	**63.79**	50.49	26
Royalties	**(20.16)**	(16.69)	21	**(17.89)**	(12.43)	44
Operating expenses	**(27.58)**	(21.76)	27	**(23.34)**	(22.99)	2
Operating netback prior to derivatives	**22.14**	23.40	(5)	**22.56**	15.07	50
Realized gain on derivatives	**-**	-	-	**-**	13.57	(100)
Operating netback after derivatives	**22.14**	23.40	(5)	**22.56**	28.64	(21)

Note:
(1) See "*Non-GAAP Measures".*

Fourth quarter 2017 operating netback was $22.14 per barrel, representing a 5% decrease from the $23.40 per barrel recognized in the same period of 2016. Compared to the fourth quarter of 2016, realized price per barrel increased by 13%. Royalties increased based on increased production and the effect of the rising scale effect of increased commodity prices to royalty rates. Fourth quarter operating expenses of $27.58 per barrel increased 27% from the prior year fourth quarter. The per barrel increase was primarily based on one-time abandonment charge recorded in the quarter.

The Company generated a 2017 operating netback of $22.56 per barrel compared to $28.64 per barrel in 2016. Annual realized prices per barrel increased 26%, and related royalties per barrel increased 38% from 2016. Royalty expenses increased due to increases in realized pricing and a one-time adjustment recorded in the first quarter of 2017. 2017 operating expenses were $23.34 per barrel, which represented an increase of 2% from the $22.99 per barrel incurred in 2016. The $1.62 per barrel increase from the aforementioned $811,000 abandonment fund adjustment was partially offset by increased production allocated over a reduction in fixed operating costs. The Company's 2016 commodity derivative contracts increased 2016 operating netback by $13.57 per barrel. The Company liquidated its outstanding hedge book in June 2016 and did not enter into any commodity based derivative contracts in 2017.

Income tax expense and income taxes payable

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

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

SPT is computed and remitted on a quarterly basis. Actual rates vary based on the realized selling prices of crude oil in the applicable quarter. The SPT rate is 0% when the weighted average realized price of oil for a given quarter is below US$50.00 per barrel and 18% when weighted average realized oil prices fall between US$50.00 and US$90.00. The revenue base for the calculation of SPT is gross revenue less royalties, less 20% investment tax credits for allowable tangible and intangible capital expenditures incurred in the applicable fiscal quarter.

Annual PPT and UL taxes are calculated based on net 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. UL losses cannot be carried forward to reduce future year UL. Developmental and exploratory capital expenditure allowances (tangible and intangible) are amortized 50% in year one, 30% in year two and 20% in year three. All unsuccessful development expenditures and abandonment costs can be written off in the year incurred.

The Company has a Trinidad oilfield service subsidiary that is subject to the greater of a 30% corporation income tax calculated on net taxable profits or a 0.6% business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above. All corporate income tax losses can be carried forward indefinitely. Allowances vary from 10% to 33.3% for various capital expenditures incurred in the year. On October 1, 2017, the Company entered into a five-year contractual agreement to lease its four service rigs and ancillary equipment to a third party (see the "*Capital lease*" section for further details).

The following table summarizes current income tax expense for the three months and years ended December 31, 2017 and 2016:

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2017	2016		**2017**	2016	
SPT	**214**	-		**291**	-	
PPT/UL	**-**	-		**-**	-	
Business levy	**2**	7		**32**	25	
Green fund levy	**29**	23		**117**	91	
Trinidad income tax	**245**	30	100	**440**	116	100
Canadian income tax	**-**	-	-	**-**	350	(100)
Current income tax expense	**245**	30	100	**440**	466	(6)

Trinidad based current income taxes for the three months and year ended December 31, 2017 were $245,000 and $440,000, respectively. The Company remitted two quarterly SPT payments in 2017 as realized prices were greater than US$50.00 per barrel. The Company was not liable for SPT in 2016 due to low crude oil pricing. Throughout 2017 and 2016, Touchstone's two Trinidad subsidiaries were not in a PPT and UL taxable position. Green fund levy expenses increased in 2017 based on increases in petroleum revenues from 2016.

The Company's Canadian entities remained in a net loss position in 2017 and were not taxable. In 2016, the Company recorded a $350,000 expense related to a prior period audit that was assessed and paid in 2017.

The Company previously acquired a Trinidad company that had overdue income tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the acquired subsidiary specified that upon confirmation from the BIR, the acquired subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the acquired subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of December 31, 2017, $2,853,000 (2016 - $3,068,000) in related interest was accrued in income taxes payable.

The acquired subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. During 2017, the seller was placed into joint liquidation. Management has received confirmation from external counsel that financial position of the seller and the Company's ability to recover funds under the indemnity are both unchanged from the prior year. The Company continues to work with the BIR to resolve this matter and does not believe that it will be required to make any further income tax payments nor any payments for the seller's portion of any interest.

The December 31, 2017 income tax payable balance was comprised of the following:

($000's)	**Principal**	**Interest**	**Total**
Prior year (2016 and prior) taxes payable (receivable)	(123)	2,982	2,859
Current year (2017) tax accruals less instalments paid	207	-	207
Income taxes payable	**84**	**2,982**	**3,066**

Touchstone's $10,280,000 (2016 - $4,745,000) deferred income tax liability balance represented the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases as at December 31, 2017. The deferred tax liability balance mainly related to the discrepancy of the fair values over the carrying values of the Company's producing assets. The primary driver of the year over year increase was the net $8,557,000 in property and equipment impairment reversals recorded in 2017. During the three months and year ended December 31, 2017, the Company recorded deferred tax expenses of $4,631,000 and $6,086,000, respectively (2016 – $1,674,000 expense and $246,000 recovery).

At December 31, 2017, the Company had an estimated $29,431,000 and $2,050,000 (2016 - $27,663,000 and $1,772,000) in Trinidadian PPT and corporate tax losses, respectively. These may be carried forward indefinitely to reduce PPT and corporate taxes in future years. The benefit of $12,957,000 of Trinidad PPT and corporate tax losses were not recognized as at December 31, 2017 (2016 - $11,555,000). The Company had approximately $92,029,000 (2016 – $91,418,000) in Canadian non-capital losses, which begin to expire in 2026. The benefit of Touchstone's head office tax losses was not recognized in 2016 and 2017.

Further information regarding the income taxes is included in Note 15 "*Income Taxes*" of the Company's December 31, 2017 consolidated financial statements.

General and administrative ("G&A") expenses

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2017	2016		**2017**	2016	
Gross G&A	**2,114**	2,008	5	**7,398**	7,616	(3)
Capitalized G&A	**(432)**	(318)	36	**(1,078)**	(1,218)	(11)
Net G&A	**1,682**	1,690	-	**6,320**	6,398	(1)

G&A expenses primarily consisted of management and administrative salaries and benefits, legal and professional fees, office rent, insurance, travel and other administrative expenses. In Trinidad, 98 full-time-equivalents were working for Touchstone as at December 31, 2017 compared to 120 as at December 31, 2016. At Touchstone's Canadian head office, 12 full-time-equivalents were employed as at December 31, 2017 and 2016.

For the three months and year ended December 31, 2017, gross G&A costs were $2,114,000 and $7,398,000, representing an increase of 5% and a decrease of 3% from the comparative 2016 periods, respectively. The Company decreased its fixed cost salary structure in 2017. The savings were offset by increased professional and travel fees related to the Company's AIM listing.

Net finance expenses

($000's)	Three months ended December 31, **2017**	2016	% change	Year ended December 31, **2017**	2016	% change
Interest income	**(44)**	(29)		**(112)**	(115)	
Interest (recovery) expense on bank loan	**-**	(37)		**-**	83	
Interest expense on term loan	**302**	128		**1,200**	128	
Production payment liability revaluation loss	**166**	-		**166**	-	
Interest expense (recovery) on taxes	**3**	333		**602**	(132)	
Finance fees and other	**-**	6		**-**	266	
Net finance expenses	**427**	401	6	**1,856**	230	100

Interest income included interest earned from funds on deposit and interest generated from a finance lease.

Term loan interest expenses related to the term loan established on November 23, 2016. The production payment liability revaluation loss was a result of the increased production payment liability estimated by the Company as at December 31, 2017 based on increased internally forecasted production and commodity pricing (see "*Liquidity and Capital Resources*").

Interest expenses on income taxes were accrued for outstanding value added tax balances owed as a result of intercompany transactions. The outstanding principal balances were fully paid in the second quarter of 2017 and incurred no further interest charges upon settlement. A one-time reversal of previously accrued interest was recorded in the third quarter of 2016 based on a Trinidad government tax amnesty.

Financing fees primarily consisted of bank loan administrative fees; the facility was terminated in November 2016.

Foreign exchange and foreign currency translation

The Company's presentation currency is the Canadian dollar. The Company and its Canadian subsidiaries have a Canadian dollar functional currency while its Trinidadian subsidiaries each has a Trinidad and Tobago dollar functional currency. Touchstone Exploration (Barbados) Ltd., a wholly-owned holding subsidiary of the Company, has a United States dollar functional currency. In each reporting period, the change in values of the US$ and TT$ relative to the Canadian dollar reporting currency are recognized. The applicable rates used to translate the Company's TT$ and US$ denominated financial statement items were as follows:

	Three months ended December 31, **2017**	2016	% change	Year ended December 31, **2017**	2016	% change
Closing foreign exchange rates(1)						
Cdn$:US$				**0.80**	0.74	7
Cdn$:TT$				**5.39**	5.01	8
Average foreign exchange rates(1)						
Cdn$:US$	**0.79**	0.75	5	**0.77**	0.76	2
Cdn$:TT$	**5.30**	5.03	5	**5.20**	5.01	4
US$:TT$	**6.74**	6.71	-	**6.74**	6.63	2

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

The Company's revenues are subject to foreign exchange exposure as the sales prices of crude oil are determined by reference to US$ denominated benchmark prices. An increase in the value of the Canadian dollar compared with the US$ has a negative impact on the Company's reported results. Likewise, as the Canadian dollar weakens, the Company's reported results are higher. The Company's foreign currency risk also relates to working capital balances denominated in US$ and UK pounds sterling.

The Canadian dollar depreciated relative to the US$ in the fourth quarter of 2017, and the TT$ was range bound relative to the US$. On an annual basis, the Canadian dollar appreciated relative to the US$, and the TT$ remained range bound relative to the US$. As a result, during the three months and year ended December 31, 2017, the Company recorded a $22,000 foreign exchange gain and a $512,000 foreign exchange loss, respectively (2016 – losses of $33,000 and $163,000). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in prevailing exchange rates.

In addition, the assets and liabilities of the Company's subsidiaries are translated to Canadian dollars at the exchange rate on the reporting period date for presentation purposes. The income and expenses of the Company's Trinidad operations are translated to Canadian dollars at the average monthly exchange rates relative to the date of the transactions. All resulting foreign currency differences are recorded in other comprehensive income in the Company's consolidated statement of earnings. Based on a slight depreciation of the Canadian dollar versus the TT$ in the fourth quarter of 2017, a foreign currency translation gain of $357,000 was recorded (2016 – $775,000). As a result of the annual 2017 appreciation of the Canadian dollar versus the TT$, a foreign currency translation loss of $2,610,000 was recorded during the year ended December 31, 2017 (2016 –$3,787,000).

Share-based compensation

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

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

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

During 2017, the Company's Board of Directors approved and granted 1,558,800 share options and nil incentive share options, respectively (2016 – 1,578,800 and nil). At December 31, 2017, share options and incentive share options outstanding represented 5.3% of the Company's outstanding common shares (2016 – 6.9%).

During the three months and year ended December 31, 2017, share-based compensation expense of $32,000 and $165,000 was recorded compared to a recovery of $2,000 and $157,000 expense recognized in the 2016 comparative periods, respectively. Share-based compensation expense increased from the prior year as unvested share options were forfeited based on employee departures in 2016, which resulted in a recovery of the related unvested share-based compensation expense initially recorded.

Depletion and depreciation expense

($000's unless otherwise indicated)	Three months ended December 31, **2017**	2016	% change	Year ended December 31, **2017**	2016	% change
Depletion expense	**991**	1,006	(1)	**3,957**	3,959	-
On a per barrel basis	**7.44**	8.78	(15)	**7.88**	8.32	(5)
Depreciation expense	**41**	440	(91)	**458**	1,053	(57)
Depletion and depreciation expense	**1,032**	1,446	(29)	**4,415**	5,012	(12)

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

As at December 31, 2017, $85,287,000 in future development costs were included in the Trinidad production asset cost bases for depletion calculation purposes (2016 - $70,870,000). For the three months and year ended December 31, 2017, per barrel depletion expenses decreased from the prior year equivalent periods. The decrease in both periods reflected the effect of a higher depletable base due to increased development capital spending and future development costs.

Fourth quarter and annual 2017 depreciation expenses reduced by 29% and 12% from the equivalent 2016 period, respectively, due to lower asset net book values in both periods. The Company's oil service assets were leased to a third party effective October 1, 2017, resulting in nil Trinidad depreciation expenses booked in the fourth quarter of 2017.

Impairment

Entities are required to conduct impairment test where there is an indication of impairment or reversal of an 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. Immediately before non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and fair value less costs of disposal, with any impairment loss or reversal of impairment recognized in earnings. Touchstone assesses exploration asset and property and equipment indicators of impairment and impairment reversals on a quarterly basis. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Exploration asset impairments

Exploration asset impairments for the three months and years ended December 31, 2017 and 2016 by CGU were as follows:

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2017	2016		**2017**	2016	
Cory Moruga	**-**	241		**-**	241	
East Brighton	**68**	3,544		**667**	4,334	
Corporate	**-**	465		**39**	465	
Impairments	**68**	4,250	(98)	**706**	5,040	(86)

During the three months and year ended December 31, 2017, the Company impaired $68,000 and $667,000, respectively relating to its East Brighton property given its estimated recoverable value was $nil. 2017 additions were mainly accrued lease expenses and letter of credit holding costs. An additional $39,000 in corporate exploration property lease expenses were incurred and impaired during the year ended December 31, 2017, as the Company has no further plans to develop the properties.

During the year ended December 31, 2016, the following exploration asset impairment charges were recognized:

- The Company incurred $241,000 in partner expenses related to the non-operated Cory Moruga property. The expenses were impaired as the estimated recoverable amount of the property was $nil.
- The Company incurred $4,334,000 of East Brighton property expenses which were impaired as the estimated recoverable amount of the asset was less than the corresponding carrying amount. The property, which was classified as held for sale at December 31, 2015, was no longer classified as held for sale at December 31, 2016 as the transaction failed to close. The Company revalued its decommissioning liability and incurred lease payments and letter of credit holding costs in relation to the property which resulted in additional impairments recorded in the year.
- The Company identified indicators of impairment on its corporate exploration assets due to potential decreased undeveloped land fair values and minimal capital development activity incurred in 2016. The Company performed impairment tests which resulted in total charges of $465,000. All CGUs had a fair value assessment of $nil as the Company had no further plans to develop the properties.

Property and equipment impairments

Property and equipment impairments for the three months and years ended December 31, 2017 and 2016 consisted of the following non-cash (recoveries) charges by CGU:

($000's)	**Three months and year ended December 31,**		% change
	2017	2016	
Coora	**(7,190)**	1,200	
WD-4	**(1,370)**	35	
WD-8	**-**	(3,823)	
New Dome	**-**	246	
South Palo Seco	**3**	1	
Barrackpore	**-**	879	
Fyzabad	**-**	1,148	
San Francique	**-**	361	
Corporate	**-**	250	
Impairments	**(8,557)**	297	(100)

Based on the results of the Company's December 31, 2017 evaluation of potential impairment or related reversals, indicators of impairment reversals were identified for the Company's Coora and WD-4 properties. The results of 2017 drilling and increased drilling locations, capital expenditures and corresponding cash flows from the reserve report and operating cost reductions were deemed to be the primary triggers indicating impairment reversals. The Company performed impairment calculations using the value in use method (level 3 inputs), resulting in recoverable amounts of $19,794,000 and $15,938,000 for the Coora and WD-4 properties, respectively. As a result, impairment recoveries of $7,190,000 and $1,370,000 were recorded relating to the Company's Coora CGU and WD-4 CGU during the three months and year ended December 31, 2017, respectively.

Additionally, the Company completed an impairment review of its South Palo Seco development CGU based on no future reserves associated with the property as at December 31, 2017. The recoverable amount was estimated using value in use (level 3 inputs) and was determined to be $nil for these assets. An impairment charge of $3,000 was recorded for the three months and year ended December 31, 2017.

The Company evaluated its Trinidad development and production assets for indicators of any potential impairment or related reversal on December 31, 2016. Based on the continued low oil price environment and operating cost efficiencies achieved in 2016 impairment tests were performed on all CGUs, resulting in net charges of $47,000.

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

Further information regarding the impairment charges for the years ended December 31, 2017 and 2016 is included in Note 8 "*Impairments*" of the Company's December 31, 2017 consolidated financial statements.

Decommissioning obligations and abandonment fund

The Company's decommissioning obligation 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 US$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 licence and the eventual abandonment of wells and decommissioning of facilities used for operations conducted under the 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 statement of financial position as long-term abandonment fund assets.

With respect to decommissioning obligations associated with the Company's leases with Petrotrin, 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 US$0.25 per barrel sold to Petrotrin into a joint well abandonment fund. These funds are used solely for well decommissioning. Any costs of wells that are abandoned during the relevant agreement term are credited against any future contributions of the well abandonment fund. Upon expiration of the relevant agreement, Petrotrin 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 reflected on the statement of financial position as long-term abandonment fund assets.

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

As of December 31, 2017, the Company classified $1,049,000 of accrued or paid contributions into abandonment funds as long-term decommissioning obligation funds (2016 - $697,000).

The Company estimated the net present value of the cash flows required to settle its decommissioning obligations to be $11,853,000 at December 31, 2017 (2016 - $16,783,000) based on a total inflation adjusted future liability of $39,193,000 (2016 - $68,580,0000). Accretion charges of $38,000 and $154,000 for the three months and year ended December 31, 2017 respectively (2016 - $101,000 and $378,000) were recognized to reflect the increase in decommissioning obligation associated with the passage of time. Decommissioning obligation details as at December 31, 2017 were as follows:

Number of net well locations	Undiscounted balance *($000's)*	Inflation adjusted balance *($000's)*	Discounted balance *($000's)*
858	**19,387**	**39,193**	**11,853**

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the years ended December 31, 2017 and 2016 is included in Note 12 "*Decommissioning Obligations and Decommissioning Obligation Fund*" to the Company's December 31, 2017 consolidated financial statements.

Private Placements

June 26, 2017 Admission to AIM and Private Placement

On June 26, 2017, the Company completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the AIM admission, the Company placed an additional 20,000,000 common shares at a price of 7.25 pence ($0.12) for gross proceeds of £1,450,000 ($2,446,000). Fees incurred from the private placement were $1,669,000, which included brokerage commissions and legal, accounting and corporate finance advisory fees. Net proceeds of the private placement were $777,000.

December 22, 2017 Private Placement

On December 22, 2017, the Company completed an additional private placement. The Company raised gross proceeds of £2,965,000 ($5,052,000) by way of a placing of 25,784,285 new common shares at a price of 11.5 pence ($0.20) per common share. Fees incurred from the private placement were $500,000, resulting in net proceeds of $4,552,000.

All common shares issued by the Company pursuant to the December 22, 2017 offering are freely transferable outside of Canada; however, these common shares are subject to a four-month restricted hold period in Canada which will prevent such common shares from being resold in Canada, through a Canadian exchange or otherwise, during the restricted period without an exemption from the Canadian prospectus requirement. The restriction period expires on April 23, 2018.

Capital Expenditures and Dispositions

Exploration asset expenditures

($000's)	**Three months ended December 31,** **2017**	2016	% change	**Year ended December 31,** **2017**	2016	% change
Lease payments	**172**	153		**975**	865	
Geological	**40**	42		**45**	113	
Capitalized G&A	**22**	32		**57**	206	
Other	**96**	326		**163**	845	
Exploration asset expenditures	**330**	553	(40)	**1,240**	2,029	(39)

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

The Company incurred $330,000 and $1,240,000 in exploration asset expenditures during the three months and year ended December 31, 2017, respectively. The expenditures mainly related to annual head licence costs for the Ortoire and East Brighton properties, as well as capitalized finance costs in connection with a letter of credit that secures the East Brighton concession. Capitalized G&A of $22,000 and $57,000 were related to work performed on the Ortoire property during the three months and year ended December 31, 2017, respectively. In addition, the Company incurred $39,000 in lease costs relating to its Canadian exploration land during year ended December 31, 2017.

Property and equipment expenditures

($000's)	**Three months ended December 31,** **2017**	2016	% change	**Year ended December 31,** **2017**	2016	% change
Drilling and completions	**409**	471		**6,960**	704	
Capitalized G&A	**410**	286		**1,021**	1,010	
Corporate assets / other	**(56)**	116		**157**	138	
Property and equipment expenditures	**763**	819	(7)	**8,138**	1,852	100

During the three months ended December 31, 2017, the Company incurred $763,000 in property and equipment capital expenditures. Development capital expenditures were $409,000, as the Company performed seven recompletions in the quarter. In the comparative period of 2016, the Company performed eight well recompletions.

On an annual basis, the Company incurred $6,960,000 in development capital expenditures, which represented four wells drilled and 20 well recompletions. During the year ended December 31, 2016, the Company completed two fracture stimulations and nine well recompletions.

Capital lease

Effective October 1, 2017, the Company entered into a five-year, US$1,836,000 contractual agreement to lease its four service rigs and ancillary equipment to a third party. The lease arrangement also included the Company's coil tubing unit that was previously leased to the same party on May 1, 2015. The lease bears a fixed interest rate of 8% per annum, compounded and payable monthly. Principal payments commence in January 2018, and the Company continues to hold title to the assets until all principal and associated interest payments have been collected.

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. The $985,000 carrying value of the service rigs was reclassified from property and equipment to other assets on the statement of financial position. A gain of $343,000 was recorded in connection with the transaction. The Company's finance lease receivable was $2,308,000, of which $1,817,000 was classified as long-term other assets as of December 31, 2017.

2016 Asset disposition

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

Liquidity and Capital Resources

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

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

($000's)	**Target measure**	**December 31, 2017**	December 31, 2016
Working capital surplus[1]		**(6,808)**	(846)
Undiscounted term loan balance		**15,000**	15,000
Net debt[2]		**8,192**	14,154
Shareholders' equity		**38,204**	36,234
Net debt plus equity		**46,396**	50,388
Annual funds flow from operations		**3,110**	6,117
Net debt to funds flow from operations	**< 3.0 times**	**2.6**	2.3
Net debt to net debt plus equity	**< 0.4 times**	**0.2**	0.3

Notes:
(1) Working capital surplus is a Non-GAAP measure and is calculated as current assets less current liabilities as they appear on the consolidated statements of financial position.
(2) See "*Non-GAAP Measures"*.

Touchstone exited 2017 with cash of $13,920,000, a working capital surplus of $6,808,000, and a $15,000,000 principal term loan balance. In addition, the Company classified $376,000 in cash used to collateralize bonds that secured future work obligations on Trinidad production contracts as long-term restricted cash. The Company must continue to maintain a minimum cash reserves balance of $5,000,000 on a quarterly basis in accordance with its term loan, the amount of which can be reduced to $2,500,000 if the Company meets certain financial thresholds or raises additional equity.

In November 2017, EDC provided the Company's bank with a performance security guarantee to support the full amount of the Company's US$2,150,000 letter of credit provided to the MEEI related to the exploration work commitments on its East Brighton property. Prior to the guarantee, the letter of credit was collateralized with cash and classified as long-term restricted cash. As noted above, the Company raised net proceeds of $5,329,000 in 2017 by way of two private placements. The proceeds and reduction of restricted cash allowed the Company financial liquidity to commence a 10 well drilling and 24 well recompletion program in February 2018.

Restricted cash and cash equivalents

As at December 31, 2017, the Company had cash collateralized bonds totaling US$299,000 ($376,000) related to its work commitments on its Petrotrin concessions. The balance is classified as long-term restricted cash and cash equivalents as the bonds expire at the expiration of the relevant licence agreement.

Term loan

On November 23, 2016, the Company completed an arrangement for a $15,000,000, five-year term loan agreement from a Canadian investment fund. The term loan replaced the Company's former bank loan, which was discharged.

The term loan matures on November 23, 2021 with no mandatory repayment of principal until January 1, 2019. The Company is required to repay $810,000 per quarter commencing on January 1, 2019 through October 1, 2021, and the then outstanding principal balance is repayable on the maturity date. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly.

Touchstone may prepay any principal portion of the term loan at any time after May 23, 2018 and if it does so will incur the following prepayment fees:

- from May 23, 2018 to November 23, 2018, a fee of 3% of the amount prepaid;
- from November 24, 2018 to November 23, 2019, a fee of 2% of the amount prepaid; and
- from November 24, 2019 to November 22, 2021, a fee of 1% of the amount prepaid.

In connection with the term loan, the Company granted the lender a production payment equal to 1% of total petroleum sales from then current Company land holdings in Trinidad. The production payments are payable until October 31, 2021 regardless of any repayment or prepayment of the term loan. The term loan and the Company's obligations in respect of the production payment are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The production payment obligation is governed by a separate agreement between the parties. The payment is defined as 1% of total sale proceeds, which is defined as the gross proceeds from the sale of the aggregate gross production attributable to the Company's participating interest in all then current Trinidad blocks. The payment is calculated quarterly and payable 35 days subsequent to the end of each fiscal quarter. Touchstone has the option, concurrent with repayment of the term loan in full, to buyout the production payment obligation. The buyout shall be negotiated by both parties and calculated by the Company as prepared by reference to internal forecasts discounted at 8% per annum.

The Company and lender executed a First Amending Agreement to the Credit Agreement on May 15, 2017. The amendment further clarified certain of the Company's positive financial covenants included in the term loan agreement to provide greater compliance flexibility to the Company.

At inception, the debt instrument was determined to be comprised of two components: the term loan and the production payment obligation.

The term loan was initially measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan balance less transaction costs is unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings.

The production payment obligation was initially measured at fair value, based on estimated future production and pricing at the inception of the loan and a discount rate of 15%. The obligation was revalued at December 31, 2017 based on estimated future production and updated forward crude oil pricing discounted by 15%, resulting in a revaluation loss of $166,000.

The following is a continuity schedule of the term loan and associated liabilities balance from inception to December 31, 2017:

($000's)	**Term loan liability**	**Royalty liability**	**Total**
Balance, November 23, 2016	**13,132**	**1,247**	**14,379**
Accretion	164	-	164
Payments	-	(47)	(47)
Balance, December 31, 2016	**13,296**	**1,200**	**14,496**
Revaluation loss	-	166	166
Accretion	550	-	550
Payments	-	(319)	(319)
Balance, December 31, 2017	**13,846**	**1,047**	**14,893**
Current (included in accounts payable)	-	261	261
Non-current	13,846	786	14,632
Term loan and associated liabilities	**13,846**	**1,047**	**14,893**

The term loan arrangement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at December 31, 2017 were as follows:

Covenant	**Covenant threshold**	**Year ended December 31, 2017**
Cash reserves *($000's)*	> 5,000	**13,920**
Net funded debt to equity ratio(2)	< 0.50 times	**0.04 times(1)**
Net funded debt to EBITDA ratio(3)	< 2.50 times	**0.20 times(1)**

Notes:
(1) Estimated position subject to final approval by the lender.
(2) Net funded debt is defined as interest-bearing debt less cash reserves. Equity is defined as book value of shareholders' equity less accumulated other comprehensive income (loss).
(3) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined as net earnings before interest, income taxes and non-cash items.

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

Liquidity risk

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

To manage its capital structure in a period of low commodity prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. The Company will continue to manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability. Undiscounted cash outflows relating to financial liabilities as at December 31, 2017 were as follows:

($000's)	**Undiscounted amount**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**
Accounts payable and accrued liabilities	13,233	13,233	-	-
Income taxes payable	3,066	3,066	-	-
Term loan and associated liabilities	15,000	-	6,480	8,520
Financial liabilities	**31,299**	**16,299**	**6,480**	**8,520**

Risk Management

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

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

Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company had no commodity risk management contracts in place as at or during the year ended December 31, 2017.

On January 23, 2018, the Company entered into the following financial derivative contracts to mitigate its exposure to fluctuations in commodity prices:

Oil contracts	**Volume**	**Pricing point**	**Strike price**	**Term**
Put options	500 barrels per day	Brent ICE	US$55.00 per barrel	March 1, 2018 to Dec. 31, 2018

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

Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the TT$ can have a significant effect on reported results. Given that the TT$ is loosely pegged to the US$, the underlying risk is based on movements between the Canadian dollar and the US$.

The Company's foreign exchange gain or losses primarily include unrealized gains or losses on the translation of the Company's US$ denominated working capital balances in Canada and Trinidad. The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion.

The Company had no contracts in place to manage foreign currency risk as at or during the year ended December 31, 2017. For the year ended December 31, 2017, with all other variables held constant, a 1% change in the Canadian dollar to TT$ exchange rate would have resulted in an approximate $182,000 (2016 - $117,000) increase or decrease in net earnings.

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. As at December 31, 2017 and 2016, the Company was not exposed to interest rate risk as its term loan interest rate remained fixed in nature.

Contractual Obligations, Commitments and Guarantees

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

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

As at December 31, 2017, the Company's estimated contractual capital requirements over the next three years and thereafter were as follows:

($000's)	**Total**	**2018**	**2019**	**2020**	**Thereafter**
Operating agreement commitments					
Coora block	**2,082**	2,031	25	26	-
WD-4 block	**1,372**	1,292	39	41	-
WD-8 block	**3,153**	3,056	47	50	-
New Dome block	**88**	10	10	56	12
South Palo Seco block	**1,255**	461	467	160	167
Exploration agreement commitments					
Ortoire block	**10,528**	2,178	4,890	3,460	-
East Brighton block	**3,872**	434	2,964	474	-
Office leases	**1,348**	440	320	306	282
Equipment leases	**637**	238	214	182	3
Minimum payments	**24,335**	**10,140**	**8,976**	**4,755**	**464**

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 workovers prior to the end of 2021. As of December 31, 2017, four wells and 13 workovers have been completed with respect to these obligations (see "*Operating Agreements*"). The Company has provided US$299,000 in cash collateralized guarantees to Petrotrin to support its operating agreement work commitments (see "*Restricted cash and cash equivalents"*).

The Company's December 31, 2017 estimated costs and timing of its future Ortoire exploration commitments, which included acquiring and processing 85 line kilometres of 2D seismic and the drilling of four vertical wells, were as follows:

($000's)	**Total**	**2018**	**2019**	**2020**	**Thereafter**
Lease payments	**926**	295	309	322	-
2D seismic	**3,013**	-	3,013	-	-
Drilling commitments	**6,589**	1,883	1,568	3,138	-
Minimum payments	**10,528**	**2,178**	**4,890**	**3,460**	**-**

The Company's December 31, 2017 estimated costs and timing of its future East Brighton exploration commitments, which included the drilling of one well to a total depth of 5,000 true vertical feet, were as follows:

($000's)	**Total**	**2018**	**2019**	**2020**	**Thereafter**
Lease payments	**1,362**	434	454	474	-
Drilling commitments	**2,510**	-	2,510	-	-
Minimum payments	**3,872**	**434**	**2,964**	**474**	**-**

The Company has provided the MEEI with a US$2,150,000 guarantee in the form of a letter of credit to support exploration work commitments under its East Brighton block. EDC has provided a performance security guarantee to support the full value of the letter of credit issued by Touchstone. The letter of credit may be reduced from time to time to reflect any work performed on the block.

Off-balance Sheet Arrangements

Touchstone has certain equipment and office lease agreements reflected in the contractual obligations and commitments table above which were entered in the normal course of operations. All leases are currently treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the statement of financial position as of December 31, 2017.

As disclosed above, the Company has a US$2,150,000 letter of credit that is secured by EDC. This balance was not included on the statement of financial position as at December 31, 2017.

Related Party Transactions

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. The Company was formerly a party to an office sublease with Alvopetro Energy Ltd., which was considered a related party to the Company due to common Directors.

($000's)	**Year ended December 31,** **2017**	2016
Legal fees charged by Norton Rose Fulbright Canada LLP	**709**	297
Office rent charged to Alvopetro Energy Ltd.	**-**	(85)
Related party transactions	**709**	212

The Company has determined that the key management personnel of the Company are comprised of its directors and three executive officers. Key management personnel compensation paid or payable during the years ended December 31, 2017 and 2016 were as follows:

($000's)	**Year ended December 31,** **2017**	2016
Salaries, incentives and short-term benefits included in G&A expenses	**1,256**	1,201
Director fees included in G&A expenses	**147**	50
Share-based compensation	**146**	224
Key management compensation	**1,549**	1,475

The compensation paid or payable to the directors of the Company during the year ended December 31, 2017 were as follows:

($000's)	**Fees earned**	**Share-based compensation**	**All other compensation**	**Total compensation**
Paul R. Baay(1)	-	-	-	-
Kenneth R. McKinnon	28	13	-	41
Peter Nicol(2)	13	2	-	15
Corey Ruttan(3)	14	-	-	14
Stanley T. Smith(4)	7	-	-	7
Thomas E. Valentine	25	8	-	33
Dr. Harrie Vredenburg	25	11	-	36
John D. Wright	35	15	-	50
Director compensation	**147**	**49**	**-**	**196**

Notes:
(1) Mr. Baay does not receive compensation for his service as a director during the period he is an executive officer of the Company.
(2) Mr. Nicol was appointed a director of the Company effective June 26, 2017 in connection with the Company's admission to AIM.
(3) Mr. Ruttan did not stand for re-election at the Company's June 19, 2017 annual and special meeting of shareholders.
(4) Mr. Smith was appointed a director of the Company effective October 4, 2017.

Financial Instruments

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

Share Information

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The following table summarizes the outstanding common shares, share options and incentive share options as at the date of this MD&A, December 31, 2017 and 2016:

	March 26, 2018	**December 31, 2017**	**December 31, 2016**
Common shares outstanding	129,021,428	129,021,428	83,137,143
Share options outstanding	6,845,840	6,870,840	5,642,040
Incentive share options outstanding	15,000	15,000	127,500
Fully diluted common shares	**135,882,268**	**135,907,268**	**88,906,683**

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's December 31, 2017 Annual Information Form, which can be found on the Company's SEDAR profile (www.sedar.com).

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

The Company is exposed to normal financial risks inherent in the oil and gas industry including commodity price risk, exchange rate risk, interest rate risk and credit risk. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in 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. From time to time, the Company may have to raise additional funds to finance business development activities. The Company's ability to raise additional capital will depend on a number of factors such as general economic and market conditions that are beyond the Company's control.

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

Access to capital

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

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

Foreign jurisdictions

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

Reserves estimates

The Company has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves on an annual basis. Reserve values are based on a number of variables and assumptions such as future commodity prices, future production, future operating and capital costs and governmental regulations. Reserve estimates are prepared in accordance with standards and procedures set out in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. The reserves and recovery information contained in the independent reserve report is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserve engineers. The reserves evaluator forecasts reserve volumes and future cash flows based upon current and historical well performance through to the economic production limit of individual wells. Notwithstanding established precedence and contractual options for the continuation and renewal of the Company's existing operating agreements, in many cases the forecast economic limit of individual wells is beyond the current term of the relevant operating agreements. There is no certainty as to any renewal of the Company's existing operating arrangements.

Volatility of commodity prices and foreign exchange rates

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

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

Counterparty risk

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

Operational matters

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

Exploration

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

Changes in Accounting Policies

Adoption of new accounting policies

There were no new or amended accounting standards or interpretations adopted by the Company during the year ended December 31, 2017.

Future changes in accounting policies

The Company will be required to adopt IFRS 9 *Financial Instruments* on January 1, 2018, IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 and IFRS 16 *Leases* on January 1, 2019. Further information regarding future changes in accounting policies is included in Note 4 "*Changes in Accounting Policies*" of the Company's December 31, 2017 consolidated financial statements.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates, and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. Estimates and underlying assumptions are reviewed on an ongoing basis, and any revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates and judgements made by Management in the preparation of the Company's consolidated financial statements are included in Note 5 "*Use of Estimates, Judgements and Assumptions*" of the December 31, 2017 consolidated financial statements.

Control Environment

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at December 31, 2017. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Based on this evaluation, Management concluded that both ICFR and DC&P were effective as at December 31, 2017. There were no changes during the three months and year ended December 31, 2017 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; transactions are appropriately authorized; and to facilitate the preparation of relevant, reliable and timely information. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Advisory on Forward-Looking Statements

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

Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production rates and production decline rates, the magnitude of and ability to recover oil and gas reserves, plans for and results of drilling activity, well abandonment costs, 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 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 and business prospects and financial outlook;
- the Company's future capital expenditure programs, including the anticipated timing, allocation and costs thereof and the method of funding;
- crude oil production levels, including estimated field production levels;
- the performance characteristics of the Company's oil and natural gas properties;
- the quantity, and estimated future net revenue from, oil and natural gas reserves and the projections of market prices and costs;
- timing of and the Company's ability to develop unproved reserves;
- 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 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 contracts and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated or future regulatory approvals;
- expected levels of operating costs, general and administrative costs and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil;
- treatment under governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- the Company's position related to its uncertain tax positions;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future sources of liquidity;
- the Company's future compliance with its term loan covenants;
- the 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 obligations;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Judgments, Estimates and Assumptions*".

Statements relating to "reserves" and "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future. The recovery and reserve estimates of Touchstone's reserves provided herein are estimates only, and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

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 reserves on an economic basis and the potential for technical problems that could lead to well blow-outs and environmental damage. The Company is exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operation risks. The Company is subject to industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced. There are uncertainties in estimating the Company's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The Company is subject to the risk that it will not be able to fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada and Trinidad, continued volatility in market prices for crude oil, the impact of significant declines in market prices for oil, the ability to access sufficient capital from internal and external sources, changes in income tax laws or changes in tax laws, royalties and incentive programs relating to the Trinidad oil and gas industry, fluctuations in interest rates, and fluctuations in exchange rates. The Company is subject to local regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, exploration, lease operating or farm-in rights related to the Company's crude oil and gas interests in Trinidad. Readers are cautioned that the foregoing list of risk factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

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

Non-GAAP Measures

The MD&A contains terms commonly used in the oil and natural gas industry, including funds flow from operations per share, operating netback and net debt. These terms do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash provided by operating activities, net income, 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.

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

The following table calculates operating netback for the periods indicated:

($000's unless otherwise indicated)	**Three months ended December 31,**		**Year ended December 31,**	
	2017	2016	**2017**	2016
Petroleum revenue	**9,308**	7,084	**32,020**	24,036
Royalties	**(2,685)**	(1,912)	**(8,982)**	(5,917)
Operating expenses	**(3,673)**	(2,492)	**(11,716)**	(10,943)
Operating netback prior to derivatives	**2,950**	2,680	**11,322**	7,176
Realized gain on derivatives	**-**	-	**-**	6,462
Operating netback after derivatives	**2,950**	2,680	**11,322**	13,638
Production *(bbls)*	**133,191**	114,527	**501,985**	476,057
Operating netback after derivatives *($/bbl)*	**22.14**	23.40	**22.56**	28.64

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

($000's)	**Three months ended December 31,**		**Year ended December 31,**	
	2017	2016	**2017**	2016
Loss on financial derivatives	**-**	-	**-**	(1,970)
Non-cash loss on financial derivatives	**-**	-	**-**	8,432
Realized gain on financial derivatives	**-**	-	**-**	6,462

Net debt is calculated by summing the Company's working capital and undiscounted non-current interest-bearing liabilities. Working capital is calculated as current assets less current liabilities as they appear on the statements of financial position. The Company uses this information to assess its true debt and liquidity position and to manage capital and liquidity risk.

The following table summarizes net debt for the periods indicated:

($000's)	**December 31, 2017**	December 31, 2016
Current assets	**(23,107)**	(17,735)
Current liabilities	**16,299**	(16,889)
Undiscounted long-term portion of term loan	**15,000**	15,000
Net debt	**8,192**	14,154

Summary of Quarterly Results

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

Three months ended	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
Operating				
Average daily production *(bbls/d)*	1,448	1,437	1,334	1,280
Operating netback(1) *($/bbl)*				
Petroleum revenue	69.88	59.64	61.26	64.16
Royalties	(20.16)	(14.59)	(16.01)	(21.04)
Operating expenses	(27.58)	(20.59)	(25.36)	(19.46)
Operating netback	22.14	24.46	19.89	23.66
Financial *($000's except share and per share amounts)*				
Funds flow from operations	892	1,387	438	393
Per share – basic and diluted(1)	0.01	0.01	0.01	0.01
Net earnings (loss)	3,653	(1,203)	(1,848)	(1,549)
Per share – basic and diluted	0.03	(0.01)	(0.02)	(0.02)
Capital expenditures				
Exploration assets	330	202	520	188
Property and equipment	763	1,889	4,940	546
Total	1,093	2,091	5,460	734
Total assets - end of period	91,336	80,137	86,570	87,239
Net debt(1) - end of period	8,192	14,598	13,814	9,416
Weighted average shares outstanding				
Basic	105,955,000	103,137,143	84,236,044	83,137,143
Diluted	106,542,151	103,137,143	84,236,044	83,137,143
Outstanding shares - end of period	129,021,428	103,137,143	103,137,143	83,137,143

Note:
(1) See "Non-GAAP Measures".

Three months ended	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Operating				
Average daily production *(bbls/d)*	1,245	1,276	1,322	1,361
Average oil prices before derivatives *($/bbl)*	61.85	52.56	49.83	38.66
Financial *($000's except share and per share amounts)*				
Funds flow from operations	353	1,567	3,278	919
Per share – basic and diluted[1]	0.01	0.02	0.04	0.01
Net loss	(7,154)	(702)	(2,553)	(2,444)
Per share – basic and diluted	(0.09)	(0.01)	(0.03)	(0.03)
Capital expenditures				
Exploration assets	553	847	476	153
Property and equipment	819	327	(340)	1,046
Total	1,372	1,174	136	1,199
Total assets - end of period	89,285	72,550	73,330	81,209
Net debt[1] - end of period	14,154	4,115	4,188	1,164
Weighted average shares outstanding				
Basic and diluted	83,137,143	83,137,143	83,125,605	83,087,143
Outstanding shares - end of period	83,187,143	83,187,143	83,187,143	83,087,143

Note:
(1) See "Non-GAAP Measures".

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

In response to the decrease in crude oil prices, the Company decreased 2016 and first quarter 2017 capital and operational spending, which reduced crude oil production and operating cash flows.

Currency and References to Touchstone

All information included in this MD&A is shown on a Canadian dollar basis unless otherwise stated. Tabular amounts herein are in thousands of Canadian dollars, and the amounts in text are rounded to thousands of Canadian dollars. For convenience, references in this document to the "Company", "we", "us", "our", and "its" may, where applicable, refer only to Touchstone.

Additional Information

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

CORPORATE INFORMATION

DIRECTORS

John D. Wright
Chairman of the Board

Paul R. Baay

Kenneth R. McKinnon

Peter Nicol

Stanley T. Smith

Thomas E. Valentine

Harrie Vredenburg

EXECUTIVE OFFICERS

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

STOCK EXCHANGE LISTING

Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

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LEGAL COUNSEL

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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

GMP FirstEnergy
London, United Kingdom

PUBLIC RELATIONS

Camarco
London, United Kingdom

ABBREVIATIONS

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

Oil

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

Other

AIM	AIM market of the London Stock Exchange plc
Cdn$	Canadian dollar
US$	United States dollar
TT$	Trinidad and Tobago dollar
TSX	Toronto Stock Exchange