Touchstone Exploration Inc.

Management's Discussion and Analysis

December 31, 2018

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. ("Touchstone", "we", "our", "us" or the "Company") for the three months and year ended December 31, 2018 with comparisons to the three months and year ended December 31, 2017 is dated March 26, 2019 and should be read in conjunction with the Company's audited consolidated financial statements as at and for the years ended December 31, 2018 and 2017. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with the Canadian securities regulatory authorities, including the Company's 2018 Annual Information Form dated March 26, 2019, which can be found on the Company's SEDAR profile (www.sedar.com).

All financial amounts are in Canadian dollars ("$" or "Cdn$") unless otherwise stated.

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 sections titled "*Forward-looking Statements*", "*Non-GAAP Measures*", and "*Abbreviations*" included in this MD&A.

About Touchstone Exploration Inc.

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

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

Fourth Quarter 2018 Highlights

- Achieved quarterly average crude oil production of 1,851 bbls/d, representing increases of 5% and 28% from the third quarter of 2018 and the fourth quarter of 2017, respectively.
- Completed our 2018 development program with total drilling and development capital expenditures of $6,380,000, which included drilling three wells, completing one well, and recompleting seven legacy wells.
- Realized $13,151,000 in petroleum sales, a 41% increase from the prior year fourth quarter.
- Generated an operating netback of $29.70 per barrel, a 34% increase relative to the $22.14 per barrel generated in the prior year comparative quarter.
- Delivered funds flow from operations of $1,678,000 ($0.01 per share) compared to $892,000 ($0.01 per share) in the fourth quarter of 2017.
- Recognized net earnings of $780,000 ($0.01 per share) compared to net earnings of $3,653,000 ($0.03 per share) reported in the equivalent quarter of 2017.
- Exited the quarter with net debt of $19,527,000, representing 1.8 times net debt to annual 2018 funds flow from operations.

Annual 2018 Highlights

- Achieved annual average crude oil production of 1,718 bbls/d, a 25% increase relative to the average 1,375 bbls/d produced in 2017.
- Executed a $19,064,000 development program to drill 11 successful wells, complete nine wells, and perform 28 well recompletions.
- Increased petroleum sales 53% from the prior year, generating $48,933,000 versus $32,020,000 in 2017.
- Realized an operating netback of $34.58 per barrel, an increase of 53% from the $22.56 per barrel generated in 2017.
- Reduced per barrel operating costs by 4% and general and administrative expenses by 3% from the prior year.
- Generated funds flow from operations of $10,797,000 ($0.08 per share) compared to $3,110,000 ($0.03 per share) realized in 2017.
- Recognized net earnings of $480,000 ($0.00 per share) compared to a net loss of $947,000 ($0.01 per share) reported in 2017.

Financial and Operating Results Summary

	Three months ended December 31, 2018	2017	% change	Year ended December 31, 2018	2017	% change
Operating highlights						
Average daily oil production *(bbls/d)*	**1,851**	1,448	28	**1,718**	1,375	25
Net wells drilled	**3**	-	-	**11**	4	100
Net wells recompleted	**7**	7	-	**28**	20	40
Brent benchmark price *(US$/bbl)*	**68.76**	61.45	12	**71.31**	54.17	32
Operating netback[(1)] *($/bbl)*						
Realized sales price	**77.21**	69.88	10	**78.02**	63.79	22
Royalties	**(19.49)**	(20.16)	(3)	**(20.92)**	(17.89)	17
Operating expenses	**(28.02)**	(27.58)	2	**(22.52)**	(23.34)	(4)
	29.70	22.14	34	**34.58**	22.56	53
Financial highlights *($000's except share and per share amounts)*						
Petroleum sales	**13,151**	9,308	41	**48,933**	32,020	53
Cash provided by operating activities	**2,228**	2,310	(4)	**8,367**	704	100
Funds flow from operations	**1,678**	892	88	**10,797**	3,110	100
Per share – basic and diluted[(1)]	**0.01**	0.01	-	**0.08**	0.03	100
Net earnings (loss)	**780**	3,653	(79)	**480**	(947)	n/a
Per share – basic and diluted	**0.01**	0.03	(67)	**0.00**	(0.01)	n/a
Capital expenditures						
Exploration	**2,147**	330	100	**3,387**	1,240	100
Development	**6,380**	763	100	**19,064**	8,138	100
	8,527	1,093	100	**22,451**	9,378	100
Net debt[(1)] – end of period						
Working capital deficit (surplus)				**4,527**	(6,808)	
Principal long-term balance of loan				**15,000**	15,000	
				19,527	8,192	100
Weighted average shares outstanding *(000's)*						
Basic	**129,021**	105,955	22	**129,021**	94,204	37
Diluted	**130,532**	106,542	23	**130,220**	94,204	38
Outstanding shares – end of period *(000's)*				**129,021**	129,021	-

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

Operating results

Touchstone was the most active onshore upstream company in Trinidad in 2018, drilling a total of 11 developmental oil wells, nine of which were completed and on production prior to the end of the year. 2018 development capital expenditures totaled $19,064,000, which included drilling and completion activities and the recompletion of 28 wells. Fourth quarter 2018 development field activity included drilling three crude oil development wells, completing one of these wells and recompleting seven legacy wells with a total capital spend of $6,380,000. The remaining two wells of the 2018 drilling program were completed subsequent to year-end.

Fourth quarter 2018 crude oil production averaged 1,851 bbls/d, a 28% increase relative to the 1,448 bbls/d produced in the fourth quarter of 2017. Fourth quarter average daily production increased 5% from the third quarter of 2018, with growth slowed by multiple wells requiring lengthy workovers. Annual 2018 production averaged 1,718 bbls/d, representing a 25% increase from the 1,375 bbls/d average produced in the prior year. The nine wells drilled and completed in 2018 combined to add an average of 342 bbls/d and 198 bbls/d of incremental production in the fourth quarter and the year, respectively. In addition, the four wells drilled in 2017 continued to perform ahead of internal expectations, contributing an average of 354 bbls/d in the fourth quarter of 2018 and 343 bbls/d throughout 2018.

Exploration expenditures were mainly focused on our Ortoire property, as we invested $2,147,000 and $3,387,000 during the three months and year ended December 31, 2018, respectively (2017 - $330,000 and $1,240,000). We continue to focus on advancing our internally identified exploration prospects on the property in order to complete our four well drilling obligations in 2019 and 2020. The Company has submitted four Certificate of Environmental Compliance ("CEC") applications which are required prior to the preparation of drilling locations. Two CECs covering seven drilling locations have been approved by regulatory authorities to date.

Financial results

Our fourth quarter operating netback was $5,059,000 ($29.70 per barrel), an improvement of 71% compared to $2,950,000 ($22.14 per barrel) recorded in the fourth quarter of 2017. A 10% increase in realized prices and a 28% increase in crude oil production resulted in a $3,843,000 increase in petroleum sales relative to the fourth quarter of 2017. This was offset by higher royalties of $634,000 from increased production and the sliding scale effect of increased commodity pricing to royalty rates, slightly offset by new well production that qualified for royalty incentives. 208 fourth quarter operating costs increased by $1,100,000 from the prior year comparative quarter based on non-recurring lease expense adjustments of $528,000, elevated variable costs from increased production and increased well servicing costs.

Operating netback was $34.58 per barrel in 2018, a 53% increase from $22.56 per barrel recognized in 2017. Realized pricing for crude oil averaged $78.02 (US$60.01) per barrel in 2018 versus $63.79 (US$49.18) per barrel received in 2017. Relative to 2017, Petroleum sales increased 53% to $48,933,000 based on a 22% annual increase in realized crude oil prices and a 25% increase in production volumes. Royalty expenses represented 26.8% of petroleum sales during the year ended December 31, 2018 versus 28.1% in the prior year. The decrease was a result of incremental production achieved from our 2018 drilling program which qualified for royalty incentives. Despite the aforementioned $528,000 one-time charge, annual operating costs decreased 4% on a per barrel basis, which was primarily attributable to increased production.

During the three months and year ended December 31, 2018, Touchstone generated funds flow from operations of $1,678,000 and $10,797,000, representing increases of $786,000 and $7,687,000 from the prior year comparative periods, respectively. The variances were mainly a result of elevated operating netbacks based on increases in both production and realized pricing. In addition to the $528,000 operating cost adjustment, the Company incurred a non-recurring $620,000 general and administrative charge related to the restoration of legacy office leases that expire on March 31, 2019.

Earnings before income taxes for the year were $11,866,000, representing an increase of 113% from the $5,579,000 recorded in 2017. The increased operational financial performance achieved in 2018 was slightly offset by decreased property and equipment impairment recoveries reported in the year, as $4,335,000 and $7,851,000 in net impairment recoveries were recorded during the 2018 and 2017 fiscal years respectively. $2,437,000 in current taxes were reported throughout 2018 versus $440,000 in 2017, mainly due to increased supplemental petroleum taxes based on increased realized prices received in 2018. 2018 deferred taxes increased $2,863,000 from the $6,086,000 recorded in 2017 based on increased capital activity performed in the year. After current and deferred taxes, we recorded net earnings of $480,000 during the year ended December 31, 2018 compared to a net loss of $947,000 in 2017.

Touchstone exited the year with a cash balance of $4,845,000, a working capital deficit of $4,527,000 and a $15 million principal term loan balance. Our cash and working capital balances decreased from December 31, 2017 based on the capital-intensive nature of the Company’s development activities. The investments increased both production and funds flow from operations from the prior year, as net debt to trailing twelve-month funds flow from operations was 1.8 times as of December 31, 2018 versus 2.6 times as at December 31, 2017. Touchstone's $15 million credit facility does not require the commencement of principal payments until January 1, 2020, and the Company was well within the financial covenants as at December 31, 2018.

Subsequent to year-end, we raised gross proceeds of £3,800,000 ($6,615,000) by way of a placing of 31,666,667 new common shares at a price of 12 pence ($0.21) per common share. We intend to use the net proceeds from the private placement to fund the first exploration well on our Ortoire property and for general working capital purposes. Touchstone will carefully monitor commodity pricing volatility and will continue to take a measured approach to our 2019 capital drilling program in an effort to manage working capital and reduce net debt levels.

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, 2018 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	2,167	2,167
Barrackpore	100%	Private	211	211
Fyzabad	100%	Crown	94	94
Fyzabad	100%	Private	470	470
Palo Seco	100%	Crown	499	499
San Francique	100%	Private	1,351	1,351
	100%		**7,910**	**7,910**
Exploratory				
Bovallius	100%	Private	827	827
Cory Moruga	16%	Crown	7,443	1,206
East Brighton	70%	Crown	20,588	14,412
Moruga	100%	Private	1,416	1,416
New Grant	100%	Private	193	193
Ortoire	80%	Crown	44,731	35,785
Rousillac	100%	Private	235	235
Siparia	50%	Private	111	56
St. John	100%	Private	179	179
	72%		**75,723**	**54,309**
	74%		**83,633**	**62,219**
Canada				
Exploratory				
Beadle[(3)]	100%	Freehold	2,240	2,240
Luseland[(4)]	100%	Crown & Freehold	5,171	5,171
	100%		**7,411**	**7,411**
Total	**76%**		**91,044**	**69,630**

Notes:
(1) "Gross" means acres in which the Company has an interest.
(2) "Net" means the Company's interest in the gross acres.
(3) 100% expires on March 31, 2019.
(4) Approximately 25% expires on March 31, 2019.

Operating Agreements

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

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

Lease operatorship agreements

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

As of December 31, 2018, the Company satisfied all of its minimum work obligations stipulated in its LOAs through December 31, 2020, which included drilling ten wells and performing 11 well recompletions.

Farmout agreements

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

As of December 31, 2018, the Company satisfied all of its minimum work obligations stipulated in its New Dome FOA through December 31, 2021, which included performing three well recompletions. The South Palo Seco FOA requires drilling two development wells and performing four well recompletions. One well recompletion required in 2018 was completed to date, and one well required to be drilled in 2018 remains outstanding. The Company has received approvals for two drilling locations on the South Palo Seco property and anticipates drilling activities to commence once Heritage has rectified surface lease issues (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details). The South Palo Seco property is considered non-core as it represented 0.40% of total Company production during the 2018 year and 0.01% of proved plus probable reserves at December 31, 2018.

MEEI exploration and production licences

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

The Company's Fyzabad and Palo Seco agreements with the MEEI contain no major work obligations or covenants. The Palo Seco licence expired on August 19, 2013, and Touchstone is currently negotiating an extension. The Company has permission from the MEEI to operate in the interim period. The

Company has no indication that the licence will not be renewed. During the year ended December 31, 2018, production volumes produced under the expired licence represented 0.7% of total production (2017 – 1.0%).

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 petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad. During the year ended December 31, 2018, production volumes produced under expired private lease agreements represented 2.4% of total production (2017 – 3.0%).

Crude oil marketing agreement

On January 14, 1974, Premier Consolidated Oilfields Limited, the Company's predecessor in interest, and Texaco Trinidad Inc., Petrotrin's predecessor, entered into a Crude Oil Purchase Agreement whereby Petrotrin committed to purchase all petroleum crude oil produced by Primera Oil and Gas Limited from various producing properties. The agreement, as amended from time to time, has continued to have an indefinite term and may be terminated by either party on three months notice. The price currently paid is the Trinidad equity land blend indexed price, payable in US$.

Economic Environment

Touchstone's 2018 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
	2018	2017		**2018**	2017	
Average Crude oil benchmark prices(1)						
Brent *(US$/bbl)*	**68.76**	61.45	12	**71.31**	54.17	32
WTI *(US$/bbl)*	**59.34**	55.30	7	**64.90**	50.85	28
Average foreign exchange rates(2)						
Cdn$:US$	**0.76**	0.79	(4)	**0.77**	0.77	-
Cdn$:TT$	**5.11**	5.30	(4)	**5.20**	5.20	-
US$:TT$	**6.75**	6.74	-	**6.74**	6.74	-

Notes:
(1) Source: US Energy Information Administration. Benchmark prices do not reflect the Company's realized sales prices. Refer to "*Realized crude oil pricing (excluding derivative contracts*".
(2) Source: Oanda Corporation average 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 retreated in the fourth quarter, with the US$ denominated Brent reference price averaging 8% lower than the third quarter of 2018. Despite the decrease, the fourth quarter 2018 average Brent reference price increased 12% from the equivalent quarter of 2017, and the annual 2018 Brent reference average price increased 32% from 2017. In the fourth quarter of 2018, crude oil pricing reversed sharply due to growing concern of a global economic slowdown and the impact of the escalating trade war between China and the United States.

The Canadian dollar gradually weakened relative to the US$ during the fourth quarter of 2018, averaging US$0.76 (US$/Cdn$ - 1.32). Although the Canadian dollar experienced volatility throughout 2018, it was relatively unchanged as compared to December 31, 2017. The TT$ remained range-bound relative to the US$ during the three months and year ended December 31, 2018, averaging US$0.15 during both periods which was consistent with both corresponding prior year periods.

2018 Fourth Quarter and Annual Results of Operations

The Company's petroleum operations are conducted in Trinidad with head office functions conducted in Canada.

Financial highlights

($000's except for per share amounts)	Three months ended December 31,		% change	Year ended December 31,		% change
	2018	2017		**2018**	2017	
Net earnings (loss)	**780**	3,653	(79)	**480**	(947)	n/a
Per share – basic and diluted	**0.01**	0.03	(67)	**0.00**	(0.01)	n/a
Cash provided by operating activities	**2,228**	2,310	(4)	**8,367**	704	100
Funds flow from operations	**1,678**	892	88	**10,797**	3,110	100
Per share – basic and diluted[(1)]	**0.01**	0.01	-	**0.08**	0.03	100

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

Net earnings (loss)

Net earnings for the three months ended December 31, 2018 was $780,000 compared to $3,653,000 recorded in the prior year. The variance was primarily attributed to net impairment reversals recorded in each period, offset by increased operational performance achieved in the fourth quarter of 2018.

The Company recorded net earnings of $480,000 in 2018 compared to a net loss of $947,000 in the 2017 financial year. Similarly, variances in net property and equipment impairments recorded in the prior year were offset by increased operational performance in 2018.

Details of the change in net earnings (loss) from the three months and year ended December 31, 2017 to the three months and year ended December 31, 2018 were as follows:

($000's)	**Three months ended December 31**	**Year ended December 31**
Net earnings (loss) - 2017	3,653	(947)
Sales volume variance	**2,595**	**7,988**
Realized price variance	**1,248**	**8,925**
Royalties	**(634)**	**(4,142)**
Other income	**-**	**484**
Expenses		
Operating	**(1,100)**	**(2,406)**
General and administrative	**(760)**	**(1,377)**
Net interest	**9**	**707**
Current income taxes	**(328)**	**(1,997)**
Realized foreign exchange	**(8)**	**(306)**
Total cash variances	**1,022**	**7,876**

($000's)	**Three months ended December 31**	**Year ended December 31**
Non-cash loss on financial derivatives	**-**	**(198)**
Gain on asset dispositions	**(72)**	**(72)**
Unrealized foreign exchange	**158**	**1,231**
Share-based compensation	**(8)**	**10**
Depletion and depreciation	**(489)**	**(995)**
Impairment	**(3,616)**	**(3,516)**
Accretion on term loan	**(3)**	**148**
Accretion on decommissioning obligations	**(53)**	**(191)**
Loss on decommissioning obligations	**-**	**(11)**
Term loan revaluations	**(216)**	**8**
Deferred income taxes	**404**	**(2,863)**
Total non-cash variances	**(3,895)**	**(6,449)**
Net earnings - 2018	**780**	**480**

Cash from operating activities and funds flow from operations

Fourth quarter cash provided by operating activities decreased by $82,000 or 4% from the prior year. The 2018 increase in funds flow from operations of $786,000 relative to the same period in 2017 was offset by negative variances in changes in non-cash working capital of $868,000.

For the year-ended December 31, 2018, cash provided by operations was $8,367,000 compared to $704,000 in 2017. The 2018 funds flow from operations increase of $7,687,000 over the prior year was slightly offset by a combination of the $166,000 annual variance in changes in non-working capital and the purchases of derivative options of $190,000 in 2018.

Fourth quarter and annual 2018 funds flow from operations increases from the prior year were mainly a result of elevated operating netbacks based on increases in both production and realized pricing. Details of the change in funds flow from operations from the three months and year ended December 31, 2017 to the three months and year ended December 31, 2018 were as follows:

($000's)	**Three months ended December 31**	**Year ended December 31**
Funds flow from operations - 2017	892	3,110
Sales volume variance	**2,595**	**7,988**
Realized price variance	**1,248**	**8,925**
Royalties	**(634)**	**(4,142)**
Other income	**-**	**484**
Expenses		
Operating	**(1,100)**	**(2,406)**
General and administrative	**(760)**	**(1,377)**
Net interest	**9**	**707**
Current income taxes	**(328)**	**(1,997)**
Realized foreign exchange	**(8)**	**(306)**
Change in non-cash other	**(236)**	**(93)**
Decommissioning expenditures	**-**	**(96)**
Funds flow from operations - 2018	**1,678**	**10,797**

Net earnings (loss) and funds flow from operations sensitivity[1]

The following table illustrates sensitivities of operating items to business environment and operational changes and the resulting estimated impact to net earnings and funds flow from operations for the year ended December 31, 2018.

	Assumption[2]	Change	Impact on annual net earnings *($000's)*	Impact on annual funds flow from operations *($000's)*
Average realized price *($/bbl)*	78.02	10%	1,561	2,921
Average production volumes *(bbls/d)*	1,718	10%	1,236	2,324
Operating expenses *($/bbl)*	22.52	10%	(767)	(1,412)

Notes:
(1) Calculations are estimates, are performed independently and will not be indicative of actual results that would occur when multiple variables change concurrently.
(2) Assumptions are indicative of actual prices and volumes realized and actual results for the year ended December 31, 2018.

Production volumes

	Three months ended December 31,		% change	Year ended December 31,		% change
	2018	2017		**2018**	2017	
Oil production *(bbls)*	**170,320**	133,191	28	**627,209**	501,985	25
Average daily oil production *(bbls/d)*	**1,851**	1,448	28	**1,718**	1,375	25

Fourth quarter 2018 crude oil production increased 28% from the fourth quarter of 2017 as a result of an active and successful 2018 drilling and completion program. The nine new well completed throughout 2018 combined to contribute approximately 342 bbls/d of production throughout the quarter.

2018 annual crude oil production increased 25% from 2017 based on production gains achieved from the Company's aforementioned 2018 drilling efforts, which contributed average production of approximately 198 bbls/d throughout the year. Furthermore, the Company's four wells drilled in 2017 contributed an average of 343 bbls/d throughout 2018 compared to an incremental average of 151 bbls/d in 2017.

The following table summarizes Touchstone production by property during the three months and years ended December 31, 2018 and 2017:

(bbls)	Three months ended December 31,		% change	Year ended December 31,		% change
	2018	2017		**2018**	2017	
Coora 1	**44,549**	34,040	31	**147,368**	91,846	60
Coora 2	**7,024**	4,846	45	**26,150**	23,364	12
WD-4	**61,669**	45,417	36	**224,086**	175,001	28
WD-8	**28,671**	22,888	25	**113,454**	97,322	17
New Dome	**2,336**	2,074	13	**9,352**	8,871	5
South Palo Seco	**620**	754	(18)	**2,536**	2,180	16
Barrackpore	**4,847**	2,357	100	**18,201**	13,573	34
Fyzabad	**10,492**	10,725	(2)	**49,316**	50,062	(1)
Icacos	**718**	1,077	(33)	**3,827**	4,026	(5)
Palo Seco	**1,276**	1,302	(2)	**4,886**	5,130	(5)
San Francique	**8,118**	7,711	5	**28,033**	30,610	(8)
Production	**170,320**	133,191	28	**627,209**	501,985	25

Realized crude oil pricing (excluding derivative contracts)

	Three months ended December 31,		% change	Year ended December 31,		% change
	2018	2017		**2018**	2017	
Realized price (*US$/bbl*)	**58.41**	54.83	7	**60.01**	49.18	22
US$ realized price discount as a % of Brent	**15.1**	10.8		**15.8**	9.2	
US$ realized price discount as a % of WTI	**1.6**	0.8		**7.5**	3.2	
Realized price (*Cdn$/bbl*)	**77.21**	69.88	10	**78.02**	63.79	22

The Company's crude oil price received is based on quality differentials and prices realized from Heritage liquids products and therefore are attributed to factors that are beyond the Company's control. The differential to Brent reference pricing realized during the three months and year ended December 31, 2018 widened to 15.1% and 15.8%, respectively (2017 – 10.8% and 9.2%).

In the fourth quarter of 2018, the Company's realized crude oil price averaged $77.21 per barrel compared to an average of $69.88 per barrel in the comparative period of 2017. The 10% increase resulted from a 12% increase in the US$ Brent reference price and a 4% weaker Canadian dollar over the same period, partially offset by an increase in the realized Brent reference differential from 10.8% to 15.1%.

On an annual basis, the Company's 2018 average realized crude oil price of $78.02 was 22% higher than the $63.79 per barrel received in 2017. The increase was a result of a 32% annual increase in the Brent reference price, partially offset by a 6.6% year over year increase in the realized differential to the Brent benchmark price.

Petroleum sales

($000's)	Three months ended December 31,		% change	Year ended December 31,		% change
	2018	2017		**2018**	2017	
Petroleum sales	**13,151**	9,308	41	**48,933**	32,020	53

The Company recognized petroleum sales of $13,151,000 during the three months ended December 31, 2018. The $3,843,00 variance represented a 41% increase from the corresponding 2017 period. $2,595,000 of the variance was a result of an increase in production, and the remaining $1,248,000 variance was a result of an increase in realized pricing.

The Company's 2018 petroleum sales were $48,933,000 versus $32,020,000 recognized in 2017. The $16,913,000 annual increase was based on a sales volume variance of $7,988,000 and a realized price variance of $8,925,000.

Touchstone sells its crude oil to Heritage, with title transferring at the Company's various sales batteries. As at December 31, 2018, the Company held 7,559 barrels of crude oil inventory versus 8,612 barrels held as at December 31, 2017.

Commodity price financial derivatives

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

In January 2018, the Company purchased crude oil put option contracts for 500 bbls/d at a strike price of Brent US$55.00 per barrel from March 1, 2018 to December 31, 2018. The put options were purchased from a financial institution for an upfront cash premium of US$153,000 ($190,000). The monthly options expired without being settled, resulting in a derivative loss of $198,000 recognized during the year ended December 31, 2018 (2017 – $nil). For further information, refer to the "*Market Risk Management*" section of this MD&A.

Other income

During the year ended December 31, 2018, the Company sold a licenced 3D seismic copy of the Luseland, Saskatchewan area to a third-party broker for proceeds of $484,000 (2017 - $nil).

Operating netbacks

The components of operating netback for the three months and years ended December 31, 2018 and 2017 are set forth below.

	Three months ended December 31,		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
($000's)						
Petroleum sales[1]	**13,151**	9,308	41	**48,933**	32,020	53
Royalties	**(3,319)**	(2,685)	24	**(13,124)**	(8,982)	46
Operating expenses	**(4,773)**	(3,673)	30	**(14,122)**	(11,716)	21
Operating netback[2]	**5,059**	2,950	71	**21,687**	11,322	92
($/bbl)						
Brent benchmark price[3]	**90.47**	78.11	16	**92.33**	70.22	31
Discount	**(13.26)**	(8.23)		**(14.31)**	(6.43)	
Realized sales price	**77.21**	69.88	10	**78.02**	63.79	22
Royalties	**(19.49)**	(20.16)	(3)	**(20.92)**	(17.89)	17
Operating expenses	**(28.02)**	(27.58)	2	**(22.52)**	(23.34)	(4)
Operating netback[2]	**29.70**	22.14	34	**34.58**	22.56	53

Notes:
(1) Excludes other income.
(2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
(3) Source: US Energy Information Administration. Canadian price was calculated using average Oanda Corporation daily exchange rates for the specified periods.

Royalties

($000's unless otherwise stated)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Crown royalties	**1,425**	962		**5,219**	3,553	
Private royalties	**90**	141		**643**	575	
Overriding royalties	**1,804**	1,582		**7,262**	4,854	
Royalties	**3,319**	2,685	24	**13,124**	8,982	46
As a % of petroleum sales	**25.2%**	28.8%	(13)	**26.8%**	28.1%	(4)

Touchstone incurs a crown royalty rate of 12.5% on gross production under MEEI and Heritage leases. For private leases, the Company incurs private royalties between 10% and 12.5% of gross petroleum sales. On the WD-8, Coora and WD-4 blocks, the Company operates under LOAs, which in addition to crown royalties apply a sliding scale notional overriding royalty ("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 operate under FOAs 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 FOAs.

During the three months ended December 31, 2018, royalties represented 25.2% of petroleum sales compared to 28.8% in the prior year comparative period. The 13% decrease on a percentage of petroleum sales basis was a result of increased new drill production in 2018 which qualified for enhanced NORR incentives.

Royalty expenses were 26.8% of petroleum revenue during the year ended December 31, 2018 versus 28.1% in the prior year. As a percentage of sales, the 2018 decrease relative to 2017 was based on a one-time $353,000 adjustment recognized in the first quarter of 2017 that related to historical royalties invoiced in 2017.

Operating expenses

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Operating expenses	**4,773**	3,673	30	**14,122**	11,716	21

The Company's fourth quarter operating expenses were $4,773,000, representing $28.02 per barrel or US$21.23 per barrel. The Company recorded a licence fee adjustment of $528,000 in the fourth quarter relating to an MEEI licence renewed in the year. Exclusive of this one-time adjustment, 2018 fourth quarter per barrel operating costs were $24.92 or US$18.85. In comparison to the same period of 2017, US$ per barrel operating costs decreased 13% from the US$21.71 per barrel incurred in 2017. The normalized per barrel decrease was predominantly from increased year over year production growth.

On an annual basis, 2018 operating expenses were $14,122,000, representing $22.52 per barrel or US$17.36 per barrel. US$ per barrel operating costs decreased 3% from the US$17.97 per barrel recorded in the prior year. Although operating costs increased in the fourth quarter of 2018 due to higher than normal well servicing costs, the Company expects to maintain baseline levels in 2019 and will attempt to achieve a US$16.00 per barrel operating cost target in 2019.

General and administrative expenses ("G&A")

($000's unless otherwise stated)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Gross G&A	**2,956**	2,114	40	**9,112**	7,398	23
Capitalized G&A	**(514)**	(432)	19	**(1,415)**	(1,078)	31
G&A expenses	**2,442**	1,682	45	**7,697**	6,320	22
On a per barrel basis	**14.34**	12.63	14	**12.27**	12.59	(3)

For the three months ended December 31, 2018, G&A expenses were $2,442,000, representing an increase of $760,000 or 45% from the comparative 2017 period. $620,000 of the variance related to an accrual for legacy office lease restoration fees paid in March 2019. The sub-leases expire on March 31, 2019 and the Company expects to incur no further costs upon the expiry of the relevant head leases. The remaining variance relative to 2017 were predominately due to increases in compensation costs, consultant expenses and director fees.

Annual 2018 G&A expenses increased $1,377,000 or 22% from the prior year. The variance was predominately due to the aforementioned restoration fee and increases in compensation costs, consultant expenses and director fees. In addition, the Company incurred a total of $131,000 in severance costs in 2018 (2017 - $nil), primarily from the elimination of its internal security department in favour of a third-party contractor.

Net finance expenses

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Interest income	**(50)**	(44)		**(222)**	(112)	
Interest expense on term loan	**302**	302		**1,200**	1,200	
Term loan revaluation gain	**-**	-		**(283)**	-	
Production payment liability revaluation loss	**382**	166		**441**	166	
Interest expense on taxes / other	**-**	3		**5**	602	
Net finance expenses	**634**	427	48	**1,141**	1,856	(39)

Interest income included interest earned from funds on deposit and interest generated from a finance lease (see "*Capital Expenditures and Dispositions Resources – Capital lease*").

2018 term loan interest expense remained consistent with the prior year in both periods, as the Company's $15 million term loan bears an 8% fixed interest rate.

The term loan revaluation gain represented the impact of the revaluation of the Company's term loan that was extended by one-year in June 2018. The production payment liability revaluation loss was a result of the increased production payment liability estimated by the Company throughout 2018. The estimated liability increased on an annual basis based on a corresponding one-year extension of the obligation in June 2018 and changes to internally forecasted production and forward commodity pricing (see "*Liquidity and Capital Resources - Term loan*").

In 2017, 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 prior year and incurred no further interest charges upon settlement.

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 items were as follows:

	Three months ended December 31, 2018	2017	% change	Year ended December 31, 2018	2017	% change
Average foreign exchange rates(1)						
Cdn$:US$	**0.76**	0.79	(4)	**0.77**	0.77	-
Cdn$:TT$	**5.11**	5.30	(4)	**5.20**	5.20	-
US$:TT$	**6.75**	6.74	-	**6.74**	6.74	-
				December 31, 2018	December 31, 2017	% change
Closing foreign exchange rates(2)						
Cdn$:US$				**0.73**	0.80	(8)
Cdn$:TT$				**4.99**	5.39	(8)
US$:TT$				**6.80**	6.77	-

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

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.

Specifically, the Company is subject to foreign exchange exposure as the sales prices of crude oil are determined by reference to US$ denominated benchmark prices, and the majority of Touchstone's operating costs are denominated in TT$, which is informally pegged to the US$. 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 also has foreign exchange exposure on costs dominated in United Kingdom pounds sterling ("£") required to maintain its AIM listing.

During the fourth quarter of 2018, the Canadian dollar depreciated relative to both the US$ and TT$. On an annual basis, the Canadian dollar average rates relative to the US$ and TT$ were similar to those in 2017. As a result, during the three months and year ended December 31, 2018 the Company recorded foreign exchange gains of $172,000 and $413,000, respectively (2017 – $22,000 gain and $512,000 loss). The majority of the translation differences were unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

The assets and liabilities of the Company's subsidiaries are translated to Canadian dollars at the exchange rate on the reporting period date for presentation purposes. All resulting foreign currency differences are recorded in other comprehensive income in the Company's consolidated statements of comprehensive income (loss). As at December 31, 2018, the Canadian dollar was 5% and 4% weaker relative to the US$ and TT$ compared to September 30, 2018, respectively. As a result, a foreign currency translation gain of $2,116,000 was reported during the fourth quarter of 2018 (2017 – gain of $357,000). As at December 31, 2018 compared to December 31, 2017, the Canadian dollar was 8% weaker relative to both the US$ and TT$, resulting in a foreign currency translation gain of $3,716,000 recorded during the year ended December 31, 2018 (2017 – loss of $2,610,000).

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. On April 5, 2018, the Company awarded 1,018,800 share options to officers and employees at an exercise price of $0.22 per option. On June 13, 2018, the Company granted a further 670,000 share options to directors and employees at an exercise price of $0.25 per option. Under both grants, the share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.

The Company also has an incentive share 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 one million common shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant. No incentive share options were awarded during the years ended December 31, 2018 and 2017.

At December 31, 2018, Touchstone had 8,534,640 share options and 15,000 incentive share options outstanding, with a weighted average exercise price of $0.44 per share and $0.10 per share, respectively. The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding Company common shares. At December 31, 2018, share options and incentive share options outstanding represented 6.6% of the Company's outstanding common shares (December 31, 2017 – 5.3%).

The Company recorded share-based compensation expenses of $40,000 and $155,000 during the three months and year ended December 31, 2018, respectively (2017 – $32,000 and $165,000).

Depletion and depreciation expense

($000's unless otherwise stated)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Depletion expense	**1,469**	991	48	**5,236**	3,957	32
On a per barrel basis	**8.62**	7.44	16	**8.35**	7.88	6
Depreciation expense	**52**	41	27	**174**	458	(62)
Depletion and depreciation expense	**1,521**	1,032	47	**5,410**	4,415	23

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 period 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 on a declining balance basis.

As at December 31, 2018, $87,723,000 in future development costs were included in production asset cost bases for depletion calculation purposes (2017 - $85,287,000). For the three months and year ended December 31, 2018, per barrel depletion expenses increased by 16% and 6% in comparison to the prior year equivalent periods, respectively. The higher depletable base due to increased development capital spending was offset by increased production throughout 2018.

Annual 2018 depreciation expense decreased in comparison to the corresponding prior year periods due to lower asset carrying values. The Company's oil service assets were leased to a third-party effective October 1, 2017, resulting in decreased Trinidad based depreciation expenses recorded thereafter.

Impairment of non-financial assets

Entities are required to conduct impairment test where there is an indication of impairment or reversal of a non-financial asset, and the test may be conducted for a cash-generating unit ("CGU") where an asset does not generate cash inflows that are largely independent of those from other assets. Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated depletion and depreciation expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. Touchstone assesses exploration asset and property and equipment indicators of impairment and impairment reversals on each reporting date. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Exploration asset impairments

Exploration asset impairments for the three months and years ended December 31, 2018 and 2017 by CGU were as follows:

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Cory Moruga	**76**	-		**116**	-	
East Brighton	**50**	68		**548**	667	
Canadian assets	**-**	-		**-**	39	
Impairments	**126**	68	85	**664**	706	(6)

During the three months and year ended December 31, 2018, the Company incurred $50,000 and $548,000 in lease expenses relating to its East Brighton property (2017 - $68,000 and $667,000). These costs were impaired given the property's estimated recoverable value was $nil. During 2018 the Company incurred further impairment charges relating to its Cory Moruga exploration concession. The decommissioning liability associated with the property was increased based on changes in estimates, and the corresponding abandonment asset was impaired given the property's estimated recoverable value was $nil. An additional $39,000 in Canadian exploration property lease expenses were incurred and impaired during the year ended December 31, 2017, as the Company had no further plans to develop the properties.

The Company identified no indicators of impairment relating to its Ortoire exploration property, which had a carrying value of $4,969,000 as at December 31, 2018 (2017 - $2,084,000).

Property and equipment impairments

Property and equipment impairments for the three months and years ended December 31, 2018 and 2017 consisted of the following non-cash charges (recoveries) by CGU:

($000's)	**Three months and year ended December 31,**		% change
	2018	2017	
Coora	**365**	(7,190)	
WD-4	**(4,505)**	(1,370)	
WD-8	**(934)**	-	
South Palo Seco	**-**	3	
Property and equipment inventory	**75**	-	
Impairment recoveries	**(4,999)**	(8,557)	(42)

At December 31, 2018, the Company evaluated its property and equipment CGUs for indicators of any potential impairment or related impairment reversals. As a result of these assessments, indicators of impairment were identified on the Coora CGU, and indicators of impairment reversals were identified on the Company's WD-4 and WD-8 CGUs. Impairment tests were conducted on the properties, resulting in an impairment charge of $365,000 related to the Coora CGU and impairment recoveries of $4,505,000 and $934,000 related to the WD-4 and WD-8 CGUs, respectively. In addition, the Company recorded $75,000 in impairment charges related to oilfield inventory that was not assigned to a specific CGU during the year ended December 31, 2018.

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. 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 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. An impairment charge of $3,000 was recorded for the year ended December 31, 2017 as the recoverable amount was determined to be $nil.

Further information regarding the impairment charges for the years ended December 31, 2018 and 2017 is included in Note 9 "*Impairments*" of the Company's December 31, 2018 consolidated financial statements.

Decommissioning obligations and abandonment fund

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

Pursuant to production and exploration licences with the MEEI, the Company is obligated to remit 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 consolidated statements of financial position as long-term abandonment fund assets.

With respect to decommissioning obligations associated with the Company's leases with Heritage, the Company is obligated for its proportional cost of all abandonments defined as its percentage of crude oil sold in a well in comparison to the well's cumulative historical production. The Company is not responsible for the decommissioning of existing infrastructure and sales facilities. The Company is obligated to remit US$0.25 per barrel sold to Heritage into a joint well abandonment fund. These funds are used solely for well decommissioning. Any costs of wells that are abandoned during the relevant agreement term are credited against any future contributions of the well abandonment fund. Upon expiration of the relevant agreement, Heritage shall calculate the Company's total abandonment liability. If Touchstone's liability exceeds the well abandonment fund, the Company is obligated to pay the difference. Conversely, if the proceeds of the fund exceed the liability, the surplus shall be returned to Touchstone. These amounts are also reflected on the consolidated statements of financial position as long-term abandonment fund assets. As of December 31, 2018, the Company classified $1,317,000 of accrued or paid contributions into abandonment funds as long-term decommissioning obligation funds (2017 - $1,049,000).

Pursuant to its Heritage operating agreements, the Company funds Heritage's US$0.25 per barrel obligation with respect Heritage'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 Heritage into a general abandonment fund. The non-refundable proceeds are used as a contingency fund for the decommissioning and removal of infrastructure and facilities within a property and are expensed as incurred.

The Company estimated the net present value of the cash flows required to settle its decommissioning obligations to be $12,157,000 at December 31, 2018 based on a total inflation adjusted future liability of $43,101,000 (2017 - $11,853,000 and $39,193,000, respectively). The estimate included assumptions in respect of actual costs to abandon wells or reclaim a property, the time frame in which such costs will be incurred, and annual inflation factors. December 31, 2018 decommissioning obligations were revalued using an adjusted long-term risk-free rate of 7.9% and an adjusted long-term inflation rate of 3.7%, which represented increases of 1.8% and 0.5% from December 31, 2017 estimates, respectively.

During the year ended December 31, 2018, the Company abandoned two wells resulting in a decommissioning loss of $11,000 (2017 - $nil). Accretion charges of $91,000 and $345,000 for the three months and year ended December 31, 2018 were recognized to reflect the increase in decommissioning obligation associated with the passage of time (2017 - $38,000 and $154,000). Decommissioning obligation details as at December 31, 2018 were as follows:

Number of net well locations	**Undiscounted balance** *($000's)*	**Inflation adjusted balance** *($000's)*	**Discounted balance** *($000's)*
870	**22,791**	**43,101**	**12,157**

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the years ended December 31, 2018 and 2017 is included in Note 14 "*Decommissioning Obligations and Abandonment Fund*" of the Company's December 31, 2018 consolidated financial statements.

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 paid, 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.

The following table summarizes current income tax expense for the three months and years ended December 31, 2018 and 2017:

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
SPT	**638**	214		**2,259**	291	
PPT/UL	**(103)**	-		**-**	-	
Business levy	**4**	2		**21**	32	
Green fund levy	**34**	29		**157**	117	
Current income tax expense	**573**	245	100	**2,437**	440	100

Fourth quarter 2018 Trinidad based current income taxes were $573,000 versus $245,000 recorded in the prior year equivalent quarter. The variance was predominately from increased SPT recorded in 2018. In the prior year fourth quarter, only one of the Company's entities realized prices in excess of US$50.00 and was thus subject to SPT.

During the year ended December 31, 2018, income tax expenses were $2,437,000, reflecting an increase of $1,997,000 from 2017. SPT expenses contributed $1,968,000 of the variance based on increased pricing in all quarters of 2018. Green fund levies increased in 2018 due to increases in petroleum sales from the prior year. The Company's Canadian entities remained in a net loss position in 2018 and were not taxable. The December 31, 2018 income tax payable balance was comprised of the following:

($000's)	**Principal**	**Interest**	**Total**
Prior year taxes (receivable) payable	(133)	3,224	3,091
2018 tax accruals less instalments paid	631	-	631
Income taxes payable	**498**	**3,224**	**3,722**

Touchstone's $20,447,000 (2017 - $10,280,000) 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, 2018. The deferred tax liability balance mainly related to the discrepancy of the tax values over the carrying values of the Company's petroleum assets.

During the three months and year ended December 31, 2018, the Company recorded deferred tax expenses of $4,227,000 and $8,949,000, respectively (2017 – $4,631,000 and $6,086,000). The primary driver of the increased deferred income tax expenses in 2018 was related to the Company's increased capital activity in comparison to 2017. Trinidad capital allowances were deducted for PPT purposes at 50%, a greater rate than the carrying values of property and equipment which were reduced by much lower depletion rates.

At December 31, 2018, the Company had an estimated $35,890,000 and $2,093,000 in Trinidadian PPT and corporate tax losses, respectively (2017 - $29,431,000 and $2,050,000). These may be carried forward indefinitely to reduce PPT and corporate taxes in future years. The benefit of $17,257,000 of Trinidad PPT and corporate tax losses were not recognized as at December 31, 2018 (2017 -

$12,957,000). The Company had approximately $99,883,000 (2017 – $92,029,000) in Canadian non-capital losses which begin to expire in 2026. The benefit of Touchstone's head office tax losses was not recognized in 2018 and 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, 2018, $3,085,000 (2017 - $2,853,000) 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 remain unchanged. 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.

Further information regarding the income taxes for the years ended December 31, 2018 and 2017 is included in Note 15 "*Income Taxes*" of the Company's December 31, 2018 consolidated financial statements.

Capital Expenditures and Dispositions

Exploration asset expenditures

Exploration asset expenditures include asset additions in areas that have been determined to be in the exploration phase. The following table summarizes the Company's exploration asset expenditures during the respective periods:

($000's)	**Three months ended December 31,**		% change	**Year ended December 31,**		% change
	2018	2017		**2018**	2017	
Lease payments	**1,691**	172		**2,387**	1,014	
Geological	**378**	40		**870**	45	
Capitalized G&A	**69**	22		**124**	57	
Other	**9**	96		**6**	124	
Exploration asset expenditures	**2,147**	330	100	**3,387**	1,240	100

Through 2018, exploration asset capital investment was focused on advancing the potential drilling prospects on the Ortoire block for operations in 2019. The Company has identified 14 exploration locations defined by four general oil and gas prospects and expects to drill the first exploration well in 2019. All geological expenditures and capitalized G&A amounts incurred in 2017 and 2018 related to the Ortoire concession. In addition, the Company incurred $1,691,000 and $2,387,000 in head licence costs for the Ortoire and East Brighton properties during the three months and year ended December 31, 2018, respectively (2017 - $172,000 and $1,014,000).

Property and equipment (development) expenditures

($000's)	Three months ended December 31, 2018	2017	% change	Year ended December 31, 2018	2017	% change
Drilling and completions	**5,926**	409		**17,662**	6,960	
Capitalized G&A	**445**	410		**1,291**	1,021	
Corporate assets / other	**9**	(56)		**111**	157	
Development expenditures	**6,380**	763	100	**19,064**	8,138	100

In the fourth quarter of 2018, the Company drilled three wells and performed seven well recompletions, incurring $5,926,000 in drilling and completion capital expenditures. In the 2017 comparative quarter, the Company performed seven well recompletions.

In 2018 the Company incurred $17,662,000 in drilling and completion capital expenditures, which represented a total of 11 new wells drilled and 28 well recompletions. Of the 11 new wells drilled, nine were completed prior to December 31, 2018. During 2017, Touchstone drilled four wells and performed 20 well recompletions.

Property disposition

In December 2018, the Company completed the disposition of its Icacos crude oil property and related assets. The Company sold its 50% operating working interest in the property to the third-party partner for minimum consideration of US$500,000, US$96,000 which was received in 2018. As a result of the disposition, the Company recorded a gain on asset disposition of $306,000.

The remaining consideration will be paid based on the Company's working interest net petroleum sales it would have received had it retained such interest through December 2021. Should these cumulative payments not exceed the minimum consideration, the Company will receive the difference prior to the end of February 2021. The Company shall retain all cumulative payments should such payments exceed the US$500,000 minimum consideration through December 31, 2021.

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

Capital lease

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 on October 1, 2017. 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 commenced 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. At December 31, 2018, the Company's finance lease receivable was $1,973,000, of which $1,428,000 was classified as long-term other assets (2017 - $2,308,000 and $1,817,000, respectively).

Liquidity and Capital Resources

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

Management's long-term strategy is to maintain net debt to annual funds flow from operations at or below a level of 3.0 to 1. The Company also monitors its capital management through the net debt to net debt plus equity ratio. Management's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. Touchstone's internal capital management calculations for the years ended December 31, 2018 and 2017 are summarized below:

($000's)	**Target measure**	**December 31, 2018**	December 31, 2017
Working capital deficit (surplus)(1)		**4,527**	(6,808)
Principal long-term portion of term loan		**15,000**	15,000
Net debt(2)		**19,527**	8,192
Shareholders' equity		**42,577**	38,204
Net debt plus equity		**62,104**	46,396
Annual funds flow from operations		**10,797**	3,110
Net debt to funds flow from operations	**< 3.0 times**	**1.8**	2.6
Net debt to net debt plus equity	**< 0.40 times**	**0.3**	0.2

Notes:
(1) Working capital surplus is a Non-GAAP measure and is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position. See "*Non-GAAP Measures*" for further information.
(2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.

Touchstone exited the year with cash of $4,845,000, a working capital deficit of $4,527,000, and a $15,000,000 principal term loan balance. The Company's cash and working capital balances have decreased from December 31, 2017 based on the capital-intensive nature of its development activities. The investments have increased both production and funds flow from operations from the prior year, as net debt to trailing twelve-month funds flow from operations was 1.8 times as of December 31, 2018 versus 2.6 times as at December 31, 2017. Touchstone's $15,000,000 credit facility does not require principal payment until January 1, 2020, and the Company was well within the financial covenants as at December 31, 2018.

Subsequent to year-end, the Company remediated its working capital deficit by completing a private placement. Touchstone raised gross proceeds of £3,800,000 ($6,615,000) by way of a placing of 31,666,667 new common shares at a price of 12 pence ($0.21) per common share. Management intends to use the net proceeds from the private placement to fund the first exploration well on its Ortoire property and for general working capital purposes.

The Company maintains financial flexibility as it has minimal developmental drilling obligations through 2020. In response to the crude oil price volatility experienced in the fourth quarter of 2018, Touchstone elected to halt development drilling in January 2019. This remains under active review, and the Company expects to use cash flows from operations to finance future development drilling based on available financial resources and the prevailing commodity market.

Term loan

On November 23, 2016, the Company completed an arrangement for a $15,000,000, five-year term credit facility from a Canadian investment fund. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly.

Effective June 15, 2018, the Company and the lender entered into a Second Amending Agreement to the Credit Agreement (the "Amendment"). The Amendment extended the term loan maturity date to November 23, 2022 and extended all principal payments by one year. The Company is required to repay $810,000 per quarter commencing on January 1, 2020 through October 1, 2022, and the then outstanding principal balance is repayable on the maturity date. In addition, the Amendment removed the minimum $5,000,000 quarterly cash reserves financial covenant. As consideration for the Amendment, the Company paid the lender a financing fee of $150,000.

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

- from January 1, 2019 to November 23, 2019, a fee of 2% of the amount prepaid; and
- from November 24, 2019 to November 22, 2022, 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. In addition to the Amendment, the Company and the lender extended the production payment agreement to mature on October 31, 2022 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 liability 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 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 debt instrument is comprised of two financial liability components: the term loan liability and the production payment liability.

At inception the term loan liability was measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan was revalued based on the Amendment, resulting in a revaluation gain of $283,000 recognized during the year ended December 31, 2018 (2017 - $nil). The discount on the term loan is unwound using the effective interest rate method to the face value at maturity and is expensed to accretion on the consolidated statements of comprehensive income. Accretion charges for the three months and year ended December 31, 2018 were $102,000 and $402,000, respectively (2017 - $99,000 and $550,000). The term loan liability balance was $13,809,000 as at December 31, 2018 (2017 - $13,846,000).

The production payment liability is revalued at each reporting period based on internally estimated future production and forward crude oil pricing forecasts using a discount rate of 15%. As a result of changes in future production and forward crude pricing estimates and the Amendment, revaluation losses of $382,000 and $441,000 were recognized during the fourth quarter and the 2018 year, respectively (2017 - $166,000 and $166,000). The production payment liability balance was $999,000 as at December 31, 2018, with $246,000 classified as short-term on the statement of financial position (2017 - $1,047,000 and $261,000).

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, 2018 were as follows:

Covenant	Covenant threshold	Year ended December 31, 2018
Net funded debt to equity ratio(1)	< 0.50 times	**0.42 times**
Net funded debt to EBITDA ratio(2)	< 2.50 times	**0.70 times**

Notes:
(1) 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).
(2) 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 credit 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.

Further information regarding the term loan and its related production payment obligation for the years ended December 31, 2018 and 2017 is included in Note 13 "*Term Loan and Associated Liabilities*" of the Company's December 31, 2018 consolidated financial statements.

Restricted cash

As at December 31, 2018, the Company had cash collateralized bonds totaling US$271,000 ($370,000) related to its future work commitments on its Heritage concessions (2017 – US$299,000 and $376,000). The balance was classified as long-term restricted cash on the consolidated statements of financial position as the bonds expire at the expiration of the relevant licence agreement.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. Stewardship of the Company's capital structure and potential liquidity risk is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil prices, capital expenditures, royalty expenses, operating expenses, 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.

To manage its capital structure in a period of low or volatile crude oil prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. Given that the Company has minimal development work obligations and guarantees, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability.

Undiscounted cash outflows relating to financial liabilities as at December 31, 2018 were as follows:

($000's)	**Undiscounted amount**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**
Accounts payable and accrued liabilities	22,176	22,176	-	-
Income taxes payable	3,722	3,722	-	-
Term loan principal	15,000	-	6,480	8,520
Estimated term loan production payments	1,365	272	718	375
Term loan interest payments	3,491	1,200	1,816	475
Financial liabilities	**45,754**	**27,370**	**9,014**	**9,370**

Market Risk Management

Management of cash flow variability is an integral component of Touchstone's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board of Directors to establish risk management guidelines to be used by Management. The risk exposure inherent in the movements of the price of crude oil and fluctuations in 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, comprehensive income may fluctuate considerably based on the period ending commodity forward strip prices compared to the prices in any derivative contracts.

Commodity price risk

The Company is exposed to commodity price movements as part of its operations. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. Touchstone maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. Touchstone's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases.

In January 2018, the Company purchased crude oil put option contracts for 500 barrels per day at a strike price of Brent US$55.00 per barrel from March 1, 2018 to December 31, 2018. The put options were purchased from a financial institution for an upfront cash premium of US$153,000 ($190,000). The Company initially recognized the premium for the put options as a derivative financial asset, with the derivatives subsequently recorded at their estimated fair value based on the difference between the contracted price and the period-end forward price using quoted market prices. The monthly options expired without being exercised, resulting in a derivative loss of $198,000 recognized during year ended December 31, 2018 (2017 - $nil). The Company had no commodity financial contracts in place as of January 1, 2019.

To further manage commodity price risk, the Company may reduce its fixed operating and administrative cost structure, 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 sales and protect future development capital programs.

Foreign currency risk

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

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with 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 years ended December 31, 2018 and 2017.

Contractual Obligations, Commitments and Guarantees

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

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under exploration and production agreements with the MEEI and various lease commitments for office space and equipment. As at December 31, 2018, the Company's estimated contractual capital requirements were as follows:

($000's)	**Total**	**2019**	**2020**	**2021**	**Thereafter**
Operating agreement commitments					
Coora blocks	**161**	19	21	21	100
WD-4 block	**373**	44	47	50	232
WD-8 block	**345**	41	44	46	214
New Dome block	**25**	2	3	3	17
South Palo Seco block	**2,130**	984	173	181	792
Fyzabad block	**1,439**	97	99	101	1,142
Exploration agreement commitments					
Ortoire block	**10,869**	7,527	3,342	-	-
East Brighton block	**3,596**	424	3,172	-	-
Office leases	**893**	315	300	278	-
Equipment leases	**488**	267	212	8	1
Minimum payments	**20,319**	**9,720**	**7,413**	**688**	**2,498**

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

The Company's December 31, 2018 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**	**2019**	**2020**	**2021**	**Thereafter**
Lease payments	**1,327**	711	616	-	-
2D seismic	**2,726**	-	2,726	-	-
Drilling commitments	**6,816**	6,816	-	-	-
Minimum payments	**10,869**	**7,527**	**3,342**	**-**	**-**

The Company's December 31, 2018 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**	**2019**	**2020**	**2021**	**Thereafter**
Lease payments	**870**	424	402	-	-
Drilling commitments	**2,726**	-	2,726	-	-
Minimum payments	**3,596**	**424**	**3,172**	**-**	**-**

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 consolidated statements of financial position as of December 31, 2018 and 2017 (see "*Changes in Accounting Policies*").

Related Parties

The Company's Corporate Secretary and Director is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP. For the year ended December 31, 2018, $50,000 in legal fees charged by Norton Rose Fulbright Canada LLP were included in general and administrative expenses, of which $10,000 were included in accounts payable and accrued liabilities as at December 31, 2018 (2017 - $709,000 and $188,000, respectively).

The Company has determined that the key management personnel of the Company is comprised of its directors and three executive officers. Key management personnel compensation paid or payable during the years ended December 31, 2018 and 2017 were as follows:

($000's)	**Year ended December 31,**	
	2018	2017
Salaries, incentives and short-term benefits included in G&A expenses	**1,374**	1,256
Director fees included in G&A expenses	**273**	147
Share-based compensation	**137**	146
Key management compensation	**1,784**	1,549

The compensation paid or payable to the directors of the Company during the year ended December 31, 2018 were as follows:

($000's)	Fees earned	Share-based compensation	All other compensation	Total compensation
Paul R. Baay[1]	-	-	-	-
Kenneth R. McKinnon	45	11	10	66
Peter Nicol	43	8	10	61
Stanley T. Smith	45	10	10	65
Thomas E. Valentine	40	9	-	49
Dr. Harrie Vredenburg	40	9	10	59
John D. Wright	60	12	10	82
Director compensation	**273**	**59**	**50**	**382**

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

Financial Instruments

On January 1, 2018, as a result of the adoption of IFRS 9 *Financial Instruments* ("IFRS 9"), the Company changed the classification of its financial instruments as follows:

Financial Instrument	Measurement Category	
	Previous	**New (IFRS 9)**
Cash	Held-for-trading (FVTPL)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Financial derivatives	Fair value through profit and loss ("FVTPL")	FVTPL
Restricted cash	Held-for-trading (FVTPL)	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost
Income taxes payable	Other financial liabilities (amortized cost)	Amortized cost
Term loan and associated liabilities	Other financial liabilities (amortized cost)	Amortized cost

The classification of cash and restricted cash were the only instruments with changes in their classification. There was no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets (see "*Changes in Accounting Policies*").

Changes in Accounting Policies

Adoption of new accounting policies

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments*, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 did not result in any adjustments to the measurement of financial instruments, and no adjustment to retained earnings was required.

Effective January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 established a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The adoption of IFRS 15 did not impact the timing or measurement of revenue, and no adjustment to retained earnings was required.

Further information regarding the adoption of new accounting policies is included in Note 4 "*Changes to Accounting Policies*" to the Company's December 31, 2018 consolidated financial statements.

Future changes in accounting policies

The Company is required to adopt IFRS 16 *Leases* on January 1, 2019. Further information regarding future changes in accounting policies is included in Note 4 "*Changes to Accounting Policies*" to the Company's December 31, 2018 consolidated financial statements.

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, 2018 and December 31, 2017:

	March 26, 2019	**December 31, 2018**	**December 31, 2017**
Common shares outstanding	160,688,095	129,021,428	129,021,428
Share options outstanding	8,534,640	8,534,640	6,870,840
Incentive share options outstanding	15,000	15,000	15,000
Fully diluted common shares	**169,237,735**	**137,571,068**	**135,907,268**

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, 2018 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, 2018. 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, 2018. There were no changes during the three months and year ended December 31, 2018 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 and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's December 31, 2018 Annual Information Form dated March 26, 2019, which can be found on the Company's SEDAR profile (www.sedar.com).

The Company is exposed to a variety of risks including, but not limited to, political, operational, financial, and environmental risks. As noted in the "*Market Risk Management*" section of this MD&A, 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.

Foreign location of assets and foreign economic and political risk

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

Volatility of commodity prices and foreign exchange rates

The Company's operational results and financial condition, and therefore its amount of capital investment, are dependent on the prices received for petroleum production. Decreasing crude oil prices will decrease the Company's cash flows, adversely impacting the Company's level of capital investment and may result in the shut-in of certain producing properties. Petroleum commodity prices are affected by the global economic events that dictate the levels of supply and demand (see "*Market Risk Management – Commodity price risk*"). Touchstone may manage the risk associated with changes in commodity prices by entering into crude oil price derivative contracts. If the Company engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivative contracts activities could expose the Company to losses. To the extent that Touchstone engages in risk management activities related to commodity prices, it will also be subject to credit risks associated with counterparties with which it contracts.

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$, US$ and UK pounds sterling (see "*Market Risk Management – Foreign currency risk*").

Refinancing and debt service

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

Touchstone currently has a $15,000,000 term loan that is secured against the current and future assets of the Company. Touchstone is required to comply with covenants under this facility, and in the event it does not comply, access to capital could be restricted or repayment may be required. The Company routinely reviews the covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants under the term loan. If Touchstone becomes unable to pay its debt service charges or otherwise commits an event of default, the lender may foreclose on such assets of Touchstone.

Access to capital markets

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

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

Environmental regulations

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

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

Reserves and resource estimates

The reserves and recovery information contained in Touchstone's independent reserves evaluation is only an estimate. Similarly, information contained in the Company's Independent Prospect Evaluation relating to locations on the Ortoire exploration property is only an estimate. Reserve and resource values are based on a number of variables and assumptions such as future commodity prices, future production, future operating and capital costs and governmental regulations. The actual production and ultimate reserves and resources from the properties may be greater or less than the estimates prepared by the independent reserve evaluators. The reserves evaluator forecasts reserve volumes and future cash flows based upon current and historical well performance through to the economic production limit of individual wells. Notwithstanding established precedence and contractual options for the continuation and renewal of the Company's existing operating agreements, in many cases the forecast economic limit of individual wells is beyond the current term of the relevant operating agreements. There is no certainty as to the renewal of any of the Company's existing operating arrangements.

Depletion of reserves

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

Counterparty risk

Credit risk is the risk of a counterparty failing to meet its obligations in accordance with the agreed upon terms. The Company may be exposed to third-party credit risk through its contractual arrangements with its current or future joint operation partners, marketers of its commodities and other parties. Touchstone has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and natural gas sales and financial derivative transactions. However, the Company is exposed to sole purchaser risk in Trinidad as state-owned Heritage is the sole purchaser of crude oil. The Company historically has aged accounts receivables owing for Trinidad based value added taxes. Although ultimate collection is slow and therefore the timing thereof can not be estimated with any certainty, the Company believes that all of the balances are ultimately collectable as it has not experienced any past collection issues.

Operational matters

As a participant in the oil and gas industry, the Company is exposed to a high level of exploration and production risk, upon which there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, well blow-outs and other operating hazards, lack of infrastructure or transportation to access markets and monetize reserves, and regulatory, environment and safety concerns. The Company works to mitigate these risks by employing highly skilled personnel and utilizing available technology. The Company maintains a corporate insurance program in amounts consistent with industry practices to protect against insurable losses. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce cash flows and may reduce future capital investments.

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.

Sole purchaser and the ability to market

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

The Trinidad exploration and production agreements

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

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

Advisory on Forward-Looking Statements

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

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

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

- the Company's business and operational strategies, including targeted jurisdictions and technologies used to execute its strategies;
- financial condition and outlook and results of operations;
- the Company's future capital expenditure programs, including the anticipated timing, allocation and costs thereof and the method of funding;
- crude oil production levels and estimated field production levels;
- the performance characteristics of the Company's oil and natural gas properties;
- expectations regarding the ability of the Company to raise capital and to continually add to reserves through acquisitions and development;
- future development and exploration activities to be undertaken in various areas and timing thereof, including the fulfillment of minimum work obligations and exploration commitments;
- terms and estimated future expenditures of the Company's contractual commitments and their timing of settlement;
- terms and title of exploration and production licences and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated or future regulatory approvals;
- access to facilities and infrastructure;
- expected levels of operating costs, 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 current and future governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- the Company's 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 liquidity and future sources of liquidity;
- the Company's future compliance with its term loan covenants and its ability to make future scheduled principal payments;
- estimated amounts of the Company's future production payments in connection with its term loan;
- 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;
- the Company's future office lease 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, 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 volatility 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 foreign exchange rates. The Company is subject to local regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, exploration, lease operating or farm-in rights related to the Company's crude oil and gas interests in Trinidad. Readers are cautioned that the foregoing list of risk factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Management has included the above summary of assumptions and risks related to forward-looking statements and other information provided in this MD&A in order to provide shareholders and investors with a more complete perspective on the Company's current and future operations, and such information may not be appropriate for other purposes. Actual results, performance or achievement could differ materially from that expressed in or implied by any forward-looking statements or information in this MD&A, and accordingly, investors should not place undue reliance on any such forward-looking statements or information. Further, any forward-looking 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 prescribed under IFRS and therefore may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash 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. Funds flow from operations is an additional subtotal found on the Company's consolidated statements of cash flows.

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

($000's unless otherwise stated)	**Three months ended December 31,**		**Year ended December 31,**	
	2018	2017	**2018**	2017
Petroleum sales	**13,151**	9,308	**48,933**	32,020
Royalties	**(3,319)**	(2,685)	**(13,124)**	(8,982)
Operating expenses	**(4,773)**	(3,673)	**(14,122)**	(11,716)
Operating netback	**5,059**	2,950	**21,687**	11,322
Production *(bbls)*	**170,320**	133,191	**627,209**	501,985
Operating netback *($/bbl)*	**29.70**	22.14	**34.58**	22.56

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

($000's)	**Three months ended December 31,**		**Year ended December 31,**	
	2018	2017	**2018**	2017
Funds flow from operations	**1,678**	892	**10,797**	3,110
Other income	**-**	-	**(484)**	-
Expenses				
General and administrative	**2,442**	1,682	**7,697**	6,320
Net finance	**634**	427	**1,141**	1,856
Current income taxes	**573**	245	**2,437**	440
Realized foreign exchange	**24**	16	**(9)**	(315)
Change in non-cash other	**(292)**	(312)	**12**	(89)
Decommissioning expenditures	**-**	-	**96**	-
Operating netback	**5,059**	2,950	**21,687**	11,332

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

($000's)	**December 31, 2018**	December 31, 2017
Current assets	**(21,617)**	(23,107)
Current liabilities	**26,144**	16,299
Principal long-term portion of term loan	**15,000**	15,000
Net debt	**19,527**	8,192

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, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Operating highlights				
Average daily production *(bbls/d)*	1,851	1,758	1,717	1,543
Net wells drilled	3	3	3	2
Net wells recompleted	7	12	4	5
Brent benchmark price(1) *(US$/bbl)*	68.76	75.10	74.53	66.86
Operating netback(2) *($/bbl)*	29.70	37.13	38.19	33.53
Financial highlights *($000's except share and per share amounts)*				
Petroleum sales	13,151	12,890	12,508	10,384
Cash provided (used) by operating activities	2,228	1,000	6,223	(1,084)
Funds flow from operations	1,678	3,260	3,258	2,601
Per share – basic(2)	0.01	0.03	0.03	0.02
Per share – diluted(2)	0.01	0.02	0.03	0.02
Net earnings (loss)	780	267	(692)	125
Per share – basic and diluted	0.01	0.00	(0.01)	0.00
Capital expenditures				
Exploration	2,147	578	434	228
Development	6,380	4,543	4,520	3,621
	8,527	5,121	4,954	3,849
Net debt(2) – end of period				
Working capital deficit (surplus)	4,527	(2,025)	(3,734)	(4,922)
Principal long-term balance of term loan	15,000	15,000	15,000	14,190
	19,527	12,975	11,266	9,268
Weighted average shares outstanding *(000's)*				
Basic	129,021	129,021	129,021	129,021
Diluted	130,532	130,728	129,021	129,692
Outstanding shares - end of period *(000's)*	129,021	129,021	129,021	129,021

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

Three months ended	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Operating highlights				
Average daily production *(bbls/d)*	1,448	1,437	1,334	1,280
Net wells drilled	-	1	3	-
Net wells recompleted	7	3	5	5
Brent benchmark price[1] *(US$/bbl)*	61.45	52.10	49.55	53.59
Operating netback[2] *($/bbl)*	22.14	24.46	19.88	23.66
Financial highlights *($000's except share and per share amounts)*				
Petroleum sales	9,308	7,885	7,436	7,391
Cash provided (used) by operating activities	2,310	(706)	(984)	84
Funds flow from operations	892	1,387	438	393
Per share – basic and diluted[2]	0.01	0.01	0.01	0.00
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	330	202	520	188
Development	763	1,889	4,940	546
	1,093	2,091	5,460	734
Net debt[2] – end of period				
Working capital surplus	(6,808)	(402)	(1,186)	(5,584)
Principal long-term balance of term loan	15,000	15,000	15,000	15,000
	8,192	14,598	13,814	9,416
Weighted average shares outstanding *(000's)*				
Basic	105,955	103,137	84,236	83,137
Diluted	106,542	103,137	84,236	83,137
Outstanding shares - end of period *(000's)*	129,021	103,137	103,137	83,187

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

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

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

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TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

NOMINATED ADVISOR AND JOINT BROKER

Shore Capital
London, United Kingdom

JOINT BROKER

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
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
$ or C$	Canadian dollar
TSX	Toronto Stock Exchange
TT$	Trinidad and Tobago dollar
US$	United States dollar