Touchstone Exploration Inc.

Management's Discussion and Analysis

June 30, 2017

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. (the "Company" or "Touchstone") for the three and six months ended June 30, 2017 is dated August 10, 2017 and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2017, as well as the Company's audited consolidated financial statements for the year ended December 31, 2016. The unaudited interim consolidated financial statements and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with Touchstone's MD&A for the year ended December 31, 2016, as disclosure which is unchanged from December 31, 2016 may not be duplicated herein.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with the Canadian securities regulatory authorities, including the Company's 2016 Annual Information Form dated March 21, 2017, and may be accessed through the SEDAR website at www.sedar.com.

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

About Touchstone Exploration Inc.

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

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

2017 Second Quarter Highlights

- Completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the admission, the Company successfully placed 20,000,000 new common shares with United Kingdom investors for gross proceeds of $2,446,000.
- Successfully drilled three wells and recompleted five wells.
- Achieved quarterly average crude oil sales of 1,334 barrels per day, representing an increase of 4% from the first quarter of 2017.
- Realized operating netback before realized derivatives of $19.89 per barrel, representing an increase of 23% from $16.21 per barrel recorded in the second quarter of 2016.
- Generated quarterly funds flow from operations of $438,000 ($0.01 per basic share) compared to $393,000 ($0.01 per basic share) in the first quarter of 2017.

2017 Second Quarter and Year to Date Financial and Operating Results Summary

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Operating				
Average daily oil production *(bbls/d)*	**1,334**	1,322	**1,307**	1,342
Operating netback[1] *($/bbl)*				
Brent benchmark price	**66.66**	58.72	**68.79**	52.61
Discount	**(5.40)**	(8.89)	**(6.12)**	(8.45)
Realized sales price	**61.26**	49.83	**62.67**	44.16
Royalties	**(17.84)**	(13.52)	**(20.34)**	(12.54)
Operating expenses	**(23.53)**	(20.10)	**(20.61)**	(22.35)
Operating netback prior to derivatives	**19.89**	16.21	**21.72**	9.27
Realized gain on derivatives	**-**	27.56	**-**	26.47
Operating netback after derivatives	**19.89**	43.77	**21.72**	35.74
Financial *($000's except share and per share amounts)*				
Funds flow from operations	**438**	3,278	**831**	4,197
Per share – basic and diluted[1]	**0.01**	0.04	**0.01**	0.05
Net loss	**(1,848)**	(2,553)	**(3,397)**	(4,997)
Per share – basic and diluted	**(0.02)**	(0.03)	**(0.04)**	(0.06)
Capital expenditures				
Exploration	**520**	476	**708**	629
Property and equipment	**4,940**	(340)	**5,486**	706
Total	**5,460**	136	**6,194**	1,335
Total assets – end of period			**86,570**	73,330
Net debt[1] – end of period			**13,814**	4,188
Weighted average shares outstanding				
Basic and diluted	**84,236,044**	83,125,605	**83,689,629**	83,106,374
Outstanding shares – end of period			**103,137,143**	83,137,143

[1]See *"Non-GAAP Measures"*.

In the second quarter of 2017, Touchstone commenced its four well 2017 drilling program. Three wells were drilled in the quarter, two of which were completed and on production by the end of June 2017. Touchstone's workover program continued in the quarter with five wells recompleted, totaling ten well recompletions in the calendar year of 2017. The Company invested $5,460,000 in the second quarter of 2017 on exploration and development expenditures, of which $4,726,000 related to drilling and well recompletions. As a result, second quarter 2017 production increased to 1,334 barrels per day, representing an increase of 4% from the first quarter of 2017 and 1% from the second quarter of 2016. The two new wells commenced production in mid-June 2017, contributing a field estimated 3,350 barrels of incremental production in the second quarter.

Realized second quarter 2017 pricing for crude oil was $61.26 (US$45.51) per barrel versus $49.83 (US$38.59) per barrel received in the equivalent quarter of 2016. Petroleum revenues increased 24% from the prior year comparative quarter primarily based on the significant year over year increase in realized crude oil prices. Second quarter 2017 royalty expenses represented 29.1% of petroleum revenues compared to 27.1% in the prior year comparative period. The increase reflected the sliding scale effect of increased commodity prices on royalty rates. Second quarter 2017 operating expenses increased 17% per barrel based on increased workover activity. General and administrative costs increased 5% from the prior year second quarter, as less costs were capitalized in the second quarter of 2017. Second quarter 2017 net finance expenses increased 16% from the prior year equivalent quarter, as increased term loan interest expenses were slightly offset by reduced interest on income taxes and bank loan finance fees.

Funds flow from operations for the three months ended June 30, 2017 was $438,000 ($0.01 per basic share) versus funds flow from operations of $3,278,000 ($0.04 per basic share) recognized in the second quarter of 2016. Funds flow from operations decreased in comparison to the prior year comparative quarter largely due to $3,316,000 in realized derivative gains that were recorded in 2016. The Company recorded a net loss of $1,848,000 ($0.02 per basic share) during the three months ended June 30, 2017, versus a net loss of $2,553,000 ($0.03 per basic share) recognized in the second quarter of 2016.

On June 26, 2017, the Company completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the AIM admission, the Company placed an additional 20,000,000 new common shares at a price of $0.12, resulting in gross and net proceeds of $2,446,000 and $777,000, respectively.

Touchstone exited the quarter with a cash balance of $9,925,000, a working capital surplus of $1,186,000 and a $15,000,000 principal term loan balance. $4,925,000 of the Company's cash balance was considered available at June 30, 2017, as Touchstone must maintain a minimum cash reserves balance of $5,000,000 in accordance with its term loan. In addition, the Company classified $3,186,000 in cash used to collateralize letters of credit that secured future work obligations on production and development contracts as long-term restricted cash. Cash and working capital decreased from the first quarter of 2017 due to drilling activity in the second quarter; the Company expects to realize the benefits of increased production in the second half of 2017.

The fourth well of Touchstone's 2017 drilling program was drilled subsequent to the end of the second quarter, and as of the date of this MD&A, all four wells were completed and on production.

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 June 30, 2017 is set out in the table below:

Property	Working interest	Lease type	Gross acres	Working interest acres
Trinidad				
Producing				
Coora 1	100%	Lease Operatorship	1,230	1,230
Coora 2	100%	Lease Operatorship	469	469
WD-4	100%	Lease Operatorship	700	700
WD-8	100%	Lease Operatorship	650	650
New Dome	100%	Farmout Agreement	69	69
South Palo Seco	100%	Farmout Agreement	2,019	2,019
Barrackpore	100%	Freehold	211	211
Fyzabad	100%	Crown	94	94
Fyzabad	100%	Freehold	470	470
Icacos	50%	Freehold	1,947	974
Palo Seco	100%	Crown	499	499
San Francique	100%	Freehold	1,351	1,351
	90%		**9,709**	**8,736**
Exploratory				
Bovallius	100%	Freehold	827	827
Cory Moruga	16%	Crown	11,969	1,939
East Brighton	70%	Crown	20,589	14,412
Moruga	100%	Freehold	1,416	1,416
New Grant	100%	Freehold	193	193
Ortoire	80%	Crown	44,731	35,785
Rousillac	100%	Freehold	235	235
Siparia	50%	Freehold	111	56
St. John	100%	Freehold	179	179
	69%		**80,250**	**55,042**
	71%		**89,959**	**63,778**
Canada				
Exploratory				
Beadle[1]	100%	Freehold	4,795	4,795
Druid	100%	Crown	8,641	8,641
Luseland	100%	Crown & Freehold	6,849	6,849
Winter	100%	Crown	11,323	11,323
	100%		**31,608**	**31,608**
Total	**78%**		**121,567**	**95,386**

[1]Approximately 2,554 gross and working interest acres expired in July 2017.

Trinidad Operating Agreements

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

Lease operatorship agreements

The Company's LOAs in respect of its four core properties (Coora 1, Coora 2, WD-4 and WD-8) with Petrotrin initially expire on December 31, 2020, with Touchstone holding a five-year renewal option upon reaching agreement regarding the proposed work program and financial obligations. The practice in Trinidad is for extensions to be issued in most cases on terms substantially similar to those in effect at the time. Presently, the Company is subject to annual minimum production levels and five-year minimum work commitments from 2016 through 2020 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details).

In 2016, the Company did not meet the annual minimum production levels and the minimum work obligations specified in the Coora 1, Coora 2 and WD-8 LOAs or the minimum work obligations specified in the WD-4 LOA. Although the LOAs provide that the minimum production levels are to be achieved on a best endeavors basis, the LOAs also describe the failure to achieve the minimum production levels or the failure to complete the work obligations as potentially constituting a material breach of the LOAs. As a result of this inconsistency, the Company sought legal advice regarding the effect of not meeting the production levels and not completing the work obligations.

On May 17, 2017, the Company received additional correspondence from Petrotrin approving the Company's development plans for the Coora 1 and WD-4 properties and requesting the Company to provide a definite timeline under which the work obligations for the Coora 2 and WD-8 licences will be met. At the date of this MD&A, the Company has fulfilled its work commitments on the Coora 1 and WD-4 properties for 2016 and 2017. The Company will respond to the Coora-2 and WD-8 request after the results of the initial four well program have stabilized, and the impact of continued low commodity pricing and available capital resources are evaluated.

Based on correspondence and quarterly lease operatorship reviews to date, Petrotrin has not taken the position that there is any breach of the LOAs. It is not anticipated that a default notice will be issued; however, in any event, the Company is only required to begin to rectify the breach within seven days from the date of receipt of such notice. The Company has been advised by its legal counsel that the risk of the loss of the LOAs for an allegation of noncompliance is extremely remote. No assurance can be given that, if future breaches of these obligations occur, they will not result in a material adverse impact to the Company's cash flows. As at June 30, 2017, the Company was in compliance with all other obligations specified in the LOAs.

Farmout agreements

The Company's farmout agreements with Petrotrin initially expire on December 31, 2021. The Company holds a five-year renewal option, and the agreements are subject to five-year minimum work commitments from 2017 through 2021 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details). As at June 30, 2017, the Company was in compliance with all obligations associated with its farmout agreements.

MEEI exploration and production licences

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

The Company's Fyzabad and Palo Seco agreements with the MEEI contain no major work obligations or covenants but expired on August 19, 2013. The Company is currently negotiating licence renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licences will not be renewed. During the three and six months ended June 30, 2017, production volumes produced under expired MEEI production licences represented 4.6% and 5.0% of total production, respectively (2016 – 5.2% and 5.4%).

Private lease agreements

Touchstone also negotiates freehold lease agreements with individual land owners. Leases terms are typically 35 years in duration and contain no minimum work obligations.

The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, Touchstone is continuing to recognize revenue on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the revenue has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. During the three and six months ended June 30, 2017, production volumes produced under expired Trinidad private lease agreements represented 3.2% and 3.0% of total production, respectively (2016 – 2.2% and 2.3%).

Economic Environment

Selected benchmark prices and exchange rates

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

	Three months ended June 30,		%	Six months ended June 30,		%
	2017	2016	change	**2017**	2016	change
Brent average (US$/bbl)[1]	**49.55**	45.57	9	**51.57**	39.80	30
Brent average (Cdn$/bbl)[2]	**66.66**	58.72	14	**68.79**	52.61	31
WTI average (US$/bbl)[1]	**48.13**	45.46	6	**49.89**	39.47	26
WTI average (Cdn$/bbl)[2]	**64.74**	58.58	11	**66.55**	52.18	28
Cdn$/US$ average exchange rate[3]	**0.74**	0.78	(4)	**0.75**	0.75	(1)
Cdn$/TT$ average exchange rate[3]	**5.00**	5.15	(3)	**5.03**	4.94	2
US$/TT$ average exchange rate[3]	**6.73**	6.63	1	**6.73**	6.56	3

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

Touchstone's crude oil realized price has historically correlated to the Brent benchmark price. In the second quarter of 2017, the US$ Brent reference price averaged 7% lower than the first quarter of 2017 and 9% higher than the second quarter of 2016. Global crude oil prices weakened in the second quarter of 2017 compared to the first quarter of 2017 based on elevated levels of global crude oil and product inventory.

The Canadian dollar weakened relative to the United States dollar ("US$") during the second quarter of 2017, averaging US$0.74 (US$/Cdn$ - 1.35). The Canadian dollar relative to the US dollar began to strengthen in late June based on the anticipation of the Bank of Canada increasing its benchmark interest rate.

Similar to the first quarter of 2017, the Trinidad and Tobago dollar ("TT$") remained range-bound relative to the United States dollar during the second quarter of 2017, averaging US$0.15 (US$/TT$ - 6.73).

2017 Second Quarter and Year to Date Financial and Operating Results

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

Production volumes

	Three months ended June 30,		%	**Six months ended June 30,**		%
	2017	2016	change	**2017**	2016	change
Total oil production (bbls)	**121,394**	120,319	1	**236,595**	244,155	(3)
Average daily oil production (bbls/d)	**1,334**	1,322	1	**1,307**	1,342	(3)

Production volumes by property

(bbls)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2017	2016	change	**2017**	2016	change
Coora 1	**15,755**	12,688	24	**27,024**	25,501	6
Coora 2	**6,833**	8,327	(18)	**13,054**	15,500	(16)
WD-4	**41,741**	47,183	(12)	**85,031**	94,884	(10)
WD-8	**23,922**	23,434	2	**52,813**	49,812	6
New Dome	**2,276**	1,871	22	**4,281**	3,288	30
South Palo Seco	**116**	326	(64)	**573**	631	(9)
Barrackpore	**3,997**	5,019	(20)	**7,235**	10,223	(29)
Fyzabad	**16,722**	14,453	16	**27,305**	29,506	(7)
Icacos	**903**	1,096	(18)	**1,997**	2,147	(7)
Palo Seco	**1,145**	1,371	(16)	**2,454**	2,900	(15)
San Francique	**7,984**	4,551	75	**14,828**	9,763	52
Total production	**121,394**	120,319	1	**236,595**	244,155	(3)

Second quarter 2017 crude oil production increased 1% from the second quarter of 2016 primarily based on incremental production achieved from the Company's recompletion program which initiated in November 2016. The Company also had two new wells producing in mid-June 2017 which contributed a field estimated 3,350 barrels of additional production in the quarter.

During the six months ended June 30, 2017, crude oil production decreased 3% from the comparative prior year period primarily based on natural declines, offset by the incremental production achieved from the Company's recompletion and drilling efforts noted above.

Realized prices excluding derivative contracts

	Three months ended June 30, 2017	2016	% change	Six months ended June 30, 2017	2016	% change
US$/bbl	**45.51**	38.59	18	**46.92**	33.26	41
US$ realized price discount as a % of Brent	**8**	15		**9**	16	
US$ realized price discount as a % of WTI	**5**	15		**6**	16	
Cdn$/bbl	**61.26**	49.83	23	**62.67**	44.16	42

The Company's realized US$ Trinidad crude oil prices historically averaged a 14% discount to Brent reference pricing. During the three and six months ended June 30, 2017, the Touchstone's realized price differential to Brent narrowed to 8% and 9% respectively.

In the second quarter of 2017, the Company's realized Trinidad crude oil price was $61.26 per barrel as compared to $49.83 per barrel in the same period of 2016. The 23% increase was a result of a 18% increase in the Brent reference price over the same period and a reduction in the realized Brent reference differential from 15% to 8%, partially offset by a stronger Canadian dollar.

On a year to date basis, the Company's realized Trinidad crude oil price in 2017 was 42% higher compared to the comparative 2016 period. The realized price increase was a result of a 41% increase in the Brent reference price over the same period and a reduction in the realized Brent reference differential from 16% to 9%, partially offset by a stronger Canadian dollar.

Petroleum revenue

($000's)	Three months ended June 30, 2017	2016	% change	Six months ended June 30, 2017	2016	% change
Petroleum revenue	**7,436**	5,996	24	**14,827**	10,783	38

Petroleum revenue was $7,436,000 for the three months ended June 30, 2017. This represented a 24% increase from the corresponding 2016 period as realized pricing increased by 23% and production increased by 1%.

For the six months ended June 30, 2017, petroleum revenue was $14,827,000, representing an increase of 38% from the corresponding 2016 period. A 3% decrease in production was offset by a 42% increase in realized prices.

The Company sells its crude oil to Petrotrin, whom establishes a monthly net price for Trinidad oil. As at June 30, 2017, Trinidad crude oil inventory totaled 6,138 barrels versus 6,092 barrels at December 31, 2016. The Company's crude oil is typically sold from its various sales batteries to Petrotrin three days per week. Crude oil sales are sold with no additional transportation costs, as title transfers at the Company's operating batteries.

Commodity price financial derivatives

In the past, the Company entered into Brent reference based crude oil financial derivative contracts to protect funds flow from operations from the volatility of commodity prices. Touchstone does not employ hedge accounting for any of its risk management contracts. The Company had no commodity risk management contracts outstanding as at June 30, 2017 or at the date of this MD&A. During the three and six months ended June 30, 2016, the Company incurred net losses of $2,783,000 and $1,970,000 related to commodity risk management contracts, respectively. All of the Company's 2016 commodity price contracts were liquidated on June 2, 2016. For further information, refer to the "Risk Management" section of this MD&A.

Royalties

($000's)	Three months ended June 30, **2017**	2016	% change	Six months ended June 30, **2017**	2016	% change
Crown royalties	**687**	480		**1,804**	1,035	
Private royalties	**147**	105		**293**	195	
Overriding royalties	**1,112**	814		**2,271**	1,350	
User fees	**220**	228		**444**	482	
Total royalties	**2,166**	1,627	33	**4,812**	3,062	57
As a percentage of petroleum revenue	**29.1%**	27.1%		**32.5%**	28.4%	

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

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

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

Production from the Coora, WD-4 and WD-8 blocks incur a TT$12.60 per barrel charge for user fees that serve to offset expenses for electricity, maintenance, labour and other miscellaneous costs incurred by Petrotrin associated with the management of the applicable lease operatorship properties.

In addition to crown royalties, the South Palo Seco and New Dome blocks are subject to farmout agreements that stipulate NORR rates ranging from 7% to 27% and enhanced NORR rates ranging from 4% to 17%. Similar to the LOA structure, the NORR and enhanced NORR rates are indexed to the price of oil realized in the production month. However, there are no incentives for drilling under the farmout agreements.

For the three months ended June 30, 2017, Trinidad royalties represented 29.1% of petroleum revenues compared to 27.1% in the prior year comparative period. The increase reflected the sliding scale effect of increased commodity prices to royalty rates.

Royalty expenses were 32.5% of petroleum revenue during the six months ended June 30, 2017 versus 28.4% in the corresponding prior year period. The increase was based on increases in year over year realized pricing and a one-time $353,000 adjustment recognized in the first quarter related to prior period impost levies that were invoiced in March 2017.

Operating expenses

($000's)	Three months ended June 30, **2017**	2016	% change	Six months ended June 30, **2017**	2016	% change
Operating expenses	**2,857**	2,419	18	**4,877**	5,457	(11)

Operating expenses for the three months ended June 30, 2017 were $2,857,000, representing $23.53 per barrel or US$17.50. This represented an increase of $3.43 per barrel or US$1.89 per barrel from the second quarter of 2016. The increase in absolute and per barrel operating expenses was mainly attributable to increased workover activity. In addition, excess inventory held at March 31, 2017 created a $119,000 deferral of operating expenses that was recognized when the product was sold in the second quarter of 2017.

On a year to date basis, operating expenses were $4,877,000, representing $20.61 per barrel or US$15.44 for the six months ended June 30, 2017. This represented a decrease of $1.74 per barrel or US$1.28 per barrel from the comparative 2016 periods. This decrease was mainly attributable to cost control efforts achieved throughout 2016, offset by increased workover costs recorded in the second quarter of 2017.

Operating netback[1]

($/bbl)	**Three months ended June 30, 2017**	2016	% change	**Six months ended June 30, 2017**	2016	% change
Brent benchmark price	**66.66**	58.72	14	**68.79**	52.61	31
Discount	**(5.40)**	(8.89)	(39)	**(6.12)**	(8.45)	(28)
Realized sales price	**61.26**	49.83	23	**62.67**	44.16	42
Royalties	**(17.84)**	(13.52)	32	**(20.34)**	(12.54)	62
Operating expenses	**(23.53)**	(20.10)	17	**(20.61)**	(22.35)	(8)
Operating netback prior to derivatives	**19.89**	16.21	23	**21.72**	9.27	100
Realized gain on derivatives	**-**	27.56	(100)	**-**	26.47	(100)
Operating netback after derivatives	**19.89**	43.77	(55)	**21.72**	35.74	(39)

[1]See "*Non-GAAP Measures*".

Second quarter 2017 operating netback was $19.89 per barrel compared to $43.77 per barrel recognized in the same period of 2016. Excluding realized gains on derivatives, operating netback increased $3.68 per barrel or 23% from 2016. Compared to the second quarter of 2016, second quarter 2017 realized prices per barrel increased 23% and royalties per barrel increased 32%, reflecting the sliding scale of royalty rates on increased average realized prices during the quarter. Second quarter operating expenses of $23.53 per barrel increased 17% from the prior year second quarter based on increased workover costs and crude oil inventory charges incurred in the quarter. The Company did not have any commodity derivative contracts throughout the second quarter of 2017 whereas prior year realized gains from commodity contracts increased second quarter operating netback by $27.56 per barrel.

During the six months ended June 30, 2017, operating netback was $21.72 per barrel compared to $35.74 per barrel in the same period of 2016. Year to date 2017 realized prices per barrel increased 42% and related royalties per barrel increased 62% from the comparative 2016 period. Royalty expenses increased due to increases in realized pricing and a one-time adjustment recorded in the first quarter of 2017. Year to date June 30, 2017 operating expenses were $20.61 per barrel, which represented a decrease of 8% from the $22.35 per barrel achieved in 2016. The Company's commodity derivative contracts increased year to date 2016 operating netback by $26.47 per barrel. The Company liquidated its outstanding hedge book in June 2016 and has yet to enter into any commodity based derivative contracts.

Income tax expense and income taxes payable

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

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

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

Annual PPT and UL taxes are calculated based on net taxable profits. Net taxable profits are determined by calculating gross revenue less royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses. PPT losses may be carried forward indefinitely to reduce PPT in future years. UL losses cannot be carried forward to reduce future year UL. As of January 1, 2014, developmental capital expenditure allowances (tangible and intangible) are amortized 50% in year one, 30% in year two and 20% in year three. All exploration expenses and unsuccessful development 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 25% 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 the total current income tax expense for the three and six months ended June 30, 2017 and 2016:

($000's)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2017	2016	change	**2017**	2016	change
SPT	**-**	-		**77**	-	
PPT/UL	**-**	-		**-**	-	
Business levy	**8**	9		**16**	12	
Green fund levy	**23**	39		**49**	55	
Current income tax expense	**31**	48	(35)	**142**	67	100

Trinidad based current income taxes for the three and six months ended June 30, 2017 were $31,000 and $142,000, respectively. Second quarter 2017 income tax expenses were consistent with the prior year comparative period. In the first quarter of 2017, the Company recognized $77,000 in SPT as realized prices were above US$50.00 for one of its petroleum subsidiaries. In 2016, none of its petroleum subsidiaries were SPT taxable. Touchstone's two Trinidad petroleum subsidiaries were not in a PPT and UL taxable position in 2017 or 2016.

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 June 30, 2017, $2,970,000 (December 31, 2016 - $3,068,000) in related interest was accrued in income taxes payable.

The acquired subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. The Company continues to work with the seller and the BIR to resolve this matter and does not believe that it will be required to make any further income tax payments nor any payments for the seller's portion of any interest.

The June 30, 2017 income tax payable balance was comprised of the following:

($000's)	**Principal**	**Interest**	**Total**
Prior year taxes (2016 and prior)	272	3,104	3,376
Current year tax accruals less instalments paid (2017)	-	-	-
Income taxes payable	**272**	**3,104**	**3,376**

The Company has accrued $400,000 in prior period principal balances relating to a 2013 and 2014 corporate audit adjustment. This balance is expected to be paid once the relevant notice of assessments are received.

Touchstone's $5,166,000 (December 31, 2016 - $4,745,000) deferred income tax liability balance represented the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases as at June 30, 2017. The deferred tax liability balance mainly related to the discrepancy of the fair values over the carrying values of the Company's producing assets. During the three and six months ended June 30, 2017, the Company recorded deferred tax expenses of $269,000 and $589,000 (2016 – $1,648,000 recovery and $2,238,000 recovery).

At June 30, 2017, the Company had an estimated $28,515,000 and $1,941,000 (December 31, 2016 - $27,663,000 and $1,772,000) in Trinidadian PPT and corporate tax losses respectively. These may be carried forward indefinitely to reduce PPT and corporate taxes in future years. The benefit of $12,082,000 of Trinidad PPT and corporate tax losses were not recognized as at June 30, 2017 (December 31, 2016 - $11,555,000). Touchstone's corporate tax losses were not recognized in 2016 and 2017.

General and administrative ("G&A") expenses

($000's)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2017	2016	change	**2017**	2016	change
Gross G&A	**1,863**	1,888		**3,505**	4,280	
Capitalized G&A	**(218)**	(317)		**(434)**	(649)	
Net G&A	**1,645**	1,571	5	**3,071**	3,631	(15)

G&A expenses primarily consist of management and administrative salaries and benefits, legal and professional fees, office rent, insurance, travel and other administrative expenses.

In Trinidad, a total of 127 full-time-equivalents were working for Touchstone as at June 30, 2017 compared to 120 as at December 31, 2016. At Touchstone's Canadian head office, a total of 12 full-time-equivalents were employed as at June 30, 2017 and December 31, 2016.

For the three and six months ended June 30, 2017, gross G&A costs were $1,863,000 and $3,505,000, representing decreases of 1% and 18% from 2016 comparative period spending, respectively. The year over year decrease in G&A reflected lower compensation associated with a smaller workforce and reduced administrative spending in all areas.

Net finance expenses

($000's)	**Three months ended June 30, 2017**	2016	% change	**Six months ended June 30, 2017**	2016	% change
Interest income	**(17)**	(30)		**(34)**	(61)	
Interest expense on bank loan	**-**	25		**-**	120	
Interest expense on term loan	**299**	-		**595**	-	
Interest expense on income taxes	**108**	263		**601**	616	
Finance fees and other	**-**	79		**-**	161	
Net finance expenses	**390**	337	16	**1,162**	836	39

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

Interest expenses on income taxes were accrued for outstanding value added tax balances owed as a result of intercompany transactions. During the three and six months ended June 30, 2017, $108,000 and $601,000 of interest was accrued in relation to outstanding value added tax balances, respectively. The outstanding principal balances were fully paid in the second quarter of 2017 and incurred no further interest charges upon settlement.

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

Foreign exchange and foreign currency translation

The Company's presentation currency is the Canadian dollar. The Company and its Canadian subsidiaries have a Canadian dollar functional currency while the Trinidad subsidiaries have 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 US$ and TT$ denominated financial statement items were as follows:

	June 30, 2017	June 30, 2016	% change
Closing foreign exchange rates[1]			
Cdn$/US$	**0.77**	0.77	-
Cdn$/TT$	**5.18**	5.13	1

[1]Source: Oanda Corporation daily average exchange rates for the specified date.

	Three months ended June 30, 2017	2016	% change	**Six months ended June 30, 2017**	2016	% change
Average foreign exchange rates[1]						
Cdn$/US$ average exchange rate	**0.74**	0.78	(4)	**0.75**	0.75	(1)
Cdn$/TT$ average exchange rate	**5.00**	5.15	(3)	**5.03**	4.94	2
US$/TT$ average exchange rate	**6.73**	6.63	1	**6.73**	6.56	3

[1]Source: Oanda Corporation daily average exchange rates for the specified periods.

The Company's main exposure to foreign currency risk relates to working capital balances denominated in US$ in Canada and Trinidad. In 2017, the Canadian dollar weakened slightly relative to the US$ and the TT$ was range bound relative to the US$. During the three and six months ended June 30, 2017, the

Company recorded $155,000 and $235,000 in foreign exchange losses, respectively (2016 - $35,000 and $100,000). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in prevailing exchange rates.

In addition, the assets and liabilities of the Company's subsidiaries are translated to Canadian dollars at the exchange rate on the reporting period date for presentation purposes. The income and expenses of the Company's Trinidad operations are translated to Canadian dollars at the average monthly exchange rates relative to the date of the transactions. The resulting foreign currency differences are recorded in other comprehensive income in the Company's consolidated statement of earnings. As a result of the slight year to date depreciation of the TT$ versus the Canadian dollar, foreign currency translation adjustment losses of $904,000 and $1,171,000 were recorded during the three and six months ended June 30, 2017, respectively (2016 – $450,000 and $4,741,000).

Share-based compensation

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

The Company also has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a $0.05 exercise price. A maximum of two million incentive shares 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.

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.

The Company's Board of Directors approved and granted 1,018,800 share options on March 30, 2017 and 447,500 on June 28, 2017. At June 30, 2017, share options and incentive share options outstanding represented 6.9% of the Company's outstanding common shares (December 31, 2016 – 6.9%).

During the three and six months ended June 30, 2017, the Company recorded share-based compensation expenses of $44,000 and $100,000 (2016 – $33,000 and $101,000) in the consolidated statement of earnings respectively, as a result of the vesting of options and additional share options granted in 2017.

Depletion and depreciation expense

($000's unless otherwise indicated)	**Three months ended June 30, 2017**	2016	% change	**Six months ended June 30, 2017**	2016	% change
Depletion expense	**1,020**	961	6	**1,998**	1,998	-
On a per barrel basis	**8.40**	7.99	5	**8.44**	8.18	3
Depreciation expense	**142**	193	(26)	**292**	415	(30)
Depletion and depreciation expense	**1,162**	1,154	1	**2,290**	2,413	(5)

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

As at June 30, 2017, $63,293,000 in future development costs were included in the Trinidad production asset cost bases for depletion calculation purposes (December 31, 2016 - $70,870,000). For the three and six months ended June 30, 2017, per unit depletion expenses increased slightly from the prior year equivalent periods, representing $8.40 per barrel and $8.44 per barrel, respectively. The increase in both 2017 periods reflected the effect of a higher depletable base due to increased development capital spending.

Second quarter and year to date 2017 depreciation expenses reduced by 26% and 30% from the equivalent 2016 period, respectively, due to lower asset net book values.

Impairment

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated depletion and depreciation expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. Immediately before non-current assets are classified as held for sale, they are assessed for indicators of impairment or reversal of impairment and are measured at the lower of their carrying amount and fair value less costs of disposal, with any impairment loss or reversal of impairment recognized in earnings. Touchstone assesses exploration asset and property and equipment indicators of impairment on a quarterly basis. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Impairment charges relating to the East Brighton exploration property of $391,000 and $477,000 were recorded in the three months and six months ended June 30, 2017, respectively (2016 - $114,000 and $227,000). The Company incurred lease expenses and letter of credit holding costs which were impaired given the property's estimated recoverable amount was $nil. An additional $39,000 in corporate exploration property lease expenses were incurred and impaired during the three and six months ended June 30, 2017 (2016 - $nil and $nil).

Accretion and decommissioning obligations

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal based on current environmental regulations. The total decommissioning obligation is estimated by Management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. As at June 30, 2017, Touchstone recorded a decommissioning obligation balance of $16,438,000 (December 31, 2016 - $16,783,000).

Pursuant to Trinidad production licences, the Company is obligated to remit funds into an abandonment fund based on production. The abandonment fund obligations are determined based on cumulative crude oil sales and recognized as a current liability and a reduction of the long-term decommissioning obligation. Payments to the fund are recorded as a long-term asset included in property equipment. The Company and the relevant Trinidad government entity must agree on the budget and site to reclaim prior to using the abandonment fund.

As at June 30, 2017, the Company remitted $738,000 of abandonment fund payments, and $266,000 in short-term fund obligations were included in accounts payable and accrued liabilities (December 31, 2016 - $697,000 and $328,000, respectively). Accretion charges of $39,000 and $79,000 for the three and six months ended June 30, 2017 respectively (2016 - $76,000 and $154,000) were recognized to reflect the increase in decommissioning obligation associated with the passage of time.

Decommissioning obligation provision details as at June 30, 2017 were as follows:

# of net well locations	Undiscounted balance *($000's)*	Inflation adjusted balance *($000's)*	Discounted balance *($000's)*
849	**20,159**	**65,645**	**16,438**

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates.

Private Placement

On June 26, 2017, the Company completed an admission and listing on the AIM market of the London Stock Exchange. In conjunction with the AIM admission, the Company placed an additional 20,000,000 common shares at a price of 7.25 pence sterling ($0.12) for gross proceeds of £1,450,000 ($2,446,000). Following the private placement, the Company had 103,137,143 common shares outstanding.

Total fees incurred from the private placement were $1,669,000, which included brokerage commissions and legal, accounting and corporate finance advisory fees. Net proceeds of the private placement were $777,000.

All common shares issued by the Company pursuant to the offering are freely transferable outside of Canada, however these common shares are subject to a four-month restricted hold period in Canada which will prevent such common shares from being resold in Canada, through a Canadian exchange or otherwise, during the restricted period without an exemption from the Canadian prospectus requirement. The restriction period expires on October 27, 2017.

The Company believes the AIM admission provides a number of long-term benefits, which includes:

- enhancing liquidity for the Company's shareholders and provide more direct access to the London capital markets;
- to enable the Company to access a wider range of potential investors and broaden its investor base;
- to improve the Company's ability to access further funding from international capital markets and to finance the future growth of the business consistent with its current strategy; and
- to enhance the Company's reputation and financial standing within Trinidad.

Capital Expenditures and Dispositions

Exploration asset expenditures

($000's)	**Three months ended June 30, 2017**	2016	% change	**Six months ended June 30, 2017**	2016	% change
Lease payments	**501**	198		**654**	198	
Geological	**-**	48		**-**	71	
Capitalized G&A	**11**	123		**31**	134	
Other	**8**	107		**23**	226	
Exploration asset expenditures	**520**	476	9	**708**	629	13

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

The Company incurred $520,000 and $708,000 in exploration asset expenditures during the three and six months ended June 30, 2017, respectively. The expenditures mainly related to annual head licence costs for the Ortoire and East Brighton properties, as well as capitalized finance costs in connection with the letters of credit that secure both concessions. In addition, the Company incurred $39,000 in lease costs relating to its Canadian exploration land during the three months ended June 30, 2017.

Property and equipment expenditures

($000's)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2017	2016	change	**2017**	2016	change
Drilling and completions	**4,726**	(541)		**4,975**	170	
Capitalized G&A	**207**	194		**403**	515	
Corporate assets / other	**7**	7		**108**	21	
Property and equipment expenditures	**4,940**	(340)	100	**5,486**	706	100

During the three months ended June 30, 2017, the Company incurred $4,940,000 in property and equipment capital expenditures. Development capital expenditures were $4,726,000, as the Company drilled three wells and performed five recompletions. In the comparative period of 2016, the Company performed no development activities and reached a settlement with a supplier resulting in a credit recognized in property and equipment expenditures.

On a year to date basis, the Company incurred $4,975,000 in development capital expenditures, which represented a total of three new wells drilled and ten well recompletions. During the six months ended June 30, 2016, the Company completed two fracture stimulations and two well recompletions.

Liquidity and Capital Resources

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

The Company's objective is to maintain net debt to annualized funds flow from operations at or below a level of 3.0 to 1. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1.

($000’s)	Target measure	June 30, 2017	December 31, 2016
Working capital surplus[1]		**(1,186)**	(846)
Undiscounted term loan balance		**15,000**	15,000
Net debt[2]		**13,814**	14,154
Shareholders’ equity		**32,561**	36,234
Net debt plus equity		**46,375**	50,388
Rolling four quarter funds flow from operations[3]		**2,751**	6,117
Net debt to funds flow from operations	**< 3.0 times**	**5.0**	2.3
Net debt to net debt plus equity	**< 0.4 times**	**0.3**	0.3

[1]Working capital surplus is calculated as current assets less current liabilities as they appear on the consolidated statements of financial position.
[2]See “*Non-GAAP Measures”.*
[3]Calculated as funds flow from operations from July 1, 2016 to June 30, 2017.

Touchstone exited the quarter with a working capital surplus of $1,186,000 and a $15,000,000 principal term loan balance. In addition, the Company classified $3,186,000 in cash used to collateralize letters of credit that secured future work obligations on Trinidad production and development contracts as long-term restricted cash. The Company must maintain a minimum cash reserves balance of $5,000,000 in accordance with its term loan, the amount of which can be reduced to $2,500,000 if the Company meets certain financial thresholds or raises additional equity. Cash and working capital decreased from the first quarter of 2017 due to drilling activity in the second quarter; the Company expects to realize the benefits of increased production in the second half of 2017.

Term loan

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

The term loan matures on November 23, 2021 with no mandatory repayment of principal required until January 1, 2019. The Company is required to repay $810,000 per quarter commencing on January 1, 2019 through October 1, 2021, and the then outstanding principal balance is repayable on the maturity date. The term loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly in arrears from January 1, 2017. Touchstone may prepay any principal portion of the term loan at any time after May 23, 2018 and if it does so will incur the following prepayment fees:

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

In connection with the term loan, the Company also granted the lender a 1% gross overriding royalty on petroleum sales from current Company land holdings in Trinidad, which is payable until November 23, 2021 regardless of any repayment or prepayment of the term loan. The term loan and the Company’s obligations in respect of the royalty are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

The royalty obligation is governed by a separate production payment agreement between the parties. The royalty is defined as 1% of the sale proceeds, which are defined as the gross proceeds from the sale of the aggregate gross production attributable to the Company’s participating interest in all current Trinidad blocks. The royalty 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 buy out the royalty obligation. Any buy out of the obligation must be negotiated by both parties and calculated by the Company as prepared by reference to internal forecasts discounted at 8% per annum.

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

The term loan was initially measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan balance less transaction costs is unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings. The royalty obligation was initially measured at fair value, using the estimated royalty payable at the inception of the loan discounted by 15%. The royalty liability is reduced by future amounts paid to the lender. Once the liability is reduced to $nil, any subsequent amounts paid are recorded as finance expenses in the period incurred.

The following is a continuity schedule of the term loan and associated liabilities balance from inception to June 30, 2017:

($000's)	**Term loan liability**	**Royalty liability**	**Total**
Balance, November 23, 2016	**13,132**	**1,247**	**14,379**
Accretion	164	-	164
Payments	-	(47)	(47)
Balance, December 31, 2016	**13,296**	**1,200**	**14,496**
Accretion	351	-	351
Payments	-	(148)	(148)
Balance, June 30, 2017	**13,647**	**1,052**	**14,699**

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 June 30, 2017 was as follows:

Covenant	**Covenant threshold**	**Estimated position at June 30, 2017[1]**
Cash balance	> $5,000,000	**$9,925,000**
Net funded debt to equity ratio[2]	< 0.5 times	**0.2 times**
EBITDA[3] for the three fiscal quarters ending June 30, 2017	> $1,875,000	**$2,976,000**

[1]Estimated position subject to final approval.
[2]Net funded debt is defined as interest-bearing debt less cash reserves. Equity is defined as book value of shareholders' equity less accumulated other comprehensive income (loss).
[3]EBITDA is defined as net earnings before interest, income taxes and non-cash items.

Pursuant to the term loan agreement, a failure to comply with any covenant constitutes an event of default, subject to the expiry of certain grace periods. Upon the occurrence and during the continuance of an event of default, the lender can declare the term loan principal balance and any accrued interest immediately due and payable. The Company routinely reviews the covenants in the term loan agreement in light of actual and forecasted results and can make changes to development and exploration plans to comply with the covenants. The Company is committed to having an adaptable capital expenditure program that can be adjusted to a tightening of liquidity sources if necessary.

Restricted cash and cash equivalents

The Company has US$ denominated cash collateralized letters of credit that secure long-term work obligations on its production and exploration concessions. A reconciliation of the long-term restricted cash and cash equivalents balance is set forth below:

($000's)	**Restricted cash and cash equivalents (US$)**	**Restricted cash and cash equivalents ($)**
Balance, January 1, 2016	**-**	**-**
Letter of credit cash deposits	6,299	8,457
Interest	2	3
Effect of change in foreign exchange rates	-	1
Balance, December 31, 2016	**6,301**	**8,461**
Letter of credit reduction	(3,858)	(5,144)
Interest	11	15
Effect of change in foreign exchange rates	-	(146)
Balance, June 30, 2017	**2,454**	**3,186**

On March 14, 2017, the Company received formal approval from the MEEI to reduce the letter of credit related to the East Brighton exploration property from US$6,000,000 to US$2,150,000. The funds were released to the Company on March 30, 2017.

In addition, at June 30, 2017 the Company had a security agreement with Export Development Canada in connection with a performance security guarantee that supports a US$3,313,000 letter of credit provided to the MEEI related to work commitments on its Ortoire exploration property. The letter of credit expired on August 6, 2017 and will be replaced with a parent company guarantee.

Liquidity risk

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

To manage its capital structure in a period of low commodity prices, the Company may further reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. The Company will continue to manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability. Undiscounted cash outflows relating to financial liabilities as at June 30, 2017 were as follows:

($000's)	**Undiscounted amount**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**
Accounts payable and accrued liabilities	14,234	14,234	-	-
Income taxes payable	3,376	3,376	-	-
Term loan and associated liabilities	15,000	-	4,050	10,950
Total financial liabilities	**32,610**	**17,610**	**4,050**	**10,950**

Risk Management

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

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

Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company had no commodity financial contracts in place as at or during the six months ended June 30, 2017.

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

Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the Trinidad and Tobago dollar can have a significant effect on reported results. The Company's foreign exchange gain or losses primarily include unrealized foreign exchange gains on losses on the translation of the Company's US$ denominated working capital balances in Canada and Trinidad. The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the six months ended June 30, 2017.

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. The Company is not exposed to interest rate risk as its term loan interest rate is fixed in nature.

Contractual Obligations, Commitments and Guarantees

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

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under exploration licence and production agreements with the MEEI and various lease commitments for office space and equipment. As at June 30, 2017, the Company's estimated contractual capital requirements over the next four years and thereafter were as follows:

($000's)	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Operating agreement commitments						
Coora block	11	2,099	24	25	-	**2,159**
WD-4 block	1,315	1,334	38	85	-	**2,772**
WD-8 block	20	3,159	46	48	-	**3,273**
New Dome block	5	55	11	57	13	**141**
South Palo Seco block	49	473	480	162	169	**1,333**
Exploration agreement commitments						
Ortoire block	146	4,200	6,811	333	-	**11,490**
East Brighton block	214	2,266	469	490	-	**3,439**
Office leases	134	424	304	289	269	**1,420**
Equipment leases	187	354	338	290	3	**1,172**
Total minimum payments	**2,081**	**14,364**	**8,521**	**1,779**	**454**	**27,199**

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 total, the Company is obligated to drill 12 wells and perform 18 heavy workovers prior to the end of 2021. As of June 30, 2017, three wells and 11 workovers have been completed with respect to these obligations. The Company failed to drill four wells that were required in 2016, two of which were drilled during the three months ended June 30, 2017 (see "*Trinidad Operating Agreements*").

The Company has various letters of credit totaling US$299,000 related to its work commitments on its Petrotrin concessions.

The Company's June 30, 2017 estimated costs and timing of its future Ortoire exploration commitments, which included acquiring and processing 85 line kilometres of 2D seismic and the drilling of four vertical wells, were as follows:

($000's)	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Lease payments	146	305	319	333	-	**1,103**
2D seismic	-	-	5,194	-	-	**5,194**
Drilling commitments	-	3,895	1,298	-	-	**5,193**
Total minimum payments	**146**	**4,200**	**6,811**	**333**	**-**	**11,490**

Touchstone's June 30, 2017 estimated costs and timing of its future East Brighton exploration commitments, which included the drilling of one well to a total depth of 5,000 true vertical feet, were as follows:

($000's)	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Lease payments	214	449	469	490	-	1,622
Drilling commitments	-	1,817	-	-	-	1,817
Total minimum payments	**214**	**2,266**	**469**	**490**	**-**	**3,439**

The Company has a US$2,150,000 letter of credit relating to work commitments on its East Brighton offshore concession that is collateralized with cash (see "*Restricted cash and cash equivalents*").

Off-balance Sheet Arrangements

Touchstone has certain equipment and office lease agreements reflected in the contractual obligations and commitments table above which were entered in the normal course of operations. All leases are currently treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the statement of financial position as of June 30, 2017.

At June 30, 2017, the Company had a US$3,313,000 letter of credit that was secured by Export Development Canada. This balance was not included on the statement of financial position as at June 30, 2017.

Financial Instruments

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

Share Information

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The following table summarizes the outstanding common shares, share options and incentive share options as at the date of this MD&A, June 30, 2017 and December 31, 2016:

	August 10, 2017	**June 30, 2017**	**December 31, 2016**
Common shares outstanding – end of period	103,137,143	103,137,143	83,137,143
Share options outstanding – end of period	6,778,340	6,983,339	5,642,040
Incentive share options outstanding – end of period	115,000	127,500	127,500

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's Annual Information Form dated March 21, 2017, which is available on SEDAR.

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

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

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

Changes in Accounting Policies

Adoption of new accounting policies

There were no new or amended accounting standards or interpretations adopted by the Company during the six months ended June 30, 2017.

Future changes in accounting policies

The Company will be required to adopt IFRS 9 *Financial Instruments* on January 1, 2018, IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 and IFRS 16 *Leases* on January 1, 2019. The Company continues to assess the impact of adopting these pronouncements. Further information regarding future changes in accounting policies is included in Note 3 "Accounting Policies" of the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2017.

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.

There were no changes to the Company's significant judgments, estimates or assumptions used in applying accounting policies during the three and six months ended June 30, 2017. Further details on the Company's significant accounting policies and significant accounting judgements, estimates and assumptions can be found in Note 5 "Use of estimates, judgements and assumptions" of the Company's audited consolidated financial statements for the year ended December 31, 2016.

Control Environment

There have been no changes to internal control over financial reporting ("ICFR") during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, ICFR.

ICFR is a process designed to provide reasonable assurance that all assets are safeguarded; transactions are appropriately authorized; and to facilitate the preparation of relevant, reliable and timely information. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Advisory on Forward-Looking Statements

Certain information regarding Touchstone set forth in this MD&A, including assessments by the Company's Management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. Statements relating to "reserves" and "resources" are deemed to be 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. Such statements represent the Company's internal projections, estimates or beliefs concerning future growth, results of operations based on information currently available to the Company based on assumptions that are subject to change and are beyond the Company's control, such as: production rates and production decline rates, the magnitude of and ability to recover oil and gas reserves, plans for and results of drilling activity, well abandonment costs and salvage value, 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, among other things. 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.

In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to:

- the Company's 2017 recompletion and drilling plans, including the anticipated timing thereof;
- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- crude oil production levels;
- future capital expenditures, the timing thereof and the method of funding;
- activities to be undertaken in various areas and timing thereof, including the fulfillment of minimum work obligations and exploration commitments;
- terms of the Company's contractual commitments and their timing of settlement;
- terms and title of exploration and production contracts and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil;
- treatment under governmental regulatory regimes and tax laws;
- the Company's position related to its uncertain tax positions;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future sources of liquidity;
- the Company's future compliance with its term loan covenants;

- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning obligations; and
- effect of business and environmental risks on 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 oil reserves on an economic basis and the potential for technical problems that could lead to well blow-outs and environmental damage. The Company is exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operation risks. The Company is subject to industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced. There are uncertainties in estimating the Company’s reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The Company is subject to the risk that it will not be able to fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada and Trinidad, continued volatility in market prices for oil, the impact of significant declines in market prices for oil, the ability to access sufficient capital from internal and external sources, changes in income tax laws or changes in tax laws, royalties and incentive programs relating to the oil and gas industry, fluctuations in interest rates, the Canadian dollar to United States dollar exchange rate and the Canadian dollar to Trinidad and Tobago dollar exchange rate. 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, lease operating or farm-in rights related to the Company’s oil and gas interests in Trinidad.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements. Readers are also cautioned that the foregoing list of factors and assumptions is not exhaustive. The Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Additional information on these and other factors that could affect the Company’s operations and financial results are included elsewhere herein and in reports, documents and disclosures on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Non-GAAP Measures

The MD&A contains terms commonly used in the oil and natural gas industry, including funds flow from operations per share, operating netback and net debt. These terms do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. Management uses these non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company’s operations over time.

The Company calculates funds flow from operations per share by dividing funds flow from operations by the weighted average number of common shares outstanding during the applicable period.

The Company uses operating netback as a key performance indicator of field results. Operating netback does not have a standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Operating netback is presented on a per barrel basis and is calculated by deducting royalties and operating expenses from petroleum revenue. The Company discloses operating netback both prior to realized gains or losses on derivatives and after the impacts of derivatives are included. Realized gains or losses represent the portion of risk management contracts that have settled in cash during the period, and disclosing this impact provides Management and investors with transparent measures that reflect how the Company's risk management program can impact netback metrics. The Company considers operating netback to be a key measure as it demonstrates Touchstone's profitability relative to current commodity prices. This measurement assists Management and investors in evaluating operating results on a per barrel basis to analyze performance on a historical basis. The following table calculates operating netback for the periods indicated:

($000's unless otherwise indicated)	**Three months ended June 30,**		**Six months ended June 30,**	
	2017	2016	**2017**	2016
Petroleum revenue	**7,436**	5,996	**14,827**	10,783
Royalties	**(2,166)**	(1,627)	**(4,812)**	(3,062)
Operating expenses	**(2,857)**	(2,419)	**(4,877)**	(5,457)
Operating netback prior to derivatives	**2,413**	1,950	**5,138**	2,264
Realized gain on derivatives	**-**	3,316	**-**	6,462
Operating netback after derivatives	**2,413**	5,266	**5,138**	8,726
Production *(bbls)*	**121,394**	120,319	**236,595**	244,155
Operating netback after derivatives *($/bbl)*	**19.89**	43.77	**21.72**	35.74

Net debt is calculated by summing the Company's working capital and undiscounted non-current interest bearing liabilities. Working capital is defined as current assets less current liabilities as they appear on the statements of financial position. The Company uses this information to assess its true debt and liquidity position and to manage capital and liquidity risk. This measure does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures reported by other companies. The following table summarizes net debt for the periods indicated:

($000's)	**June 30, 2017**	December 31, 2016
Working capital surplus	**(1,186)**	(846)
Undiscounted long-term portion of term loan	**15,000**	15,000
Net debt	**13,814**	14,154

Summary of Quarterly Results

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

Three months ended	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Operating				
Average daily production *(bbls/d)*	1,334	1,280	1,245	1,276
Operating netback[1] *($/bbl)*				
Petroleum revenue	61.26	64.16	61.85	52.56
Royalties	(17.84)	(22.97)	(18.56)	(13.89)
Operating expenses	(23.53)	(17.53)	(19.89)	(19.65)
Operating netback	19.89	23.66	23.40	19.02
Financial *($000's except share and per share amounts)*				
Funds flow from operations	438	393	353	1,567
Per share – basic and diluted[1]	0.01	0.01	0.01	0.02
Net loss	(1,848)	(1,549)	(7,154)	(702)
Per share – basic and diluted	(0.02)	(0.02)	(0.09)	(0.01)
Capital expenditures				
Exploration assets	520	188	553	847
Property and equipment	4,940	546	819	327
Total	5,460	734	1,372	1,174
Total assets - end of period	86,570	87,239	89,285	72,550
Net debt[1] - end of period	13,814	9,416	14,154	4,115
Weighted average shares outstanding				
Basic and diluted	84,236,044	83,137,143	83,137,143	83,137,143
Outstanding shares - end of period	103,137,143	83,137,143	83,137,143	83,137,143

[1]See "Non-GAAP Measures".

Three months ended	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Operating				
Average daily production *(bbls/d)*	1,322	1,361	1,571	1,638
Average oil prices before derivatives *($/bbl)*	49.83	38.66	49.54	56.24
Financial *($000's except share and per share amounts)*				
Funds flow from operations	3,278	919	1,408	313
Per share – basic and diluted[1]	0.04	0.01	0.02	0.01
Net (loss) earnings	(2,553)	(2,444)	152	(12,666)
Per share – basic and diluted	(0.03)	(0.03)	0.01	(0.15)
Capital expenditures				
Exploration assets	476	153	612	154
Property and equipment	(340)	1,046	578	679
Total	136	1,199	1,190	833
Total assets - end of period	73,330	81,209	100,619	101,564
Net debt (surplus) [1] - end of period	4,188	1,164	(987)	39
Weighted average shares outstanding				
Basic	83,125,605	83,087,143	83,087,143	83,080,866
Diluted	83,125,605	83,087,143	83,294,151	83,080,866
Outstanding shares - end of period	83,187,143	83,087,143	83,087,143	83,087,143

[1]See "*Non-GAAP Measures*".

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

Material Trinidad segment impairment charges were recognized in the third quarter of 2015 related to the sustained decrease in forward commodity prices. In response to the decrease in crude oil prices, the Company decreased 2015 and 2016 capital and operational spending, which reduced crude oil production and operating cash flows.

Effective December 31, 2015, Touchstone disposed of its Kerrobert property, which was the Company's remaining Canadian segment producing asset. Accordingly, there was no Canadian segment production or operating expenses recorded during 2016 and 2017.

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 2016 Annual Information Form dated March 21, 2017, can be accessed online on SEDAR (www.sedar.com) or from the Company's website (www.touchstoneexploration.com).

CORPORATE INFORMATION

DIRECTORS

John Wright
Chairman of the Board

Paul R. Baay

Kenneth McKinnon

Peter Nicol

Thomas Valentine

Harrie Vredenburg

EXECUTIVE OFFICERS

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

STOCK EXCHANGE LISTING

Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

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GLJ Petroleum Consultants Ltd.
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LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Calgary, Alberta

Nunez and Co.
Port of Spain, Trinidad

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

NOMINATED ADVISOR AND JOINT BROKER

Shore Capital
London, United Kingdom

JOINT BROKER

GMP FirstEnergy
London, United Kingdom

PUBLIC RELATIONS

Camarco
London, United Kingdom

ABBREVIATIONS

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

Oil

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

Other

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