



Touchstone Exploration Inc.

Management's Discussion and Analysis

June 30, 2020

Management's Discussion and Analysis

As at and for the three and six months ended June 30, 2020 and 2019

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. ("Touchstone", "we", "our", "us" or the "Company") for the three and six months ended June 30, 2020 with comparisons to the three and six months ended June 30, 2019 is dated August 13, 2020 and should be read in conjunction with the Company's unaudited consolidated interim financial statements as at and for the three and six months ended June 30, 2020 (the "interim financial statements"), as well with the Company's audited consolidated financial statements as at and for the year ended December 31, 2019. The interim financial statements and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with Touchstone's MD&A for the year ended December 31, 2019, as disclosure which is unchanged from December 31, 2019 may not be duplicated herein.

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

Unless otherwise stated, all financial amounts presented herein are rounded to thousands of United States dollars ("\$" or "US\$"). The Company may also reference Canadian dollars ("C\$") and Trinidad and Tobago dollars ("TT\$") herein, which are the functional and operational currencies of the Company's parent company and operating subsidiaries, respectively. All production volumes disclosed herein are sales volumes and are based on Company working interest before royalty burdens.

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

About Touchstone Exploration Inc.

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

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

Financial and Operating Results Summary

	Three months ended			Six months ended		
	2020	June 30, 2019	% change	2020	June 30, 2019	% change
Operating Highlights						
Average daily oil production (<i>bbls/d</i>)	1,396	1,768	(21)	1,493	1,944	(23)
Brent benchmark price (<i>\$/bbl</i>)	29.70	69.04	(57)	40.23	66.07	(39)
Operating netback ⁽¹⁾ (<i>\$/bbl</i>)						
Realized sales price	29.34	60.33	(51)	38.25	58.91	(35)
Royalties	(6.99)	(17.25)	(59)	(10.66)	(16.19)	(34)
Operating expenses	(11.62)	(16.23)	(28)	(12.67)	(14.52)	(13)
	10.73	26.85	(60)	14.92	28.20	(47)
Financial Highlights						
<i>(\$000's except as indicated)</i>						
Petroleum sales	3,755	9,708	(61)	10,453	20,723	(50)
Cash flow (used in) from operating activities	(1,921)	1,832	n/a	(1,997)	4,569	n/a
Funds flow (used in) from operations ⁽²⁾	(450)	1,310	n/a	807	3,740	(78)
Per share – basic and diluted ⁽¹⁾⁽²⁾	(0.00)	0.01	n/a	0.00	0.02	n/a
Net loss	(2,742)	(833)	100	(11,982)	(1,018)	100
Per share – basic and diluted	(0.01)	(0.01)	-	(0.07)	(0.01)	100
Exploration capital expenditures	1,249	681	83	3,072	1,041	100
Development capital expenditures	92	315	(71)	312	714	(56)
Total capital expenditures	1,341	996	35	3,384	1,755	93
Working capital surplus				(6,534)	(2,062)	100
Principal non-current balance of term loan				15,000	11,459	31
Net debt ⁽¹⁾ – end of period				8,466	9,397	(10)
Share Information (000's)						
Weighted average shares outstanding – basic and diluted	183,640	160,688	14	176,500	150,891	17
Outstanding shares – end of period				184,161	160,688	15

Notes:

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

The second quarter of 2020 was an extremely challenging period for the oil and gas sector, as declines in demand caused by the COVID-19 outbreak resulted in global oversupply and volatile crude oil prices. Despite these challenges we managed our business effectively during the quarter, mitigating operational losses and progressing with the tie-in of our Coho-1 natural gas well and the drilling of our Chinook-1 exploration well. We took decisive action to protect our cash flows in the quarter, implementing cost saving initiatives that significantly lowered our operating and general and administrative expenses. We successfully adapted our work procedures to ensure operational safety and business continuity, with only minor unavoidable delays related to the pandemic.

Going forward, we remain focused on protecting the health of our employees and communities and ensuring a decisive response for our investors. Our objective remains to bring our two natural gas exploration discoveries onto production as soon as possible, which are expected to not only increase

cash flow but insulate us from further crude oil price volatility from the continued effects of COVID-19. Drilling operations are ongoing at our Chinook prospect, and we anticipate drilling the Cascadura Deep location subject to maintaining ongoing liquidity targets.

The rapid decline in oil prices had a negative impact on our cash flows during the second quarter of 2020 and our projections for the balance of the year. Ongoing weakness in commodity prices resulting from COVID-19 impacts on demand and market volatility may adversely impact our future financial and operational results. With market conditions changing rapidly, there continues to be significant uncertainty around the potential effect this could have on Touchstone's operations and results, which could be material. We continue to monitor the situation and economic environment, and we will adapt our business operations and drilling program to ensure that we preserve and grow long-term shareholder value.

Operating results

In the second quarter of 2020, we invested \$1,249,000 in exploration activities, as we continued with lease preparations on the Chinook-1 drill location and commenced Coho-1 well tie-in operations.

We conducted minimal developmental activity in the quarter, with average crude oil sales declining to 1,396 bbls/d, a 12 percent decrease relative to the 1,589 bbls/d produced in the first quarter of 2020 and a 21 percent reduction from 1,768 bbls/d produced in the second quarter of 2019. Our crude oil sales volumes have decreased due to the ongoing impact of natural declines associated with limited capital investment since the final two wells of the 2018 drilling program were brought onstream in January 2019. In addition, we deliberately reduced discretionary operating expenditures in the quarter in response to lower crude oil pricing, only focusing on working on high priority wells. Development capital activity for the balance of the year is expected to be minimal as we focus predominantly on our exploration program.

Financial results

We reported negative funds flow from operations of \$450,000 in the second quarter of 2020 versus funds flow from operations of \$1,310,000 generated in the 2019 second quarter. The decrease reflected significantly lower commodity prices as a result of the impact of the COVID-19 pandemic and a 21 percent decline in crude oil production.

We recorded a net loss of \$2,742,000 (\$0.01 per share) in the second quarter of 2020 versus a net loss of \$833,000 (\$0.01 per share) in the prior year equivalent quarter. The decrease was primarily attributed to a reduction of \$2,947,000 in operating netbacks, driven by reduced production and realized pricing, partially offset by savings in royalties and operating costs. During the quarter, we focused on various cost-saving initiatives, as quarterly operating costs decreased 43 percent and 28 percent on an absolute and per barrel basis from the second quarter of 2019, respectively. We also reduced second quarter 2020 general and administrative expenses by 15 percent from the previous quarter and 33 percent relative to the second quarter of 2019.

We refinanced our debt in the quarter by entering into a \$20 million term loan facility with a Trinidad based financial institution. \$15 million was initially withdrawn to satisfy obligations related to prepaying our former C\$20 million Canadian based term loan. The new credit facility does not require the commencement of principal payments until June 15, 2022, and financial covenants are not tested until the year ended December 31, 2022. By transferring our senior debt to Trinidad, the refinancing is expected to reduce our future after tax cost of borrowing from 8 percent to approximately 3.5 percent.

We exited the quarter with a working capital surplus of \$6,534,000, \$15 million withdrawn on our term credit facility and net debt of \$8,466,000. Our liquidity is augmented by \$5 million of undrawn credit capacity, with principal payments not due until the second quarter of 2022.

Results of Operations

Financial highlights

(\$000's except for per share amounts)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Net loss	(2,742)	(833)	100	(11,982)	(1,018)	100
Per share – basic and diluted	(0.01)	(0.01)	-	(0.07)	(0.01)	100
Cash flow (used in) from operating activities	(1,921)	1,832	n/a	(1,997)	4,569	n/a
Funds flow (used in) from operations ⁽¹⁾	(450)	1,310	n/a	807	3,740	(78)
Per share – basic and diluted ⁽²⁾	(0.00)	0.01	n/a	0.00	0.02	n/a

Notes:

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

Net loss

We recorded a net loss of \$2,742,000 (\$0.01 per share) in second quarter of 2020 versus a net loss of \$833,000 (\$0.01 per share) in the prior year equivalent quarter. The decrease was primarily attributed to a reduction of \$2,947,000 in operating netbacks, driven by reduced production and realized pricing, slightly offset by savings in royalties and operating costs. Savings in second quarter 2020 income tax expenses were offset by increases in finances expenses incurred from retiring and entering into our new term debt facility.

Net loss for the six months ended June 30, 2020 was \$11,982,000 (\$0.07 per share), representing an increase of \$10,964,000 from the \$1,018,000 net loss recognized in the corresponding 2019 period. In comparison to the six months ended June 30, 2019, the decrease was primarily due to net \$19,046,000 in non-cash impairment charges as a result of decreases in forecasted commodity prices, partially offset by deferred tax recoveries of \$11,476,000. Impairment charges were recognized in the first quarter of 2020 due to crude oil price forecasts deteriorating from decreases in demand as a result of COVID-19. Furthermore, year to date June 30, 2020 operating netbacks decreased by \$5,844,000 from the comparative 2019 period, reflecting decreases in production and realized pricing, partially offset by savings in royalties and operating costs.

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

(\$000's)	Three months ended June 30	Six months ended June 30
Net loss – 2019	(833)	(1,018)
Sales volume variance	(1,986)	(4,625)
Realized price variance	(3,967)	(5,645)
Royalties	1,881	2,781
Other income	19	52
Expenses		
Operating	1,125	1,645
General and administrative	491	639
Cash finance	(339)	(421)
Current income tax	1,183	2,769
Realized foreign exchange	(121)	(127)
Total cash variances	(1,714)	(2,932)
Loss on financial derivatives	(25)	(25)
Unrealized foreign exchange	(241)	118
Share-based compensation	(32)	(45)
Depletion and depreciation	435	798
Impairment	179	(19,046)
Non-cash finance expense	(1,178)	(1,513)
Deferred income taxes	667	11,681
Total non-cash variances	(195)	(8,032)
Net loss – 2020	(2,742)	(11,982)

Cash flows from operating activities and funds flow from operations

Touchstone used \$1,921,000 in cash from operating activities in the second quarter of 2020 versus \$1,832,000 of cash generated from operating activities in the 2019 equivalent quarter. The variance relative to the prior year period was a result of a decrease of \$1,760,000 in funds flow from operations and a net change of \$2,164,000 in non-cash working capital, partially offset by \$171,000 incurred for the purchase of derivative options in the second quarter of 2019.

During the six months ended June 30, 2020, the Company used \$1,997,000 in cash from operating activities, versus \$4,569,000 of cash provided by operations in the corresponding 2019 period. Relative to the 2019 six-month period, a decrease in funds flow from operations of \$2,933,000 and a net change of \$3,804,000 in non-cash working capital were slightly offset by \$171,000 of cash used in the prior year to purchase derivative options.

The Company used \$450,000 in funds from operations in the second quarter of 2020. Relative to the second quarter of 2019, the \$1,760,000 decrease was mainly a result of a decrease in \$2,947,000 in operating netbacks, offset by savings in supplemental petroleum taxes due to reduced realized crude oil pricing.

During the six months ended June 30, 2020, we generated funds flow from operations of \$807,000, representing a 78 percent decrease relative to the \$3,740,000 recognized in the prior year equivalent period. In comparison to the six months ended June 30, 2019, decreased operating netbacks of \$5,844,000 were partially offset by savings of \$639,000 in general and administrative expenses and \$2,769,000 in current income taxes.

Details of the change in funds flow (used in) from operations from the three and six months ended June 30, 2019 to the three and six months ended June 30, 2020 are reflected in the following table.

(\$000's)	Three months ended June 30	Six months ended June 30
Funds flow from operations – 2019 ⁽¹⁾	1,310	3,740
Sales volume variance	(1,986)	(4,625)
Realized price variance	(3,967)	(5,645)
Royalties	1,881	2,781
Other income	19	52
Expenses		
Operating	1,125	1,645
General and administrative	491	639
Cash finance	(339)	(421)
Current income tax	1,183	2,769
Realized foreign exchange	(121)	(127)
Change in non-cash other	(30)	(1)
Decommissioning expenditures	(16)	-
Funds flow (used in) from operations – 2020⁽¹⁾	(450)	807

Note:

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

Production volumes

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Production (bbls)						
Crude oil	127,075	160,921	(21)	271,674	351,801	(23)
Natural gas liquids	919	-	n/a	1,621	-	n/a
Total	127,994	160,921	(20)	273,295	351,801	(22)
Average daily production (bbls/d)						
Crude oil	1,396	1,768	(21)	1,493	1,944	(23)
Natural gas liquids	10	-	n/a	9	-	n/a
Total	1,406	1,768	(20)	1,502	1,944	(23)

Second quarter and year to date 2020 crude oil sales declined 21 percent and 23 percent from the prior year equivalent periods, respectively. The decreases were reflective of natural declines, as the Company has not brought on additional development well production since January 2019. In addition, we sold 919 and 1,621 net barrels of Ortoire natural gas liquids produced from the Cascadura-1ST1 production tests during the three and six months ended June 30, 2020, respectively.

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

<i>(bbls)</i>	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Coora 1	34,398	30,011	15	73,240	75,344	(3)
Coora 2	3,928	6,746	(42)	8,622	13,700	(37)
WD-4	48,501	58,443	(17)	102,568	118,475	(13)
WD-8	24,242	44,318	(45)	52,124	99,555	(48)
New Dome	1,999	2,184	(8)	4,076	4,480	(9)
South Palo Seco	-	391	(100)	241	1,070	(77)
Barrackpore	1,338	1,009	33	2,761	2,466	12
Fyzabad	6,852	9,778	(30)	14,852	19,757	(25)
Palo Seco	702	888	(21)	1,534	1,830	(16)
San Francique	5,115	7,153	(28)	11,656	15,124	(23)
Ortoire	919	-	n/a	1,621	-	n/a
Production	127,994	160,921	(20)	273,295	351,801	(22)

Realized crude oil pricing

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Brent average <i>(\$/bbl)</i>	29.70	69.04	(57)	40.23	66.07	(39)
WTI average <i>(\$/bbl)</i>	27.85	59.81	(53)	37.01	57.36	(35)
Avg. realized price <i>(\$/bbl)</i>	29.34	60.33	(51)	38.25	58.91	(35)
Realized price discount as a % of Brent	(1.2)	(12.6)		(4.9)	(10.8)	
Realized price premium as a % of WTI	5.4	0.9		3.4	2.7	

Our crude oil price received is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond our control. Touchstone's crude oil realized price has historically correlated to the Brent benchmark price, as Trinidad oil is classified as water borne crude.

The average Brent and WTI crude oil benchmark prices in the second quarter declined 41 percent and 40 percent, respectively, relative to the first quarter of 2020. Year-over-year, the average Brent and WTI crude oil benchmark prices were lower due to the crude oil demand destruction caused by COVID-19. Continued uncertainty from decreased demand and oversupply of crude oil lowered benchmark prices. Global crude oil producers and refiners swiftly responded to the reduced demand by lowering supply in an attempt to rebalance the market, which supported improved pricing in May and June.

Relative to the second quarter of 2019, the Brent differential realized during the second quarter of 2020 narrowed from 12.6 percent to 1.2 percent. Similarly, the Brent differential realized during the six months ended June 30, 2020 reduced to 4.9 percent versus 10.8 percent in the equivalent period of 2019.

We realized an average price of \$29.34 per barrel in the second quarter of 2020 compared to an average of \$60.33 per barrel in the comparative period of 2019. The 51 percent decrease was predominately driven by a year-over-year 57 percent decrease in the average Brent reference price, partially offset by a narrowing of our realized pricing differential in relation to Brent.

On a year to date basis, Touchstone realized an average crude oil price of \$38.25 per barrel, a 35 percent decrease relative to the \$58.91 price received during the six months ended June 30, 2019. The annual decrease was attributed to a 39 percent decrease in the average Brent reference price, slightly offset by a 6 percent narrowing of the realized differential to Brent.

Petroleum sales

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Petroleum sales	3,755	9,708	(61)	10,453	20,723	(50)

We sell all of our crude oil to Heritage Petroleum Company Limited ("Heritage"), with title transferring at our various sales batteries. As at June 30, 2020, the Company held 4,756 barrels of crude oil inventory versus 4,166 barrels held as at December 31, 2019.

Touchstone recognized petroleum sales of \$3,755,000 during the three months ended June 30, 2020 versus \$9,708,000 recorded in the prior year comparative quarter. In relation to the second quarter of 2019, \$1,986,000 of the aggregate \$5,953,000 decrease was a result of decreased production, with the remaining \$3,967,000 variance based on a reduction in average realized pricing. We stored our aggregate May crude oil production and subsequently sold the inventory in June, realizing an incremental \$363,000 in petroleum sales. Our June realized crude oil price of \$34.93 per barrel increased 34% from Heritage indicative May pricing of \$26.11 per barrel. Approximately \$321,000 of the increased revenue was from Heritage LOA and FOA production, which incurred an aggregate \$179,000 in storage fees recognized in second quarter 2020 operating expenses.

For the six months ended June 30, 2020, petroleum sales were \$10,453,000, representing a \$10,270,000 or 50 percent decrease from the \$20,723,000 recognized in the equivalent 2019 period. \$5,645,000 of the annual decrease was attributed to realized price variances, with the remaining \$4,625,000 variance from decreased sales volumes.

Operating netback

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

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Petroleum sales ⁽¹⁾	3,755	9,708	(61)	10,453	20,723	(50)
Royalties	(895)	(2,776)	(68)	(2,914)	(5,695)	(49)
Operating expenses	(1,487)	(2,612)	(43)	(3,462)	(5,107)	(32)
Operating netback⁽²⁾	1,373	4,320	(68)	4,077	9,921	(59)
(\$/bbl)						
Brent benchmark price	29.70	69.04	(57)	40.23	66.07	(39)
Discount	(0.36)	(8.71)		(1.98)	(7.16)	
Realized sales price	29.34	60.33	(51)	38.25	58.91	(35)
Royalties	(6.99)	(17.25)	(59)	(10.66)	(16.19)	(34)
Operating expenses	(11.62)	(16.23)	(28)	(12.67)	(14.52)	(13)
Operating netback⁽²⁾	10.73	26.85	(60)	14.92	28.20	(47)

Notes:

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

Royalties

(\$000's unless otherwise stated)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Crown royalties	433	1,181		1,208	2,395	
Private royalties	36	109		105	209	
Overriding royalties	426	1,486		1,601	3,091	
Royalties	895	2,776	(68)	2,914	5,695	(49)
As a percentage of petroleum sales	23.8%	28.6%	(17)	27.9%	27.5%	1

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

On the WD-8, Coora and WD-4 blocks, Touchstone operates under lease operatorship agreements ("LOAs"), which in addition to crown royalties apply a sliding scale notional overriding royalty ("ORR") on predefined monthly base production levels. For any monthly volumes sold in excess of base production levels, the Company incurs an enhanced ORR ("enhanced ORR"). The ORR and enhanced ORR rates are indexed to the average price of oil realized in the production month as noted in the table below. The LOAs allow for ORR and enhanced ORR incentives for the drilling or sidetracking of a replacement well as follows:

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

In addition to crown royalties, the farmout agreements ("FOAs") governing the South Palo Seco and New Dome properties stipulate ORR rates on predefined base monthly production levels and enhanced ORR rates for any incremental monthly production in excess of base amounts. Similar to the LOA structure, the ORR and enhanced ORR rates are indexed to the average price of oil realized in a production month as reflected in the table below. There are no incentives for drilling under the FOAs.

Monthly realized oil price (US\$)	LOA Royalty %		FOA Royalty %	
	ORR	Enhanced ORR	ORR	Enhanced ORR
<= \$10.00	10.0	8.0	7.0	4.0
\$10.01 - \$20.00	13.0	9.0	10.0	5.0
\$20.00 - \$30.00	15.0	10.0	12.0	6.0
\$30.01 - \$40.00	20.0	12.0	15.0	9.0
\$40.01 - \$50.00	25.0	13.0	18.0	10.0
\$50.01 - \$90.00	33.0	17.5	23.0	15.0

2020 second quarter royalties represented 23.8 percent of petroleum sales compared to 28.6 percent in the prior year comparative period. Relative to the second quarter of 2019, the decrease in royalties as a percentage of sales was primarily a result of a reduction in realized crude oil pricing received in the second quarter of 2020.

For the six months ended June 30, 2020, royalties represented 27.9 percent of petroleum sales compared to 27.5 percent in the prior year comparative period. A reduction in 2020 royalties due to decreased average realized crude oil pricing was offset by enhanced ORR incentives received in 2019 from production relating to wells drilled in 2018.

Operating expenses

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Operating expenses	1,487	2,612	(43)	3,462	5,107	(32)

Our second quarter operating expenses were \$1,487,000, representing \$11.62 per barrel. In comparison to the second quarter of 2019, current period operating expenses declined 43 percent, and per barrel operating expenses decreased 28 percent, reflective of salary reductions, decreased well servicing costs and a reduction in variable operating costs from declines in production. In addition, we incurred \$179,000 in storage fees in the second quarter of 2020 to store May production volumes that were sold in June (see "Results of Operations - Petroleum sales").

Operating expenses for the six months ended June 30, 2020 were \$3,462,000 or \$12.67 per barrel, representing decreases of 32 percent and 13 percent from the prior year equivalent period, respectively. As noted above, in comparison to the year to date June 30, 2019 period, decreases in fixed salaries, well servicing and variable expenses associated with decreased production were partially offset by the aforementioned May storage charge recognized in the second quarter of 2020.

General and administrative expense ("G&A")

(\$000's unless otherwise stated)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Gross G&A	1,145	1,640	(30)	2,480	3,205	(23)
Capitalized G&A	(149)	(153)	(3)	(317)	(403)	(21)
G&A expenses	996	1,487	(33)	2,163	2,802	(23)
On a per barrel basis	7.78	9.24	(16)	7.91	7.96	(1)

Compared to the second quarter of 2019 and the year to date 2019 period, 2020 G&A expenses decreased primarily from employee salary reductions and COVID-19 related travel restrictions.

Net finance expense

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Interest income	(19)	(29)	(34)	(25)	(60)	(58)
Term loan interest expense	288	223	29	587	445	32
Term loan revaluation loss (gain)	1,158	-	n/a	1,158	(277)	n/a
Production liability revaluation loss (gain)	35	(23)	n/a	295	209	41
Accretion on term loan	99	78	27	223	151	48
Accretion on decom. liabilities	21	90	(77)	123	180	(32)
Lease liability interest expense	5	24	(79)	10	50	(80)
Finance expense	180	-	n/a	180	-	n/a
Other	1	(112)	n/a	(45)	(126)	79
Net finance expense	1,768	251	100	2,506	572	100
Cash finance expense	455	116	100	758	337	100
Non-cash finance expense	1,313	135	100	1,748	235	100
Net finance expense	1,768	251	100	2,506	572	100

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

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

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

In comparison to the equivalent 2019 periods, 2020 second quarter and year to date lease liability interest expense decreased as a result of decreased lease liability balances throughout 2019 (refer to "*Liquidity and Capital Resources – Lease liabilities*").

Foreign exchange and foreign currency translation

The Company's presentation currency is the United States dollar. The parent company has a Canadian dollar functional currency while its Trinidadian subsidiaries have a Trinidad and Tobago dollar functional currency. In each reporting period, the change in values of the C\$ and TT\$ relative to the US\$ reporting currency are recognized. The applicable rates used to translate the Company's TT\$ and C\$ denominated items are summarized in the tables below.

	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Average foreign exchange rates⁽¹⁾						
US\$:C\$	1.39	1.34	4	1.36	1.33	2
US\$:TT\$	6.75	6.77	-	6.76	6.77	-
	June 30, 2020	March 31, 2020		June 30, 2020	December 31, 2019	
Closing foreign exchange rates⁽¹⁾						
US\$:C\$	1.36	1.42	(4)	1.36	1.30	5
US\$:TT\$	6.78	6.78	-	6.78	6.75	-

Note:

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

The income and expenses of the Company's Canadian head office and Trinidad operations are translated to US\$ at the average monthly exchange rates relative to the date of the transactions. Fluctuations in the exchange rate between the TT\$ and the US\$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT\$. In addition, the Company has US\$ denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company has further foreign exchange exposure on head office costs and production payment liabilities denominated and payable in Canadian dollars, as well as costs payable in pounds sterling required to maintain its AIM listing. Any material movements in the C\$ to US\$ exchange rate may have a material effect on the Company's reporting results.

During the three and the six months ended June 30, 2020, the C\$ depreciated 4 percent and 2 percent relative to the US\$ in comparison to the equivalent periods of 2019, respectively. Relative to the US\$, the TT\$ has remained range bound during the three and six months ended June 30, 2020 and 2019. Touchstone incurred a \$151,000 foreign exchange loss in connection with the repayment of its Canadian denominated term loan in June. In aggregate, the Company recorded foreign exchange losses of

\$453,000 and \$138,000 during the three and six months ended June 30, 2020, respectively (2019 – \$91,000 and \$129,000). \$311,000 of the \$453,000 foreign exchange loss in the second quarter of 2020 was unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

The assets and liabilities of the Company's subsidiaries are translated to US\$ dollars at the exchange rate on the reporting period date for presentation purposes, with all foreign currency differences recorded in other comprehensive loss.

Relative to the US\$, the C\$ closed 4 percent stronger on June 30, 2020 versus March 31, 2020 and 5 percent weaker on June 30, 2020 versus December 31, 2019, while the TT\$ remained consistent in both periods. As a result, a foreign currency translation loss of \$29,000 was recognized during the second quarter of 2020, and a translation gain of \$72,000 was recorded during the six months ended June 30, 2020 (2019 - loss of \$188,000 and loss of \$221,000).

Equity compensation plans

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

On April 6, 2020, the Company granted 2,611,000 share options to officers, directors and employees at an exercise price of C\$0.48 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date. During the six months ended June 30, 2020, 147,500 share options expired, and employees and directors exercised 958,000 share options.

The Company has an incentive share compensation option plan which provides for the grant of incentive share options to purchase common shares of the Company at a C\$0.05 exercise price. A maximum of one million common shares have been approved for issuance under this plan, of which 437,625 have been historically issued under the plan as of June 30, 2020. There were no incentive share options outstanding as at June 30, 2020, and no incentive options have been awarded since 2014.

The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10 percent of the issued and outstanding Company common shares. At June 30, 2020, Touchstone had 10,246,100 share options outstanding, with a weighted average exercise price of C\$0.29 per share, representing 5.6 percent of the Company's outstanding common shares (December 31, 2019 - 5.4 percent). During the three and six months ended June 30, 2020, the Company recorded share-based compensation expenses of \$81,000 and \$125,000 in relation to share option plans, respectively (2019 - \$49,000 and \$80,000).

Depletion and depreciation expense

(\$000's unless otherwise stated)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Depletion expense	692	1,086	(36)	1,650	2,373	(30)
On a per barrel basis	5.41	6.75	(20)	6.04	6.75	(11)
Depreciation expense	122	163	(25)	252	327	(23)
Depletion and depreciation expense	814	1,249	(35)	1,902	2,700	(30)

The Company's producing petroleum assets are subject to depletion expense. The net carrying value of producing assets is depleted using the unit of production method by reference to the ratio of production in the period over the related proven and probable reserves while also considering the estimated future development costs necessary to bring those reserves into production. During the three and six months ended June 30, 2020, depletion decreased both on an absolute basis and on a unit of production basis in comparison to the equivalent periods of 2019. The decline in depletion in both periods predominately reflected lower 2020 production in comparison to 2019.

Assets in the exploration phase are not amortized. Depreciation expense is recorded on corporate and oilfield service assets on a declining balance basis, and right-of-use assets are depreciated over their estimated useful lives on a straight-line basis. The decrease in depreciation expense reported in the second quarter of 2020 and year to date 2020 relative to the corresponding 2019 periods was predominately a result of lower net asset values.

Impairment of non-financial assets

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

Exploration asset impairments

During the three and six months ended June 30, 2020, the Company recognized impairment reversals related to exploration assets of \$116,000 and \$28,000, respectively (2019 – impairments of \$63,000 and \$141,000). The impairment recoveries were based on the reversal of previously accrued East Brighton licence obligations that were updated to reflect invoices received. The accrued fees were previously impaired given the property's estimated recoverable value was \$nil.

The Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of \$16,576,000 as at June 30, 2020 (December 31, 2019 - \$13,579,000).

Property and equipment impairments

At June 30, 2020 and 2019, Touchstone evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of these assessments, no indicators were identified, and no impairment or related reversal was recorded. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

At March 31, 2020, indicators of impairment were present due to the significant decline in crude oil forward pricing. Impairment tests were conducted on all CGUs, resulting in an impairment charge of \$19,215,000 recognized during the six months ended June 30, 2020 as reflected in the table below.

(\$000's)	Six months ended June 30,		%
	2020	2019	change
CGU			
Coora	6,940	-	
WD-4	5,968	-	
WD-8	6,307	-	
Property and equipment impairments	19,215	-	n/a

Estimating the recoverable amounts of the Company's CGUs involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. Changes in any of the key judgements, such as a revision in reserves, changes in forecast commodity prices, capital expenditures, operating costs or the discount rate would impact the estimated recoverable amounts. Further information regarding impairment charges recorded during the three months ended March 31, 2020 is included in Note 7 "Property and Equipment Impairments" of the Company's March 31, 2020 unaudited condensed consolidated interim financial statements.

Decommissioning liabilities and abandonment fund

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

Pursuant to production and exploration licences with the MEEI, the Company is obligated to remit \$0.25 per barrel sold into an escrow account in the name of the MEEI. The payments are used as a contingency fund for remediation of pollution arising from petroleum operations carried out under the relevant licence and the eventual abandonment of wells and decommissioning of facilities used for operations conducted under the relevant licence. The MEEI shall return the funds in the escrow account once all obligations in respect of environmental remediation are fulfilled to the satisfaction of the MEEI. Contributions to the fund are reflected on the consolidated statements of financial position as non-current abandonment fund assets.

With respect to decommissioning liabilities associated with the Company's leases with Heritage, the Company is obligated for its proportional cost of all abandonments defined as its percentage of crude oil sold in a well in comparison to the well's cumulative historical production. The Company is not responsible for the decommissioning of existing infrastructure and sales facilities. The Company is obligated to remit \$0.25 per barrel sold to Heritage into a joint well abandonment fund. These funds are used solely for well decommissioning. Any costs of wells that are abandoned during the relevant licence term are credited against any future contributions of the well abandonment fund. Upon expiration of the relevant agreement, Heritage shall calculate the Company's total abandonment liability. If Touchstone's liability exceeds the well abandonment fund, the Company is obligated to pay the difference. Conversely, if the proceeds of the fund exceed the liability, the surplus shall be returned to Touchstone. These amounts are also reflected on the consolidated statements of financial position as non-current abandonment fund assets. As of June 30, 2020, the Company classified \$1,181,000 of accrued or paid contributions into MEEI and Heritage abandonment funds as abandonment fund assets (December 31, 2019 - \$1,125,000).

Pursuant to its Heritage operating agreements, the Company funds Heritage's \$0.25 per barrel obligation with respect to Heritage's head licence commitments with the MEEI. As the Company cannot access the contributions for its future well abandonments and all contributions are non-refundable, the payments are included in operating expenses as incurred. Additionally, the Company is obligated to remit \$0.03 per barrel to Heritage into a general abandonment fund. The non-refundable proceeds are used as a

contingency fund for the decommissioning and removal of infrastructure and facilities within a property and are expensed to operating costs as incurred.

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$9,645,000 as at June 30, 2020 based on an estimated inflation adjusted future liability of \$21,509,000 (December 31, 2019 - \$11,547,000 and \$27,153,000, respectively). The estimate included assumptions in respect of actual costs to abandon wells or reclaim a property, the time frame in which such costs will be incurred, and annual inflation factors. June 30, 2020 decommissioning liabilities were estimated using a long-term risk-free rate of 5.7 percent and a long-term inflation rate of 2.0 percent (December 31, 2019 - 5.5 percent and 3.3 percent, respectively). \$21,000 and \$123,000 of accretion charges were recognized during the three and six months ended June 30, 2020 to reflect the increase in decommissioning liabilities associated with the passage of time, respectively (2019 - \$90,000 and \$180,000). Decommissioning liability details as at June 30, 2020 are summarized in the table below.

Number of net well locations	Undiscounted balance (\$000's)	Inflation adjusted balance (\$000's)	Discounted balance (\$000's)
833	15,726	21,509	9,645

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to future decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the three and six months ended June 30, 2020 is included in Note 11 "*Decommissioning Liabilities and Abandonment Fund*" of the interim financial statements.

Income taxes

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

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

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

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

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

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

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
SPT	-	1,237		5	2,707	
PPT/UL	237	128		237	244	
Business levy	3	10		7	14	
Green fund levy	12	60		35	88	
Current income tax expense	252	1,435	(82)	284	3,053	(91)

Second quarter and year to date 2020 current income taxes decreased in comparison to the 2019 comparative periods as a result of decreased average realized crude oil pricing. The Company incurred SPT in both 2019 comparative periods as realized pricing exceeded \$50.00 per barrel. During the three and six months ended June 30, 2020, Touchstone accrued \$237,000 in PPT and UL expenses based on the change in loss carry forward rules effective January 1, 2020.

Touchstone's \$3,092,000 net deferred income tax liability balance represented the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases as at June 30, 2020 (December 31, 2019 - \$13,289,000). During the three and six months ended June 30, 2020, Touchstone recorded deferred tax recoveries of \$111,000 and \$10,183,000, respectively (2019 – expenses of \$556,000 and \$1,498,000). The year to date 2020 deferred tax recovery was primarily reflective of property and equipment impairment charges recorded in the first quarter which reduced financial statement carrying values and the corresponding deferred tax liability balance.

Touchstone's deferred tax balance continues to be in a net liability position, mainly from the discrepancy between the carrying values and the tax values of the Company's petroleum assets. The Company's June 30, 2020 net deferred tax liability includes \$8,170,000 of deferred tax assets (December 31, 2019 - \$8,477,000). The deferred tax asset is reviewed at each reporting date to assess whether it is probable that the related tax benefit will be realized in the future. As at June 30, 2020, the Company estimated that future taxable income was sufficient to realize the deferred tax asset. The estimates used to determine future taxable income are subject to measurement uncertainty, and actual results could differ from estimates.

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of tax matters under review, and the Company believes that the provision for income taxes is adequate. Further information regarding the income taxes during the three and six months ended June 30, 2020 is included in Note 12 "Income Taxes" of the interim financial statements.

Capital Expenditures

Exploration asset expenditures

Exploration asset expenditures include asset additions in areas that have been determined to be in the exploration phase. Touchstone's core exploration property is the Ortoire exploration block. The Company's exploration asset expenditures during the respective periods are summarized in the following table.

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Lease costs	(262)	193		(37)	393	
Geological	74	45		74	148	
Drilling, completions and well testing	1,013	392		2,544	392	
Production equipment and facilities	343	-		343	-	
Capitalized G&A / other	81	51		148	108	
Total expenditures	1,249	681	83	3,072	1,041	100

In the second quarter of 2020, we continued with lease preparations on the Chinook-1 drill location and commenced operations relating to the Coho-1 well tie-in. Previously accrued head licence costs were reversed in the second quarter of 2020 to reflect actual invoices received. In the second quarter of 2019, the Company predominately incurred Coho-1 well surface preparation costs.

During the six months ended June 30, 2020, we invested \$3,072,000 in exploration expenditures, as we performed two production tests on the Cascadura-1ST1 well, prepared the Chinook-1 surface lease and commenced the Coho-1 well tie-in project. During the 2019 comparative period, \$1,041,000 in exploration expenditures were predominately incurred for licence costs and Coho-1 surface lease preparation costs.

Property and equipment (development) expenditures

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2020	2019	% change	2020	2019	% change
Drilling and completions	9	200		123	406	
Capitalized G&A	83	115		189	308	
Total expenditures	92	315	(71)	312	714	(56)

Touchstone conducted minimal field development activity in the second quarter and year to date 2020, with only minimal well recompletions performed. In the 2019 comparative periods, the Company completed two development wells that were drilled in December 2018.

Liquidity and Capital Resources

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

As at June 30, 2020, Touchstone had a cash balance of \$6,891,000, a working capital surplus of \$6,534,000 and \$15 million drawn on its term credit facility. The Company's net debt was \$8,466,000 as at June 30, 2020, representing net debt to trailing twelve-month annual funds flow from operations of 2.2 times.

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

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

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

Management's long-term strategy is to maintain net debt to annual funds flow from operations at or below a ratio of 2.0 times. While the Company may exceed this ratio from time to time, efforts are made after a period of variation to bring the measure back in line. Touchstone also monitors its capital management through the net debt to net debt plus equity ratio. Management's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. Our internal capital management calculations for the six months ended June 30, 2020 and year ended December 31, 2019 are summarized in the table below.

(\$000's)	Target measure	June 30, 2020	December 31, 2019
Current assets		(15,758)	(14,118)
Current liabilities		9,224	15,257
Working capital (surplus) deficit ⁽¹⁾		(6,534)	1,139
Principal non-current balance of term loan		15,000	15,364
Net debt ⁽²⁾		8,466	16,503
Shareholders' equity		29,397	30,115
Net debt plus equity		37,863	46,618
Trailing twelve-month funds flow from operations ⁽³⁾		3,907	6,840
Net debt to funds flow from operations	at or < 2.0 times	2.17	2.41
Net debt to net debt plus equity	< 0.4 times	0.22	0.35

Notes:

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

Term loan

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

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

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

(\$000's)	Retired Term Loan liability	New Term Loan liability	Term Loan
Balance, January 1, 2019	10,130	-	10,130
Advance, net of amendment and transaction fees	3,590	-	3,590
Revaluation gain	(656)	-	(656)
Accretion	384	-	384
Effect of change in foreign exchange rates	518	-	518
Balance, December 31, 2019	13,966	-	13,966
Revaluation loss	1,158	-	1,158
Accretion	173	50	223
(Payments), advances net of fees	(14,750)	14,617	(133)
Effect of change in foreign exchange rates	(547)	-	(547)
Balance, June 30, 2020	-	14,667	14,667

Pursuant to the New Term Loan, a failure of any covenant constitutes an event of default. Upon an event of default, the lender can declare the principal credit facility balance and any accrued interest immediately due and payable. The Company routinely reviews all New Term Loan operational and financial covenants based on actual and forecasted results and can make changes to development and exploration plans to comply with the covenants. The Company is committed to having an adaptable capital expenditure program that can be adjusted to a tightening of liquidity sources if necessary.

Production liability

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

The production payment liability is revalued at each reporting period based on internally estimated future production and forward crude oil pricing forecasts. During the three and six months ended June 30, 2020,

the Company recognized \$35,000 and \$295,000 in production liability revaluation losses, respectively (2019 - \$23,000 gain and \$209,000 loss). At June 30, 2020, the Company's estimated production liability balance was \$1,105,000, of which \$947,000 was classified as non-current and included in other liabilities on the consolidated statements of financial position (December 31, 2019 - \$989,000 and \$769,000, respectively).

Restricted cash

As at June 30, 2020, the Company provided \$271,000 in cash collateralized guarantees to Heritage to support its operating agreement work commitments via bonds that expire on December 31, 2020 (December 31, 2019 – \$271,000).

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

Finance lease

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

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. At June 30, 2020, the Company's finance lease receivable was \$308,000, of which \$171,000 was classified as non-current and included in other assets on the consolidated statements of financial position (December 31, 2019 - \$376,000 and \$239,000, respectively).

Lease liabilities

The Company has lease liabilities for head office space, motor vehicles and office equipment. Leases are negotiated on an individual basis and contain varying terms and conditions. Discount rates used in calculating the present values of lease payments at June 30, 2020 and December 31, 2019 were between 5 and 10 percent. The following table details the movements of the Company's lease liabilities for the six months ended June 30, 2020 and the year ended December 31, 2019.

<i>(\$000's)</i>	Six months ended June 30, 2020	Year ended December 31, 2019
Balance, beginning of year	335	1,352
Interest expense	10	69
Payments	(127)	(432)
Derecognition of liabilities	(3)	(670)
Effect of change in foreign exchange rates	(9)	16
Balance, end of period	206	335
Current (included in accounts payable and accrued liabilities)	167	230
Non-current	39	105
Lease liabilities	206	335

Shareholders' equity

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The table below summarizes the outstanding common shares and share options as at the date of this MD&A, June 30, 2020 and December 31, 2019.

	August 13, 2020	June 30, 2020	December 31, 2019
Common shares outstanding	184,161,095	184,161,095	160,703,095
Share options outstanding	10,246,100	10,246,100	8,740,600
Fully diluted common shares	194,407,195	194,407,195	169,443,695

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. While the decrease in commodity prices as a result of the COVID-19 pandemic will negatively impact the Company's financial performance and position, the Company believes that future cash flows will be adequate to meet financial obligations as they come due.

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. Stewardship of the Company's capital structure and potential liquidity risk is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil and natural gas forward prices, capital expenditures, royalty expenses, operating expenses, G&A expenses, income tax expenses and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, capital expenditures, production expectations and other factors that in the Company's view would impact cash flow.

To manage its capital structure, the Company may reduce its fixed cost structure, adjust capital and exploration spending, issue new equity or seek additional sources of debt financing. Given that the Company currently has minimal development work obligations and guarantees, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. The Company has applied for an extension of its Ortoire licence, as two exploration commitment wells must be drilled prior to October 2020. The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at June 30, 2020.

(\$000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	8,981	8,981	-	-
Income taxes payable	243	243	-	-
Term loan principal	15,000	-	3,000	12,000
Estimated term loan production payments	1,996	276	1,361	359
Term loan interest payments	5,397	1,177	2,257	1,963
Lease liabilities	212	175	37	-
Total financial liabilities	31,829	10,852	6,655	14,322

Market Risk Management

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

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

Commodity price risk

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

Foreign currency risk

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

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company has no contracts in place to manage foreign currency risk as at the date hereof or during the three and six months ended June 30, 2020 and year ended December 31, 2019.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. As at June 30, 2020, the Company was exposed to credit risk with respect to its accounts receivable and finance lease receivable.

As at June 30, 2020, the Company determined that the average expected credit loss on the Company's accounts receivables was \$nil (December 31, 2019 - \$nil). The Company believes that the accounts receivable balances that are past due are ultimately collectible, as the majority are due from the Trinidad government for value added taxes ("VAT"), and although the timing of settlement is uncertain, the Company has not historically experienced any material collection issues. The aging of accounts receivable as at June 30, 2020 and December 31, 2019 is disclosed in the following table.

(\$000's)	June 30, 2020	December 31, 2019
Not past due	4,196	3,581
Past due (greater than 90 days)	906	3,767
Accounts receivable	5,102	7,348

In May 2020, the Trinidad government issued the Company's Trinidad subsidiaries an aggregate \$2,793,000 in bonds in lieu of payment of past due VAT receivable balances. The Company classified \$2,805,000 as assets held for trading as at June 30, 2020, representing the value of the issued bonds plus accrued interest thereon (December 31, 2019 - \$nil). Subsequent to June 30, 2020, the bonds were sold to a Trinidad financial institution at face value plus accrued interest.

Further details relating to Touchstone's financial assets and credit risk can be found in Note 4 "*Financial Assets and Credit Risk*" and Note 5 "*Assets Held for Trading*" of the interim financial statements.

Contractual Obligations, Commitments and Guarantees

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

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

The following table outlines the Company's estimated minimum contractual capital requirements as at June 30, 2020.

(\$000's)	Total	Estimated payments due by period			
		2020	2021	2022	Thereafter
Operating agreement commitments					
Coora blocks	91	7	15	16	53
WD-4 block	212	16	35	37	124
WD-8 block	195	15	32	34	114
New Dome block	13	1	2	2	8
South Palo Seco block	1,375	42	795	96	442
Fyzabad block	948	36	74	76	762
Exploration agreement commitments					
Ortoire block	6,064	4,064	2,000	-	-
East Brighton block	150	150	-	-	-
Office and equipment leases	248	101	147	-	-
Minimum payments	9,296	4,432	3,100	261	1,503

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

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

Operating Agreements

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

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

Lease operatorship agreements

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

As of June 30, 2020, the Company satisfied all of its minimum work obligations stipulated in its LOAs through December 31, 2020, which included drilling 10 wells and performing 11 well recompletions.

Farmout agreements

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

As of June 30, 2020, the Company satisfied all of its minimum work obligations stipulated in its New Dome FOA through December 31, 2021, which included performing three well recompletions. The South Palo Seco FOA requires drilling two development wells and performing four well recompletions. Wells scheduled to be drilled in 2018 and 2019 remain outstanding (see "*Contractual Obligations, Commitments and Guarantees*" for further details). The South Palo Seco property is considered non-core as it represented 0.1 percent of total Company crude oil production during the six months ended June 30, 2020 (2019 - 0.3 percent).

MEEI exploration and production licences

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

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

Private lease agreements

Touchstone also negotiates private lease agreements with individual landowners. Lease terms are typically 35 years in duration and contain no minimum work obligations. The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, Touchstone is continuing to recognize petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the six months ended June 30, 2020, production volumes produced under expired private lease agreements represented 2.0 percent of total Company production (2019 – 1.8 percent).

Crude oil marketing agreement

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

Significant Accounting Estimates, Judgements and Assumptions

The preparation of financial statements in conformity with IFRS requires Management to make estimates, judgements, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates, and those differences may be material. The estimates, judgements and assumptions used are subject to updates based on experience and the application of new information. Estimates and underlying assumptions are reviewed on an ongoing basis, and any revisions to accounting estimates are recognized in the period in which the estimates are revised.

The scale and duration of the COVID-19 pandemic remain uncertain, and the full extent of the impact on the Company's operations and future financial performance is currently unknown. The COVID-19 outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of the June 30, 2020 consolidated interim financial statements and future period financial statements.

A full list of the significant estimates and judgements made by Management in the preparation of its financial statements are included in Note 5 "Use of Estimates, Judgements and Assumptions" of the December 31, 2019 consolidated financial statements. The outbreak and volatile market conditions increased the complexity of estimates, judgements and assumptions used to prepare the Company's June 30, 2020 consolidated interim financial statements, particularly related to the recoverability of asset carrying values and the deferred income tax provision.

Control Environment

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at June 30, 2020. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control - Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Based on this evaluation, Management concluded that both ICFR and DC&P were effective as at June 30, 2020. There were no changes during the three months ended June 30, 2020 that had materially affected, or were reasonably likely to materially affect, ICFR.

ICFR is a process designed to provide reasonable assurance that all assets are safeguarded and transactions are appropriately authorized to facilitate the preparation of relevant, reliable and timely information. Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's 2019 Annual Information Form dated March 25, 2020, which can be found on the Company's SEDAR profile (www.sedar.com).

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

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

COVID-19

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

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

Foreign location of assets and foreign economic and political risk

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

Volatility of commodity prices

The Company's operational results and financial condition, and therefore its amount of capital investment, are dependent on the prices received for crude oil and natural gas production. Decreasing crude oil and natural gas prices will decrease the Company's cash flows, adversely impacting the Company's level of capital investment and may result in the shut-in of certain producing properties. Any movement in crude oil and natural gas prices will have an effect on the Company's ability to continue its exploration and development capital programs. Crude oil and natural gas prices are affected by global economic and political events that dictate the levels of supply and demand. Political factors include foreign tax regimes

and protectionist measures that could have the effect of closing off key markets. Supply and demand factors, including weather and general economic conditions as well as conditions in other crude oil and natural gas regions, impact prices. Touchstone may manage the risk associated with changes in commodity prices by entering into crude oil or natural gas price derivative contracts. If the Company engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivative contracts could expose the Company to losses. To the extent that Touchstone engages in risk management activities related to commodity prices, it will also be subject to credit risks associated with counterparties with which the Company contracts. Refer to "*Market Risk Management - Commodity price risk*" in this MD&A for further details.

Adverse economic conditions

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

Refinancing and debt service

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

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

Access to capital markets

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

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

Operational matters

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

The oil and natural gas industry is intensely competitive, with the Company competing against companies that may have greater technical and financial resources. There is competition for new exploration and development properties, for infrastructure and sales contracts, for drilling and other specialized technical equipment and for experienced key human resources.

Sole purchaser and the ability to market

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

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

Exploration

As a participant in the oil and gas industry, the Company is exposed to a high level of exploration and production risk, upon which there is no assurance that hydrocarbon reserves will be discovered and economically produced. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless Touchstone can acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can

be no assurance that the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, the Company employs highly experienced geologists, uses technology such as 2D or 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. The Company may also choose to mitigate exploration risk through acquisitions that may require raising funds.

Trinidad exploration and production agreements

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

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

Advisory on Forward-Looking Statements

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

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

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

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

- the Company's business and operational strategies, including targeted jurisdictions and technologies used to execute its strategies;
- financial condition and outlook and results of operations;
- the Company's financial and operational response to the recent COVID-19 outbreak and the impact it will have on the Company's future operations and future petroleum pricing;
- future demand for the Company's petroleum products and economic activity in general;
- cost reduction efforts and anticipated benefits therefrom;
- the Company's ability to reverse property and equipment impairments in the future;
- the Company's future capital expenditure programs, including the anticipated timing, allocation and costs thereof and the method of funding;
- the Company's estimated timing of development of its Ortoire exploration wells;
- crude oil and natural gas production levels, estimated field production levels and production test results;
- the performance characteristics of the Company's oil and natural gas properties;
- expectations regarding the ability of the Company to raise capital and to continually add to reserves through acquisitions and development;
- future development and exploration activities to be undertaken in various areas and timing thereof, including future cash flows to be derived therefrom and the fulfillment of minimum work obligations and exploration commitments;
- terms and estimated future expenditures of the Company's contractual commitments and their timing of settlement;
- terms and title of exploration and production licences and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated or future regulatory approvals;
- access to facilities and infrastructure;
- expected levels of operating costs, G&A costs and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil and natural gas;
- treatment under current and future governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future liquidity and future sources of liquidity;

- the Company's future compliance with its New Term Loan covenants, its ability to make future scheduled interest and principal payments and its expected New Term Loan future after tax cost of borrowing;
- estimated amounts of the Company's future obligations in connection with its production liability;
- the potential of future acquisitions or dispositions;
- general economic and political developments in Trinidad;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning liabilities;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Estimates, Judgements and Assumptions*".

Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. The Company is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results. The Company is exposed to risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities. Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain qualified employees on a cost-effective basis, commodity and marketing risk. The Company is subject to significant drilling risks and uncertainties including the ability to find crude oil and natural gas reserves on an economic basis and the potential for technical problems that could lead to well blow-outs and environmental damage. The Company is exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third-party gathering and processing facilities, transportation and other third-party related operation risks. The Company is subject to industry conditions including changes in laws and regulations, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced. There are uncertainties in estimating the Company's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The Company is subject to the risk that it will not be able to fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada, the United Kingdom and Trinidad, the impact of significant volatility in market prices for oil and gas, the ability to access sufficient capital from internal and external sources, changes in income tax laws, royalties and incentive programs relating to the Trinidad oil and gas industry, fluctuations in interest rates, and fluctuations in foreign exchange rates. The Company is subject to local regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, exploration, lease operating or farm-in rights related to the Company's crude oil and gas interests in Trinidad. Readers are cautioned that the foregoing list of risk factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

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

MD&A and other documents of Touchstone are qualified by such cautionary statements. New factors emerge from time to time, and it is not possible for Management to predict all of such factors and to assess in advance the impact of each such factor on Touchstone's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Non-GAAP Measures

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

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

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

<i>(\$000's unless otherwise stated)</i>	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Petroleum sales	3,755	9,708	10,453	20,723
Royalties	(895)	(2,776)	(2,914)	(5,695)
Operating expenses	(1,487)	(2,612)	(3,462)	(5,107)
Operating netback	1,373	4,320	4,077	9,921
Production (<i>bbls</i>)	127,994	160,921	273,295	351,801
Operating netback (\$/bbl)	10.73	26.85	14.92	28.20

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

(\$000's)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Funds flow (used in) from operations	(450)	1,310	807	3,740
Other income	(22)	(3)	(63)	(11)
Expenses				
G&A	996	1,487	2,163	2,802
Net finance	1,768	251	2,506	572
Current income tax	252	1,435	284	3,053
Realized foreign exchange	142	21	128	1
Change in non-cash other	(1,313)	(165)	(1,748)	(236)
Decommissioning expenditures	-	(16)	-	-
Operating netback	1,373	4,320	4,077	9,921

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

(\$000's)	June 30, 2020	December 31, 2019	June 30, 2019
Current assets	(15,758)	(14,118)	(17,518)
Current liabilities	9,224	15,257	15,456
Working capital (surplus) deficit	(6,534)	1,139	(2,062)
Principal non-current balance of term loan	15,000	15,364	11,459
Net debt	8,466	16,503	9,397

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

(\$000's)	June 30, 2020	December 31, 2019	June 30, 2019
Total liabilities	37,614	54,933	52,135
Lease liabilities	(39)	(105)	(613)
Other liabilities	(947)	(769)	(573)
Decommissioning liabilities	(9,645)	(11,547)	(8,644)
Deferred income tax liability	(3,092)	(13,289)	(16,544)
Variance between carrying value and undiscounted value of term loan	333	1,398	1,154
Current assets	(15,758)	(14,118)	(17,518)
Net debt	8,466	16,503	9,397

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

aligned with the Company's revised monitoring of its capital structure and is consistent with the definition of financial covenants included in its New Term Loan.

Summary of Quarterly Results

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

Three months ended	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Operating Highlights				
Average daily production (<i>bbls/d</i>)	1,396	1,589	1,690	1,729
Net wells drilled	-	-	0.8	0.8
Brent benchmark price ⁽¹⁾ (<i>\$/bbl</i>)	29.70	50.27	63.17	61.95
Operating netback ⁽²⁾ (<i>\$/bbl</i>)	10.73	18.61	25.12	24.56
Financial Highlights (<i>\$000's except per share amounts</i>)				
Petroleum sales	3,755	6,698	8,920	9,011
Cash flow (used in) from operating activities	(1,921)	(76)	2,090	(1,205)
Funds flow (used in) from operations ⁽³⁾	(450)	1,257	2,018	1,082
Per share - basic and diluted ⁽²⁾⁽³⁾	(0.00)	0.01	0.01	0.01
Net loss	(2,742)	(9,240)	(3,549)	(1,053)
Per share - basic and diluted	(0.01)	(0.05)	(0.02)	(0.01)
Exploration capital expenditures	1,249	1,823	5,838	3,234
Development capital expenditures	92	220	157	517
Total capital expenditures	1,341	2,043	5,995	3,751
Working capital (surplus) deficit	(6,534)	(8,094)	1,139	805
Principal non-current balance of term loan	15,000	13,338	15,364	11,328
Net debt ⁽²⁾ - end of period	8,466	5,244	16,503	12,133
Share Information (<i>000's</i>)				
Weighted average shares outstanding - basic and diluted	183,640	169,361	160,691	160,688
Outstanding shares - end of period	184,161	183,489	160,703	160,688

Notes:

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

Three months ended	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Operating Highlights				
Average daily production (bbls/d)	1,768	2,121	1,851	1,758
Net wells drilled	-	-	3.0	3.0
Brent benchmark price ⁽¹⁾ (\$/bbl)	69.04	63.10	68.76	75.10
Operating netback ⁽²⁾ (\$/bbl)	26.85	29.35	22.55	28.39
Financial Highlights				
<i>(\$000's except per share amounts)</i>				
Petroleum sales	9,708	11,015	9,970	9,862
Cash flow from operating activities	1,832	2,737	1,810	831
Funds flow from operations ⁽³⁾	1,310	2,430	1,482	2,497
Per share - basic and diluted ⁽²⁾⁽³⁾	0.01	0.02	0.01	0.02
Net (loss) earnings	(833)	(185)	552	199
Per share - basic and diluted	(0.01)	(0.00)	0.00	0.00
Exploration capital expenditures	681	360	1,603	443
Development capital expenditures	315	399	4,773	3,475
Total capital expenditures	996	759	6,376	3,918
Working capital (surplus) deficit	(2,062)	(1,963)	3,318	(1,568)
Principal non-current balance of term loan	11,459	11,235	11,004	11,627
Net debt ⁽²⁾ - end of period	9,397	9,272	14,322	10,059
Share Information (000's)				
Weighted avg. shares outstanding - basic	160,688	140,984	129,021	129,021
Weighted avg. shares outstanding - diluted	160,688	140,984	130,532	130,728
Outstanding shares - end of period	160,688	160,688	129,021	129,021

Notes:

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

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

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

- Based on crude oil demand declines caused by COVID-19, second quarter 2020 realized crude oil pricing decreased 36 percent from the prior quarter. Reduced expenditures on field operations also reduced crude oil production by 12 percent from the first quarter of 2020. These combined effects decreased second quarter operating netbacks by 42 percent, resulting in \$0.5 million in funds flow used in operations. The Company continued with its exploration activities, investing \$1.3 million which was the main driver in the quarter-over-quarter increase in net debt of \$3.2 million or 61 percent.
- In the first quarter of 2020, the Company recognized property and equipment impairments of \$19.2 million as a result of decreased forecasted crude oil pricing. The impairments were slightly offset by an associated deferred tax recovery of \$10.1 million, resulting in a net loss of \$9.2 million reported in the quarter. Touchstone completed a private placement in February 2020 for

net proceeds of \$10.9 million, which increased working capital and decreased net debt as of March 31, 2020.

- In the fourth quarter of 2019, the Company recognized a reversal of \$1.3 million in previously accrued interest on income tax balances, which predominately led to a \$0.9 million increase in funds flow from operations relative to the third quarter of 2019. Touchstone recorded net \$7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of \$3.9 million, leading to a net loss of \$3.5 million recognized in the quarter. The Company extended its term loan credit facility by C\$5.0 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt by 36 percent from the third quarter of 2019.
- In the third quarter of 2019, Touchstone drilled its first Ortoire exploration well. The investment led to a 29 percent increase in net debt from the second quarter of 2019.
- In the second quarter of 2019, average daily production decreased by 16 percent from the first quarter of 2019 as production from wells drilled in the fourth quarter of 2018 stabilized. The production decline decreased funds flow from operations and increased the Company's net loss from the first quarter of 2019.
- In the first quarter of 2019, flush production from wells drilled in the fourth quarter of 2018 increased average daily production by 15 percent, thereby increasing petroleum sales and funds flow from operations and decreasing net debt from the previous quarter.
- In the fourth quarter of 2018, the Company drilled three net development wells and commenced exploration activities on the Ortoire property, incurring capital expenditures of \$6.4 million and increasing net debt from the third quarter of 2018 by \$4.3 million. Touchstone recorded net \$3.2 million of property and equipment impairment reversals, leading to net earnings of \$0.5 million recognized in the quarter.

Currency and References to Touchstone

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

Additional Information

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

Corporate Information

DIRECTORS

John D. Wright
Chairman of the Board

Paul R. Baay

Kenneth R. McKinnon

Peter Nicol

Stanley T. Smith

Thomas E. Valentine

Harrie Vredenburg

EXECUTIVE OFFICERS

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

STOCK EXCHANGE LISTING

Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

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Computershare Trust Company of Canada
Calgary, Alberta

NOMINATED ADVISOR AND JOINT BROKER

Shore Capital
London, United Kingdom

JOINT BROKER

Canacord Genuity
London, United Kingdom

PUBLIC RELATIONS

Camarco
London, United Kingdom

ABBREVIATIONS

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

Measurement

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

Other

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