TOUCHSTONE

Touchstone Exploration Inc.

Management's Discussion and Analysis

March 31, 2021

Management's Discussion and Analysis
As at and for the three months ended March 31, 2021 and 2020

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 months ended March 31, 2021 with comparisons to the three months ended March 31, 2020 is dated May 12, 2021 and should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2021 (the "interim financial statements"), as well with the Company's audited consolidated financial statements as at and for the year ended December 31, 2020 (the "audited 2020 financial statements"). The interim financial statements and the audited 2020 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 three months and year ended December 31, 2020, as disclosure which is unchanged from December 31, 2020 may not be duplicated herein.

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 oil and natural gas development and exploration 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 petroleum in place.

References to Touchstone

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 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 Touchstone's 2020 Annual Information Form dated March 25, 2021, which can be accessed online on SEDAR at www.sedar.com or from the Company's website at www.touchstoneexploration.com.

First Quarter Financial and Operating Results Summary

	Three months ended March 31, 2021	2020	% change
Operational			
Average daily crude oil production[1] *(bbls/d)*	**1,297**	1,589	(18)
Brent benchmark price *($/bbl)*	**61.04**	50.27	21
Operating netback[2] *($/bbl)*			
Realized sales price	**52.43**	46.10	14
Royalties	**(15.79)**	(13.90)	14
Operating expenses	**(14.66)**	(13.59)	8
Operating netback	**21.98**	18.61	18
Financial *($000's except per share amounts)*			
Petroleum sales	**6,120**	6,698	(9)
Cash used in operating activities	**(1,234)**	(76)	100
Funds flow from operations[3]	**538**	1,257	(57)
Per share – basic and diluted[2][3]	**0.00**	0.01	(100)
Net loss	**(460)**	(9,240)	(95)
Per share – basic and diluted	**(0.00)**	(0.05)	(100)
Exploration capital expenditures	**2,954**	1,823	62
Development capital expenditures	**127**	220	(42)
Total capital expenditures	**3,081**	2,043	51
Working capital surplus[2]	**(10,552)**	(8,094)	30
Principal non-current balance of term loan	**7,500**	13,338	(44)
Net (surplus) debt[2] – end of period	**(3,052)**	5,244	n/a
Share Information *(000's)*			
Weighted average shares outstanding			
Basic and diluted	**209,400**	169,361	24
Outstanding shares – end of period	**209,400**	183,489	14

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

Operating results

Despite ongoing challenges surrounding the COVID-19 pandemic, during the first quarter of 2021 we continued to progress with our Ortoire exploration program and increased our base crude oil production while continuing safe and reliable operations.

Our crude oil sales averaged 1,297 bbls/d in the first quarter of 2021, representing a 2 percent increase from the fourth quarter of 2020 and an 18 percent decrease from the first quarter of 2020. Despite conducting limited developmental capital activity in the quarter, production increased from the prior quarter based on increased workover operations. In comparison to the prior year equivalent quarter, our first quarter 2021 production decrease was reflective of limited capital development and workover activities performed throughout 2020 and the ongoing impact of natural declines.

Our main focus in the first quarter of 2021 remained on Ortoire exploration operations, as we invested $2,954,000 in exploration assets activities. In the quarter we conducted production testing operations on our Chinook-1 and Cascadura Deep-1 wells and continued Coho-1 surface facility operations and our

Royston area seismic program. We remain on track to spud Royston-1 and anticipate completing our seismic program obligation by the end of the second quarter of 2021 (see "*Ortoire Operations*" for further information).

Financial results

We reported funds flow from operations of $538,000 in the first quarter of 2021 compared to $1,257,000 generated in the same period of 2020. In comparison to the first quarter of 2020, the 57 percent decrease was predominately a result of a $368,000 increase in general and administration costs, a $309,000 increase in current income tax expenses and decreased operating netbacks of $138,000, partially offset by reduced term loan interest expenses of $153,000. Our first quarter 2021 operating netback decreased 5 percent relative to the 2020 equivalent quarter, reflective of a 19 percent decrease in crude oil production, which was partially offset by the benefit of a 14 percent increase in realized crude oil pricing and decreased royalty and operating expenses.

We recorded a net loss of $460,000 ($0.00 per share) in the first quarter of 2021 compared to a net loss of $9,240,000 ($0.05 per share) in the prior year equivalent quarter. The decreased loss was primarily a result of $19,215,000 in non-cash property and equipment impairment losses recorded in the first quarter of 2020 based on decreases in forecasted commodity prices, partially offset by deferred tax recoveries of $10,072,000.

Touchstone exited the first quarter with a cash balance of $15,451,000, a working capital balance of $10,552,000 and $7,500,000 drawn on our term credit facility resulting in a net surplus position of $3,052,000. Our near-term liquidity is augmented by $12.5 million of current undrawn credit capacity.

We believe that available credit facility capacity combined with anticipated funds flow from operations will be sufficient to satisfy our 2021 minimum exploration work commitments, which include drilling the Royston-1 well and completing and interpreting the Royston area seismic program. Our primary objective remains to bring our Coho and Cascadura area natural gas exploration discoveries at Ortoire onto production as soon as practicable. As the current economic and health related challenges persist, we will continue to adapt our business operations and capital programs to ensure health and safety and enhance long-term shareholder value, and we look forward to updating our shareholders on our progress throughout the year.

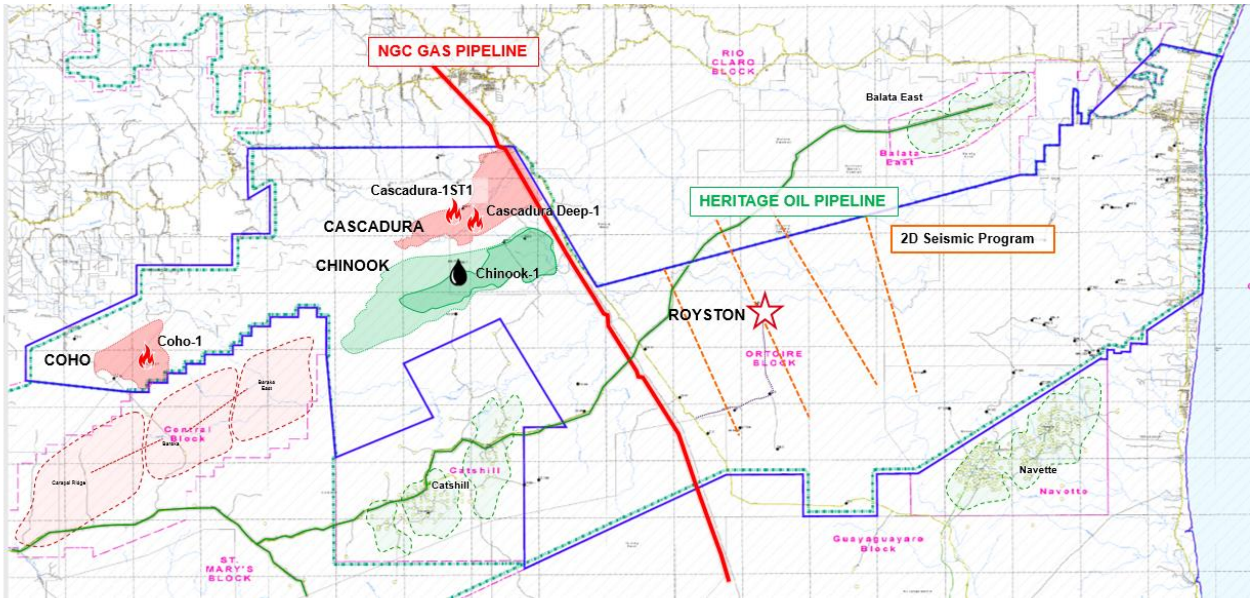
Ortoire Operations

Effective October 31, 2014, the Company's indirect wholly owned subsidiary Primera Oil and Gas Limited ("POGL"), entered into an 80 percent operating working interest in the Ortoire exploration and production licence with the Trinidad and Tobago Ministry of Energy and Energy Industries ("MEEI"). Heritage Petroleum Company Limited ("Heritage") holds the remaining 20 percent interest. The property is located approximately ten kilometres east of Touchstone's Trinidad office in Fyzabad and covers approximately 44,731 gross acres (35,785 net). The initial investment commitments under the licence included the drilling of four exploration wells and the shooting of 85-line kilometres of 2D seismic.

The Ortoire licence was originally effective for an initial term of six years, under which any approved commercial discovery can be extended for a further 19 years. The licence was extended for an additional nine-month term through July 31, 2021. Pursuant to the licence amendment, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres, and the Company is obligated to drill an additional exploration well to a true vertical depth of 10,000 feet prior to June 2021. Although the Company has an 80 percent working interest in the Ortoire licence, it is responsible for 100 percent of the drilling, completion and testing costs associated with the initial five exploration wells. Touchstone drilled two wells in 2019 (Coho-1 and Cascadura-1ST1) and two wells in 2020 (Chinook-1 and Cascadura Deep-1) in respect of the minimum work commitments.

On December 18, 2020, the National Gas Company of Trinidad and Tobago ("NGC") and the Company executed a natural gas sales agreement for all future natural gas production from the Ortoire block. Future natural gas sales are based on a fixed US$ price per MMBtu, with an annual inflation escalator. Touchstone shall deliver all future natural gas production at the edge of the specific well site battery, with title, risk of loss and other customary matters dealt with at the delivery point, thereby eliminating transportation and processing charges. Any potential free liquids associated with future natural gas production on the Ortoire block will be marketed under separate arrangements.

The following map displays our Ortoire exploration and production licence acreage and our activities to date.



As of March 31, 2021, Touchstone has invested $33,511,000 in the following Ortoire exploration activities.

($000's)	**March 31, 2021**
Coho-1 drilling and testing	3,581
Coho-1 facility and pipeline	1,305
Cascadura-1ST1 drilling and testing	6,533
Chinook-1 drilling and testing	8,074
Cascadura Deep-1 drilling and testing	6,259
Royston-1 lease preparation and access road	424
Seismic program	872
Licence expenses	3,188
Other	3,275
Total capital expenditures	**33,511**

Touchstone has conducted exploration activities in four areas within the licence to date: Coho, Cascadura, Chinook and Royston.

Coho

Our first exploration well, Coho-1, was spudded on August 7, 2019 and was drilled to a total depth of 8,560 feet. Production testing commenced on November 16, 2019, with an average gross rate of 11.6 MMcf/d (1,925 boe/d) recorded during the final 24-hour extended flow test. Compositional analysis of the produced gas indicated 98.7 percent pure methane, with no hydrogen sulfide content, negligible associated measurable liquids and no sand or sediment. Analysis of the testing data supported an initial gross production rate of 10 to 12 MMcf/d (net production rate of 8.0 to 9.6 MMcf/d or 1,333 to 1,600 boe/d, respectively). No physical subsurface boundaries were observed during the pressure buildup test period.

In February 2021, the MEEI approved the Company's field development plan for the Coho area, which extends the exploration and production licence for the defined 1,317-acre area through October 31, 2039.

The Company is currently completing the Coho-1 surface facility and is awaiting confirmation from NGC regarding pipeline tie-in operations.

Cascadura

Cascadura-1ST1

The second exploration well, Cascadura-1, was sidetracked (ST1) and drilled to a total depth of 6,350 feet on March 13, 2020.

The first stage of the production test of the Cascadura-1ST1 well was designed to evaluate the lowest 162 feet of prospective pay found in the Herrera Gr7c and Herrera Gr7a formations between 6,056 and 6,218 feet. The final 24-hour extended flow test achieved an average gross production rate in excess of 5,157 boe/d, including 26.8 MMcf/d of natural gas and an estimated 691 bbls/d of NGLs.

The second interval of the well was completed on March 6, 2020, and production testing commenced on March 8, 2020, evaluating 345 feet of prospective pay between 5,570 and 5,915 feet in the Herrera Gr7bc formation. During the final 24-hour flow test period, the well averaged a gross production rate in excess of 5,472 boe/d, including 28.1 MMcf/d of natural gas and 783 bbls/d of NGLs. Stage two testing yielded 55 degrees API gravity NGLs at a ratio of approximately 28 barrels of NGLs per MMcf of natural gas produced. Laboratory analysis of the produced gas indicated liquids rich natural gas with no hydrogen sulfide content and no measurable solids. Following flow testing, the well was shut-in for an extended pressure buildup survey which concluded on May 13, 2020. No physical boundaries were observed during the pressure buildup test period, and no skin damage was visible at the sandface. Analysis of the data supports an initial gross production rate of 40 to 50 MMcf/d with an estimated 1,100 to 1,400 bbls/d of condensate (net production rate of approximately 6,200 to 7,790 boe/d). Touchstone expects to produce from the upper interval of the Cascadura-1ST1 well.

Cascadura Deep-1

The fourth well of our Ortoire exploration program, Cascadura Deep-1, was spud on October 27, 2020, and Touchstone concluded drilling operations on December 19, 2020. The well was drilled to a total depth of 8,303 feet, as operations were suspended prior to the planned total depth of 10,600 feet due to high pressure gas zones encountered while drilling.

Touchstone perforated the upper 199 feet of the 449 feet identified as potential pay in sheet four of the overthrust Herrera formation on April 8, 2021, with flow tests spanning a total of 58 hours. During the extended flow test period, the Cascadura Deep-1 well achieved a peak production rate of approximately 4,567 boe/d, including approximately 24.5 MMcf/d of natural gas and 477 bbls/d of NGLs. During the 24-hour extended portion of the flow test, the well averaged a production rate of approximately 4,262 boe/d, including 22.9 MMcf/d of natural gas and an estimated 449 bbls/d of NGLs. During testing, Cascadura Deep-1 yielded 60 degrees API gravity NGLs at an average ratio of approximately 22 barrels of NGLs per MMcf of natural gas produced. Field analysis of the produced gas indicated liquids rich natural gas with no hydrogen sulfide content. The data collected in the flow test indicated that sheet four is separate from sheet three, where future production is expected from our Cascadura-1ST1 well.

The well is currently shut-in for an extended pressure build-up survey to identify possible formation boundaries. Touchstone will not conduct further testing of the well, and there remains an additional 558 feet of potential pay above the tested zone in sheet three which can be evaluated in future development wells.

Touchstone is currently designing appropriate surface facilities to meet the initial production capabilities of both Cascadura exploration wells.

Chinook

Chinook-1 was spud on August 13, 2020 and was drilled to a total depth of 10,039 feet on October 13, 2020. The well represented the third of four exploration wells drilled by Touchstone on the Ortoire block. The well targeted a separate structural formation 1.5 kilometres south from the successful Cascadura-1ST1 liquids rich natural gas discovery.

The first Chinook-1 production test was conducted in the lower subthrust sheet, which was a previously unknown thrust sheet. During this test, the well recovered trace amounts of 41 degrees API gravity oil along with significant high pressure and high temperature water, which was indicative of encountering a fracture at the base of the formation. This zone was deemed uncommercial and abandoned.

Touchstone completed a second zone in the intermediate Herrera sheet on February 6, 2021, perforating 190 feet of the formation at depths between 8,510 and 8,700 feet. During the test, the well recovered approximately 1,154 barrels of water (including completion fluid) as well as 38 barrels of 35 degrees API gravity oil. This zone was subsequently abandoned to move uphole and test a third zone of the Herrera formation.

A third zone in the overthrust Herrera sheet was completed on March 25, 2021, perforating 115 feet of the formation at depths between 8,320 and 8,435 feet. The well recovered load fluid with minor amounts of 35 degrees API gravity oil and formation water. The well was subsequently placed on an extended pumping production test to further evaluate reservoir fluids and behaviour.

Following the extended production test, the Company may complete an uphole shallow interval in the Cruse formation that was identified during drilling.

Please refer to "*Oil and Gas Advisories*" for further information regarding production testing results.

Royston

The Company expects to spud the remaining minimum work commitment exploration well (Royston-1) in the second quarter of 2021, as the majority of access road construction and lease preparations have been completed.

Touchstone is also performing a 21-kilometre 2D seismic program in the Royston area. To date, surveying and line clearing operations have been completed, and the Company anticipates completing the seismic program obligation by the end of the second quarter of 2021.

Commitments

The following table summarizes Touchstone's future estimated Ortoire licence minimum contractual capital commitments as at March 31, 2021.

($000's)		**Estimated payments due by year**			
	Total	**2021**	**2022**	**2023**	**Thereafter**
Lease expenses	**2,003**	228	71	74	1,630
Seismic program commitment	**1,626**	1,626	-	-	-
Drilling commitments	**6,000**	6,000	-	-	-
Minimum investment	**9,629**	**7,854**	**71**	**74**	**1,630**

Results of Operations

Financial highlights

($000's except for per share amounts)	Three months ended March 31, **2021**	2020	% change
Net loss	**(460)**	(9,240)	(95)
Per share – basic and diluted	**(0.00)**	(0.05)	(100)
Cash used in operating activities	**(1,234)**	(76)	100
Funds flow from operations(1)	**538**	1,257	(57)
Per share – basic and diluted(2)	**0.00**	0.01	(100)

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

Net loss

We recorded a net loss of $460,000 ($0.00 per share) in the first quarter of 2021 compared to a net loss of $9,240,000 ($0.05 per share) in the prior year equivalent quarter. The decreased loss was primarily a result of $19,215,000 in non-cash property and equipment impairment losses recorded in the first quarter of 2020, partially offset by deferred tax recoveries of $10,072,000. Details of the change in net loss from the three months ended March 31, 2020 to the three months ended March 31, 2021 are included in the table below.

($000's)	**Three months ended March 31,**
Net loss – 2020	(9,240)
Sales volume variance	**(1,317)**
Realized price variance	**739**
Royalties	**176**
Other income	**(18)**
Expenses	
Operating	**264**
General and administration	**(368)**
Cash finance	**153**
Current income tax	**(309)**
Realized foreign exchange	**(40)**
Total cash variances	**(720)**
Gain on asset dispositions	**25**
Unrealized foreign exchange	**(375)**
Equity-based compensation	**(66)**
Depletion and depreciation	**285**
Impairment	**19,274**
Non-cash finance expenses	**436**
Deferred income tax	**(10,079)**
Total non-cash variances	**9,500**
Net loss – 2021	**(460)**

Cash used in operating activities

Cash flow used in operating activities was $1,234,000 in the first quarter of 2021 compared to $76,000 for the same period of 2020. In the first quarter of 2021, Touchstone had a negative change of $1,772,000 in non-cash working capital, predominantly from an increase in accounts receivable from December 31, 2020 of $1,459,000. The increase was mainly from February and March petroleum revenue receivables outstanding, which were subsequently collected in April 2021.

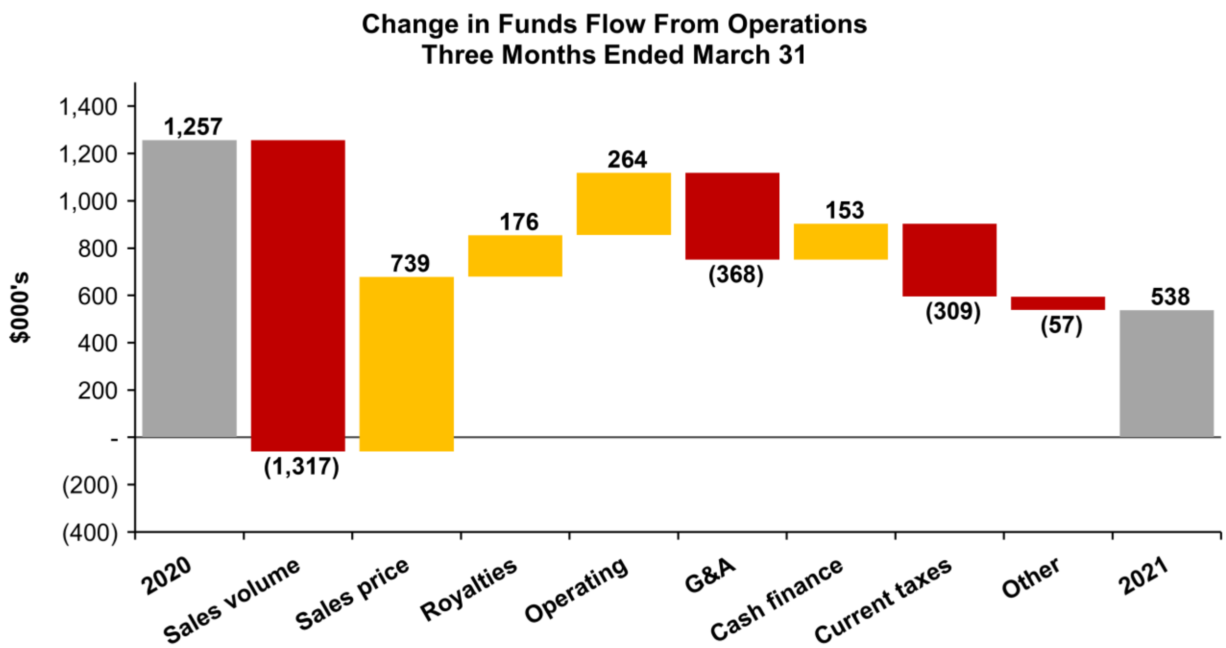
Details of the change in cash used in operating activities from the three months ended March 31, 2020 to the three months ended March 31, 2021 are included in the table below.

($000's)	**Three months ended March 31,**
Cash used in operating activities – 2020	(76)
Funds flow from operations variance	**(719)**
Change in non-cash working capital variance	**(439)**
Cash used in operating activities – 2021	**(1,234)**

Funds flow from operations

Touchstone considers funds flow from operations to be a key measure of operating performance as it demonstrates the Company's ability to generate the funds necessary to finance capital expenditures and repay debt. We believe that by excluding the temporary impact of changes in non-cash operating working capital, funds flow from operations provides a useful measure of our ability to generate cash that is not subject to short-term movements in non-cash operating working capital. Funds flow from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Touchstone generated $538,000 in funds flow from operations in the first quarter of 2021, a decrease of 57 percent from $1,257,000 reported in the prior year comparative quarter. The following graph summarizes the change in funds flow from operations from the three months ended March 31, 2020 to the three months ended March 31, 2021.

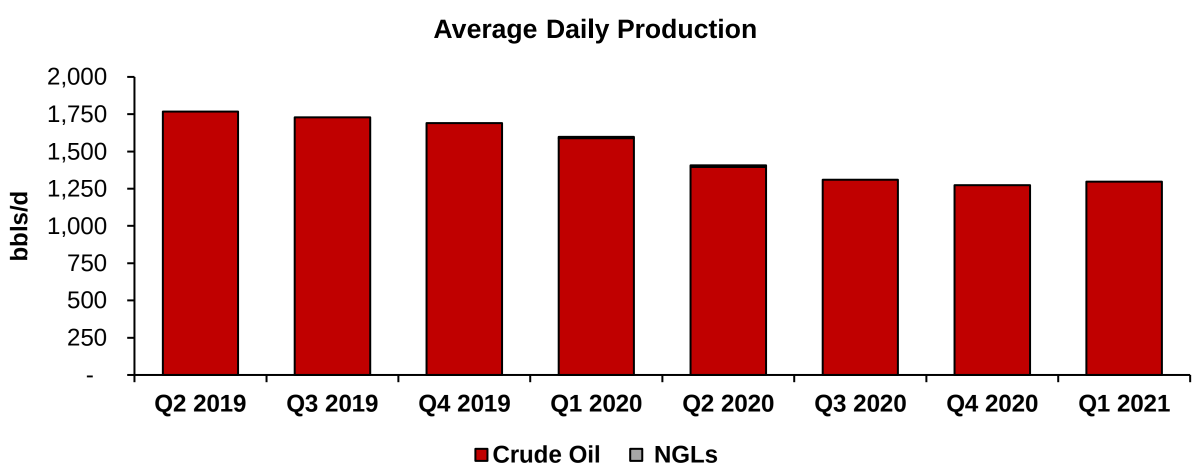


Production volumes

	Three months ended March 31, 2021	2020	% change
Production *(bbls)*			
Crude oil(1)	**116,730**	144,599	(19)
Natural gas liquids	**-**	702	(100)
Total	**116,730**	145,301	(20)
Average daily production *(bbls/d)*			
Crude oil(1)	**1,297**	1,589	(18)
Natural gas liquids	**-**	8	(100)
Total	**1,297**	1,597	(19)

Note:
(1) References to crude oil in the above table and elsewhere in this MD&A refer to light crude oil and medium crude oil, product types as defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. The Company's reported crude oil production is a mix of light and medium crude oil and heavy crude oil for which there is not a precise breakdown given the Company's oil sales volumes typically represent blends of more than one type of crude oil.

First quarter 2021 crude oil sales declined 19 percent compared to the prior year equivalent period, averaging 1,297 bbls/d. The decrease was reflective of limited workover activities performed throughout 2020 and natural declines, as the Company has not brought on additional development well production since January 2019. In March 2020, Touchstone sold 702 net barrels of Ortoire NGLs produced from Cascadura-1ST1 production testing operations.

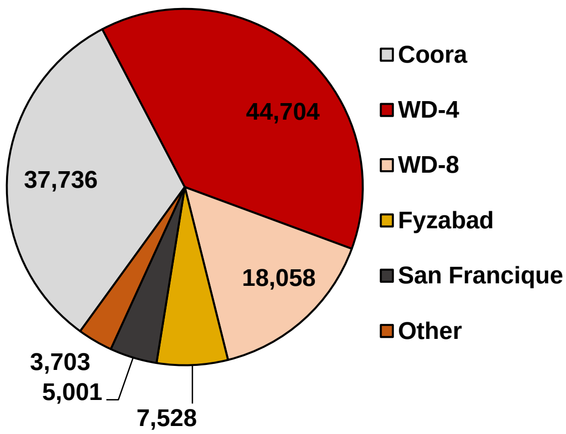


The following table summarizes production by property during the three months ended March 31, 2021 and 2020. All properties produced crude oil with the exception of Ortoire, which was comprised of test NGL production.

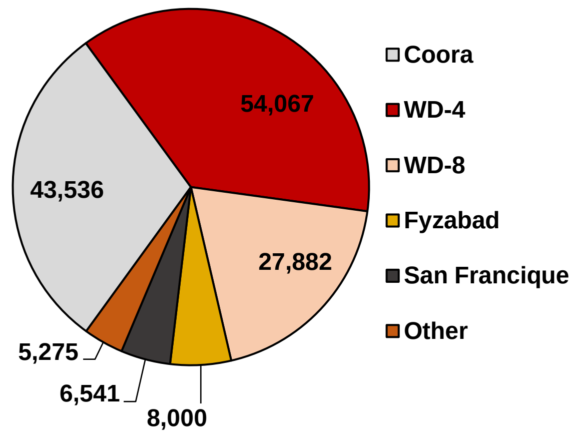
(bbls)	Three months ended March 31, 2021	2020	% change
Coora-1	**34,507**	38,842	(11)
Coora-2	**3,229**	4,694	(31)
WD-4	**44,704**	54,067	(17)
WD-8	**18,058**	27,882	(35)
New Dome	**1,831**	2,077	(12)
South Palo Seco	**-**	241	(100)
Barrackpore	**1,184**	1,423	(17)
Fyzabad	**7,528**	8,000	(6)
Palo Seco	**688**	832	(17)
San Francique	**5,001**	6,541	(24)
Ortoire	**-**	702	(100)
Total production	**116,730**	145,301	(20)

Production by Property *(bbls)*

Three Months Ended March 31, 2021



Three Months Ended March 31, 2020



Benchmark and realized prices

	Three months ended March 31,		%
	2021	2020	change
Brent average *($/bbl)*	**61.04**	50.27	21
WTI average *($/bbl)*	**57.84**	46.17	25
Average realized price (*$/bbl*)	**52.43**	46.10	14
Realized price discount as a % of Brent	**(14.1)**	(8.3)	
Realized price discount as a % of WTI	**(9.4)**	(0.2)	

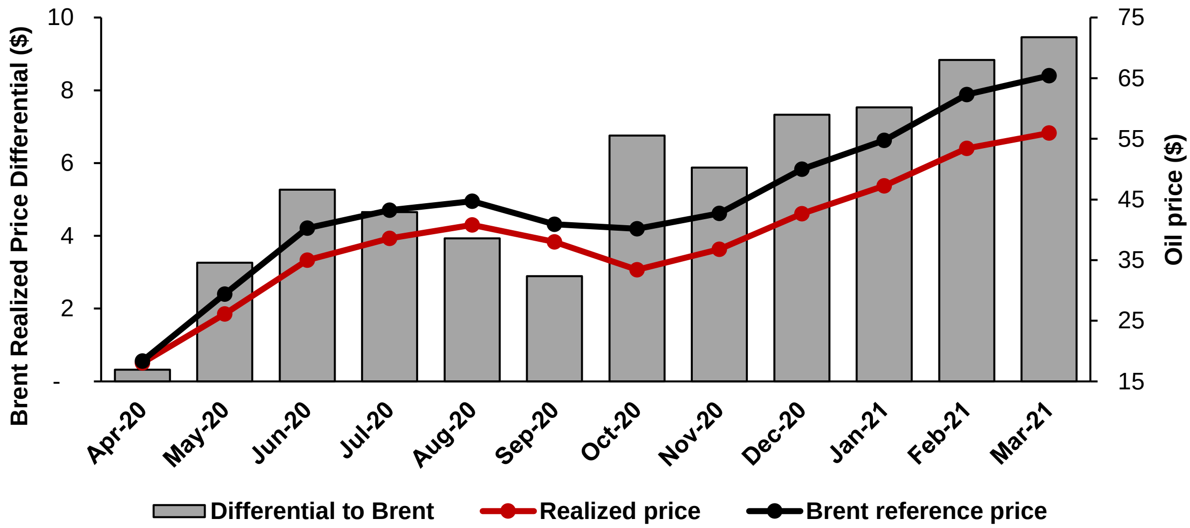
Our crude oil price received is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond our control. Touchstone's crude oil realized price has historically correlated to the Brent benchmark price, as Trinidad oil is classified as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

First quarter 2021 crude oil benchmark prices increased from the fourth quarter of 2020 and the first quarter of 2020. The increases were primarily based on increased global oil demand in response to continued recovery from the COVID-19 pandemic. Specifically, March 2021 dated Brent prices increased approximately 104 percent compared to March 2020, which marked the beginning of the Saudi Arabia and Russia price war and the commencement of global lockdowns in response to COVID-19. COVID-19 infection rates, the availability and administration of effective vaccines, global economic performance and political development will continue to impact the pace of demand recovery.

Relative to the first quarter of 2020, our Brent differential realized during the first quarter of 2021 widened from 8.3 percent to 14.1 percent. Based on revised pricing arrangements with Heritage in October 2020, the Company is forecasting a 14.0 percent discount to Brent throughout 2021.

We realized an average price of $52.43 per barrel in the first quarter of 2021 compared to an average of $46.10 per barrel in the comparative quarter of 2020. The 14 percent increase was driven by a 21 percent increase in Brent reference pricing, partially offset by a widening of our realized pricing differential in relation to Brent benchmark pricing.

Realized Price and Differential to Brent



Petroleum sales

($000's)	Three months ended March 31, **2021**	2020	% change
Petroleum sales	**6,120**	6,698	(9)

We sell all of our crude oil to Heritage, with title transferring at our various sales batteries. As at March 31, 2021, the Company held 4,544 barrels of crude oil inventory versus 4,212 barrels as at December 31, 2020.

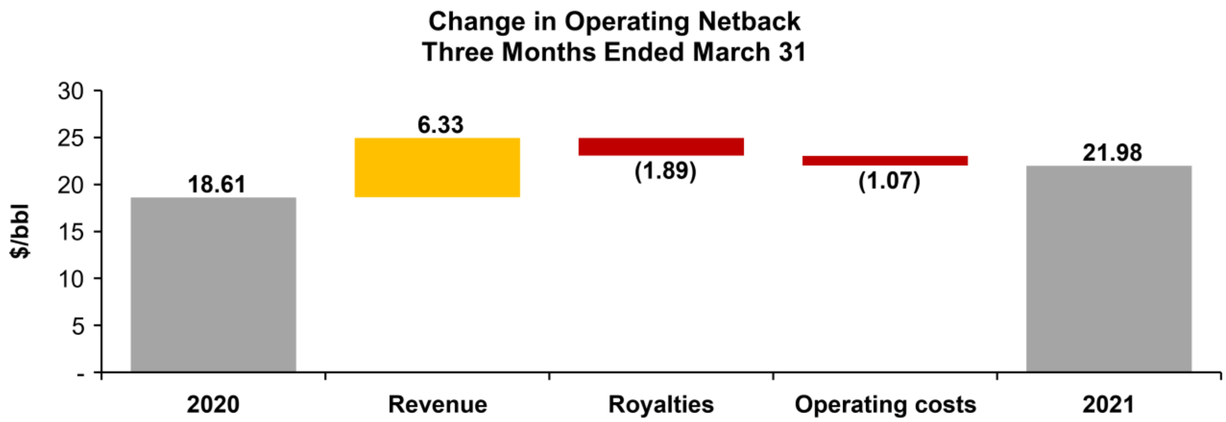
Petroleum sales in the first quarter of 2021 decreased 9 percent to $6,120,000 from $6,698,000 in the first quarter of 2020. The $578,000 decrease consisted of $1,317,000 in reduced sales volumes, partially offset by $739,000 related to higher realized pricing.

Operating netback

The components of operating netback for the three months ended March 31, 2021 and 2020 are set forth below.

	Three months ended March 31, **2021**	2020	% change
($000's)			
Petroleum sales[(1)]	**6,120**	6,698	(9)
Royalties	**(1,843)**	(2,019)	(9)
Operating expenses	**(1,711)**	(1,975)	(13)
Operating netback[(2)]	**2,566**	2,704	(5)
($/bbl)			
Brent benchmark price	**61.04**	50.27	21
Discount	**(8.61)**	(4.17)	
Realized sales price[(1)]	**52.43**	46.10	14
Royalties	**(15.79)**	(13.90)	14
Operating expenses	**(14.66)**	(13.59)	8
Operating netback[(2)]	**21.98**	18.61	18

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.

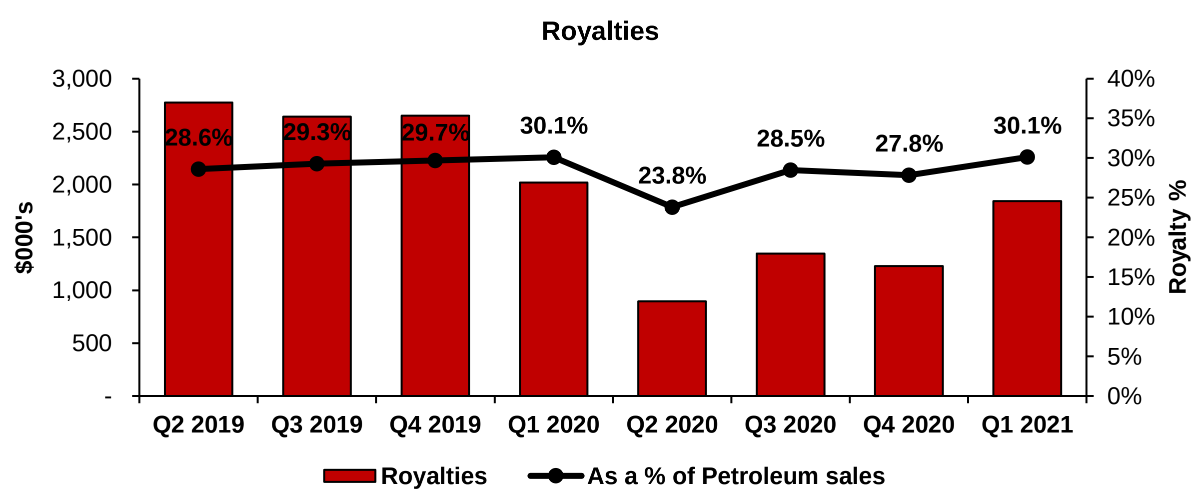


Royalties

($000's unless otherwise stated)	Three months ended March 31, 2021	2020	% change
Crown royalties	**702**	775	
Private royalties	**68**	69	
Overriding royalties	**1,073**	1,175	
Royalties	**1,843**	2,019	(9)
On a per barrel basis	**15.79**	13.90	14
As a percentage of petroleum sales	**30.1%**	30.1%	-

Touchstone is obligated to pay a crown royalty rate of 12.5 percent on all petroleum production under MEEI and Heritage licences. For private leases, the Company incurs private royalties between 10 and 12.5 percent of petroleum sales. On our Coora-1, Coora-2, WD-4 and WD-8 blocks, Touchstone operates under lease operatorship agreements ("LOAs") with Heritage, 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"). Our ORR and enhanced ORR rates are indexed to the average price of oil realized in the production month. In addition to crown royalties, our 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.

Royalties as a percentage of petroleum sales were 30.1 percent in the first quarter of 2021, which was consistent in comparison to the prior year comparative quarter.

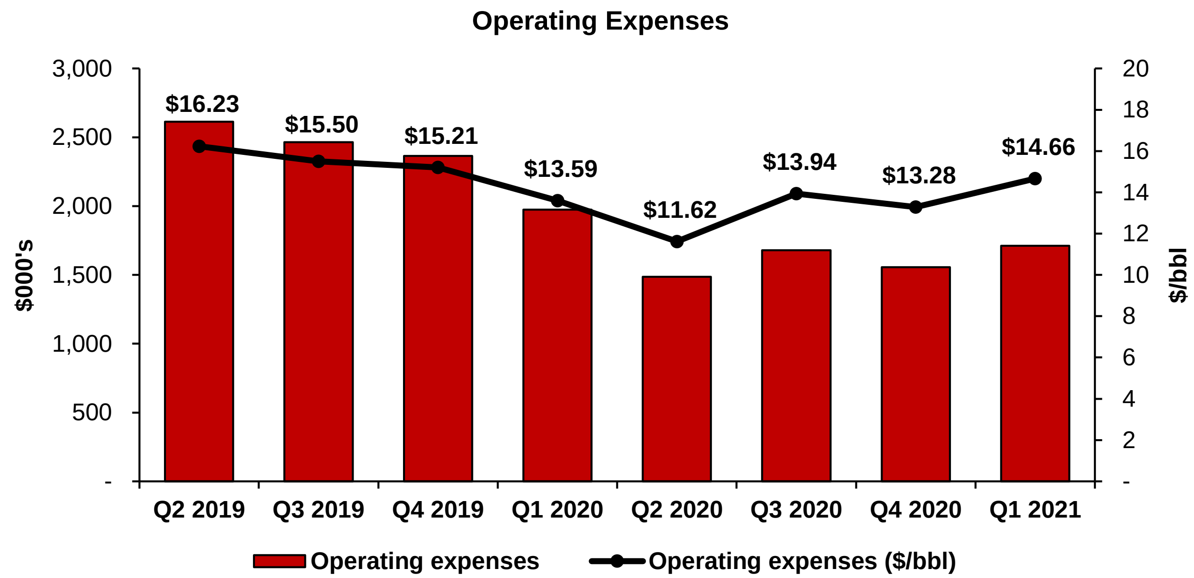


Operating expenses

($000's except per bbl amounts)	Three months ended March 31, **2021**	2020	% change
Operating expenses	**1,711**	1,975	(13)
On a per barrel basis	**14.66**	13.59	8

Operating expenses include all periodic lease and field-level expenses and include directly attributable employee salaries and benefits. First quarter 2021 operating expenses were $1,711,000 in comparison to $1,975,000 in the first quarter of 2020, representing a decrease of 13 percent over a production base decrease of 20 percent over the same period. The $264,000 decrease was a result of a reduction of $67,000 of fixed and discretionary costs, as well as a decrease of $197,000 in variable costs from the associated decline in production in the first quarter of 2021.

Operating expenses on a per barrel basis increased 8 percent to $14.66 per barrel in the first quarter of 2021 compared to $13.59 per barrel in the same period of 2020. Although discretionary operating costs were reduced in the first quarter of 2021, 2020 first quarter operating costs per barrel benefited from increased production, which spread the fixed component of operating costs over a larger production base.



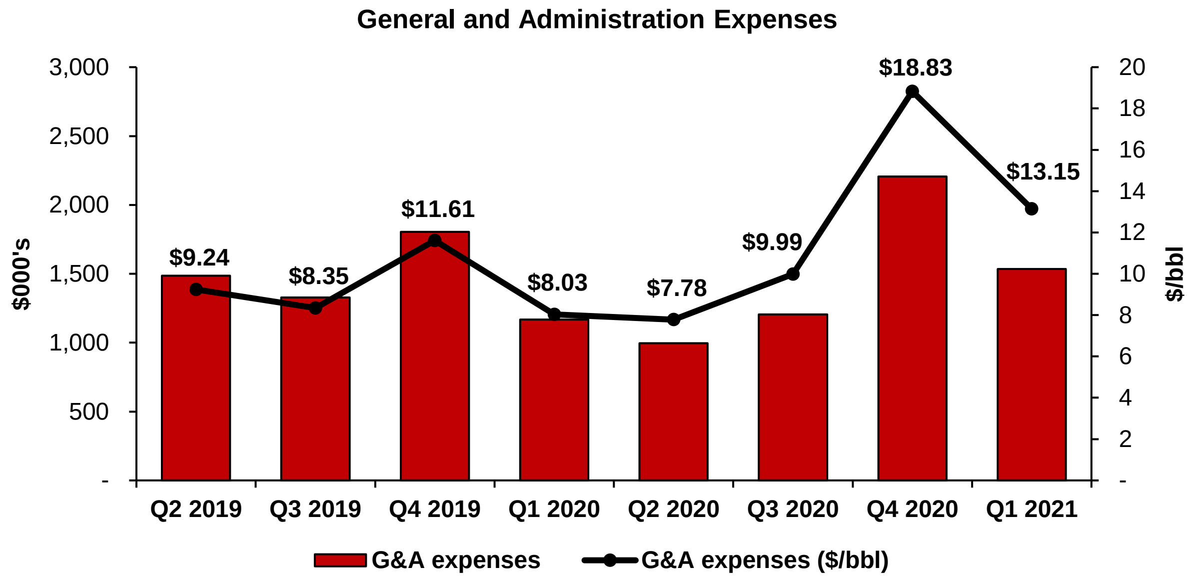
General and administration ("G&A") expenses

($000's except per bbl amounts)	Three months ended March 31, **2021**	2020	% change
Gross G&A expenses	**1,770**	1,335	33
Capitalized G&A expenses	**(235)**	(168)	40
G&A expenses	**1,535**	1,167	32
On a per barrel basis	**13.15**	8.03	64

The increase in gross G&A expenses in the first quarter of 2021 compared to the same period in 2020 was primarily attributed to higher salaries and benefits, as all employees undertook pay reductions in March 2020 which were reinstated in September 2020.

The increase in capitalized G&A in the first quarter of 2021 in relation to the prior year equivalent quarter was predominantly from higher gross G&A costs and increased capital activity allocated to our Ortoire exploration property.

On a per barrel basis, first quarter 2021 G&A expenses increased 64 percent to $13.15 per barrel compared to $8.03 per barrel in the first quarter of 2020. The increase was attributable to higher net G&A costs and lower production volumes in the first quarter of 2021 compared to the same period in 2020.



Net finance expenses

($000's)	Three months ended March 31, 2021	2020	% change
Interest income	**(2)**	(6)	67
Lease liability interest expense	**5**	5	-
Term loan interest expense	**146**	299	(51)
Accretion on term loan	**15**	124	(88)
Production liability revaluation (gain) loss	**(71)**	260	n/a
Accretion on decommissioning liabilities	**63**	102	(38)
Other	**(7)**	(46)	(85)
Net finance expenses	**149**	738	(80)
Cash net finance expenses	**149**	302	(51)
Non-cash net finance expenses	**-**	436	(100)
Net finance expenses	**149**	738	(80)

Net finance expenses for the three months ended March 31, 2021 was $149,000 compared to $738,000 for the same period of 2020, with cash finance expenses decreasing by $153,000 in the first quarter of 2021.

First quarter 2021 term loan interest expense decreased by $153,000 from the first quarter of 2020 based on a decreased interest rate and lower outstanding balance from the Company's refinanced June 15, 2020 term credit facility (see "*Liquidity and Capital Management - Term loan*"). The debt refinancing also reduced first quarter 2021 non-cash term loan accretion costs in comparison to the equivalent 2020 quarter by $109,000.

Production liability revaluation amounts are recognized as a result of a change of production liabilities estimated by the Company at each reporting period. In the first quarter of 2021, Touchstone recognized a non-cash gain of $71,000 versus a non-cash loss of $260,000 reported in the prior year equivalent quarter. The estimated liability will continue to vary in each reporting period based on changes to internally forecasted petroleum production and forward commodity pricing (see "*Liquidity and Capital Management - Other 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 foreign exchange ("FX") rates used to translate the Company's TT$ and C$ denominated items are summarized in the tables below.

FX rates[1]	**Three months ended March 31,**		%
	2021	2020	change
US$:C$ average FX rate	**1.27**	1.34	(6)
US$:TT$ average FX rate	**6.79**	6.76	-
	March 31, 2021	December 31, 2020	
US$:C$ closing FX rate	**1.26**	1.27	(1)
US$:TT$ closing FX rate	**6.79**	6.77	-

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$ and the C$ to US$ could have a material effect on the Company's reported results (see "*Market Risk Management - Foreign currency risk*").

During the first quarter of 2021, the C$ appreciated 6 percent relative to the US$ in comparison to the corresponding average rates observed in the 2020 first quarter. Relative to the US$, the TT$ remained range bound during the three months ended March 31, 2021 and 2020. In aggregate, the Company recorded a foreign exchange loss of $100,000 in the first quarter of 2021 compared to a gain of $315,000 recognized in the prior year equivalent quarter.

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 1 percent stronger on March 31, 2021 versus December 31, 2020, while the TT$ remained consistent over the same periods. Touchstone recognized a foreign currency translation gain of $45,000 in the first quarter of 2021 versus a gain of $101,000 recorded in the comparative 2020 quarter.

Equity-based awards

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 on the TSX 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.

Share options	**Number of share options**	**Weighted average exercise price (C$)**
Outstanding, January 1, 2020	8,740,600	0.26
Granted	2,892,000	0.64
Exercised	(1,904,666)	0.30
Expired	(147,500)	2.10
Cancelled	(28,000)	0.42
Outstanding, December 31, 2020 and March 1, 2021	**9,552,434**	**0.34**
Exercisable, December 31, 2020 and March 1, 2021	**4,425,503**	**0.20**

The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10 percent of the issued and outstanding Company common shares. As of March 31, 2021 and December 31, 2020, Touchstone had 9,552,434 share options outstanding, representing 4.6 percent of the Company's outstanding common shares at each reporting period.

The following table sets forth equity-compensation expenses recorded in relation to equity-compensation plans for the periods indicted.

($000's)	**Three months ended March 31,**		%
	2021	2020	change
Equity-based compensation	**140**	50	100
Capitalized equity-based compensation	**(30)**	(6)	100
Equity-based compensation	**110**	44	100

In the first quarter of 2021, the Company recorded equity-based compensation of $140,000. The increase in equity-based compensation and capitalized equity-based compensation for the three months ended March 31, 2021, compared to the same period in 2020, was primarily attributable to an increase in the fair value of equity-based awards granted in April and December of 2020 based on a higher Touchstone share price in 2020 versus previously granted awards.

Further information regarding our equity compensation plans is included in Note 12 "*Shareholders' Capital*" of the Company's interim financial statements.

Depletion and depreciation expense

($000's except per bbl amounts)	**Three months ended March 31,**		%
	2021	2020	change
Depletion expense	**731**	958	(24)
Depreciation expense	**72**	130	(45)
Depletion and depreciation expense	**803**	1,088	(26)
Depletion expense on a per barrel basis	**6.26**	6.59	(5)

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. Depletion expenses fluctuate based on the amount and type of capital spending, the recognition or reversal of petroleum asset impairments, the quantity of reserves added and production volumes.

During the three months ended March 31, 2021, depletion decreased both on an absolute basis and on a unit of production basis in comparison to the equivalent period of 2020. The decline in depletion predominately reflected reduced carrying values from net petroleum asset impairment losses recognized in 2020 and lower first quarter 2021 production in comparison to the prior year equivalent quarter.

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 ("ROU") assets recorded from finance leases are depreciated over their estimated useful lives on a straight-line basis.

The decrease in depreciation expense reported in the first quarter of 2021 in comparison the 2020 period was predominately a result of lower ROU asset carrying values in 2021. Further, the Company's oilfield service assets were leased to third parties effective March 1, 2021 and thus were no longer subject to depreciation (see "*Finance leases*").

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 losses or recoveries could be recorded in future periods.

Exploration asset impairments

The following table summarizes exploration asset impairment losses by CGU during the three months ended March 31, 2021 and 2020.

CGU *($000's)*	**Three months ended March 31,**		%
	2021	2020	change
Cory Moruga	**29**	-	
East Brighton	**-**	88	
Impairment loss	**29**	88	(67)

In the first quarter of 2021, the Company incurred $29,000 of lease expenses relating to its Cory Moruga licence, which were impaired given the property's estimated recoverable value was $nil. In the first quarter of 2020, Touchstone impaired $88,000 of lease expenses incurred on the East Brighton concession. The associated licence expired in December 2020. As of March 31, 2021, the Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of $33,511,000 (December 31, 2020 - $30,680,000).

Property and equipment impairments

Property and equipment impairment losses for the three months ended March 31, 2021 and 2020 by CGU are disclosed in the following table.

CGU *($000's)*	**Three months ended March 31,**		%
	2021	2020	change
Coora	**-**	6,940	
WD-4	**-**	5,968	
WD-8	**-**	6,307	
Impairment loss	**-**	19,215	n/a

On March 31, 2021, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal and no indicators were identified.

On March 31, 2020, indicators of impairment were present due to the significant decline in crude oil forward pricing predominantly from the effects of COVID-19. Based on the results of impairment tests conducted on all petroleum asset CGUs, an aggregate impairment loss of $19,215,000 was recognized during the first quarter of 2020 as reflected in the above table.

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, inflation rates, capital and operating expenditures or the discount rate would impact the estimated recoverable amounts. Further information regarding impairment losses recorded during the year ended December 31, 2020 and their related measurement uncertainty is included in Note 8 "*Impairments*" of the Company's audited 2020 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. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined.

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 March 31, 2021, the Company classified $1,247,000 of accrued or paid contributions into MEEI and Heritage abandonment funds as abandonment fund assets (December 31, 2020 - $1,226,000).

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.

The Company is responsible for all site restoration, well abandonment costs and removal of infrastructure and facilities used in petroleum operations conducted on its private production and exploration agreements.

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be $11,912,000 as at March 31, 2021 (December 31, 2020 - $11,919,000). 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. March 31, 2021 and December 31, 2020 decommissioning liabilities were estimated using a weighted average long-term risk-free rate of 4.9 percent and a long-term inflation rate of 1.8 percent. $63,000 of accretion expenses were recognized in the first quarter of 2021 to reflect the increase in decommissioning liabilities associated with the passage of time (2020 - $102,000). Decommissioning liability details as at March 31, 2021 are summarized in the table below.

Number of net well locations	**Undiscounted balance** *($000's)*	**Inflation adjusted balance** *($000's)*	**Discounted balance** *($000's)*
834	**15,854**	**18,847**	**11,912**

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 is included in Note 10 "*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 liquids revenue less related 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. For the 2021 and 2022 financial years, the SPT rate is nil when the weighted average realized price of oil for a given quarter is below $75.00 per barrel and 18 percent when weighted average realized oil prices fall between $75.00 and $90.00. The revenue base for the calculation of SPT is petroleum sales from liquids products less related 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 but can only be used to shelter a maximum of 75 percent of income subject to PPT per annum. UL losses cannot be carried forward to reduce future year UL. Developmental and exploratory capital expenditure allowances (tangible and intangible) are amortized on a five-year straight-line basis.

The Company has a Trinidad oilfield service subsidiary, which primarily leases oilfield service equipment to third-party contractors for use in its exploration and production entities. The Company is subject to the greater of a 30 percent corporation income tax calculated on net taxable profits or a 0.6 percent business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above. All corporate income tax losses can be carried forward indefinitely, and allowances vary from 10 percent to 33.3 percent for various capital expenditures incurred in the year.

The following table sets forth current income tax expense for the three months ended March 31, 2021 and 2020.

($000's)	Three months ended March 31,		%
	2021	2020	change
SPT	**-**	5	
PPT/UL	**320**	-	
Business levy	**3**	4	
Green fund levy	**18**	23	
Current income tax expense	**341**	32	100

During the three months ended March 31, 2021, the Company recorded $341,000 of current income tax expenses compared to $32,000 for the same period of 2020. The increase in first quarter 2021 current income taxes was mainly due to accrued PPT and UL expenses based on increased operating entity estimated taxable profits.

Touchstone's $6,999,000 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 March 31, 2021 (December 31, 2020 - $7,021,000). The deferred tax balance remained in a liability position mainly from the discrepancy between the carrying values and the tax values of the Company’s petroleum assets. During the three months ended March 31, 2021, Touchstone recognized a deferred tax expense of $7,000 compared to a deferred tax recovery of $10,072,000 recorded in the prior year comparative period. The first quarter 2020 deferred tax recovery was primarily reflective of property and equipment impairment losses recorded in the period, which reduced financial statement carrying values and affected the corresponding deferred tax liability balance.

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 Company's income taxes is included in Note 11 "*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 March 31,		%
	2021	2020	change
Lease costs	**209**	225	
Geological and seismic	**361**	-	
Drilling, completions and well testing	**1,900**	1,536	
Production equipment and facilities	**241**	-	
Capitalized G&A / other	**243**	62	
Total expenditures	**2,954**	1,823	62

For the three months ended March 31, 2021, exploration asset expenditures totaled $2,954,000 with approximately 64 percent spent on completions and well testing operations. In the first quarter of 2021, the Company conducted production testing operations on the Chinook-1 and Cascadura Deep-1 wells, with further expenditures related to Royston-1 lease preparation. Touchstone also proceeded with Coho-1 surface facility operations and our Royston area seismic program.

During the first quarter of 2020, the Company focused on Cascadura-1ST1 production testing, performing two tests in February and March. Capital investment was also focused on Chinook-1 well site lease preparation.

Property and equipment (development) expenditures

($000's)	Three months ended March 31, **2021**	2020	% change
Drilling and completions	**56**	114	
Capitalized G&A	**60**	106	
Rig equipment and other	**11**	-	
Total expenditures	**127**	220	(42)

Touchstone conducted minimal field development activity in the first quarters of 2021 and 2020, with minimal well recompletions performed.

Finance Leases

Effective March 1, 2021, the Company entered into separate three-year arrangements to lease its oilfield service rigs and swabbing units to two third-party contractors for aggregate proceeds of approximately $1,120,000. Principal payments commenced in March 2021, and the Company continues to hold title to the assets until all principal payments have been collected. The lease arrangements were classified as finance leases, as substantially all of the risks and rewards incidental to ownership of the underlying assets are held by the lessees. During the three months ended March 31, 2021, the $860,000 carrying value of the leased assets were reclassified from property and equipment to other assets on the consolidated statement of financial position. An aggregate loss of $4,000 was recorded in connection with the transactions.

Liquidity and Capital Management

Capital management

The Company's policy is to maintain a strong capital base to preserve investor, creditor, and market confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholder's equity, working capital and bank debt. Touchstone’s capital management objective is to fund current period decommissioning and capital expenditures necessary for the replacement of production declines using only funds flow from operations. Exploration activities and profitable growth activities will be financed with a combination of funds flow from operations and other sources of capital. Touchstone uses share equity and term debt as primary sources of capital.

As at March 31, 2021, Touchstone had a cash balance of $15,451,000, a working capital surplus of $10,552,000 and $7,500,000 drawn on its term credit facility. We currently have $12.5 million of available funds on the term credit facility, which we may withdraw prior to June 15, 2021. The credit facility does not require the commencement of principal payments until September 2022, and financial covenants are not tested until the year ended December 31, 2022. We believe that available credit facility capacity combined with anticipated funds flow from operations will be sufficient to satisfy our 2021 minimum work commitments and exploration activities.

The Company's current 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 our current Ortoire exploration discoveries onto production to increase cash flows and decrease the Company's sole reliance on crude oil sales and related pricing. 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 Ortoire wells onto production and continuing our Ortoire exploration and development program.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of 2.0 times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices. The Company also monitors its capital management through the net debt to net debt plus equity ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus equity at a ratio of less than 0.4 to 1. Our internal capital management calculations for the three months ended March 31, 2021 and year ended December 31, 2020 are summarized in the table below.

($000's)	**Target measure**	**March 31, 2021**	December 31, 2020
Current assets		**(22,417)**	(29,312)
Current liabilities		**11,865**	16,379
Working capital surplus[1]		**(10,552)**	(12,933)
Principal non-current balance of term loan		**7,500**	7,500
Net surplus[1]		**(3,052)**	(5,433)
Shareholders' equity		**60,090**	60,365
Net surplus plus equity		**57,038**	54,932
Trailing twelve-month funds flow (used in) from operations[2]		**(456)**	263
Net debt to funds flow from operations	**at or < 2.0 times**	**n/a**	n/a
Net debt to net debt plus equity	**< 0.4 times**	**n/a**	n/a

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. Trailing twelve-month funds flow used in operations as at March 31, 2021 includes the sum of funds flow from operations for the three months ended March 31, 2021 and funds flow used in operations for the April 1 through December 31, 2020 interim period.

Shareholders' equity

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs.

The following table summarizes Touchstone's outstanding common shares and share options as at the date of this MD&A, March 31, 2021 and December 31, 2020.

	May 12, 2021	**March 31, 2021**	December 31, 2020
Common shares outstanding	**209,399,627**	**209,399,627**	209,399,627
Share options outstanding	**9,552,434**	**9,552,434**	9,552,434
Fully diluted common shares	**218,952,061**	**218,952,061**	218,952,061

Further information regarding the Company's shareholders' capital is included in Note 12 "*Shareholders' Capital*" of the interim financial statements.

Term loan

Touchstone Exploration (Trinidad) Ltd., the Company's indirectly wholly owned Trinidadian subsidiary, entered into a $20 million, seven-year term credit facility arrangement (the "Term Loan") from a Trinidad based financial institution effective June 15, 2020. On closing, the Company withdrew $15 million to satisfy the Company's obligations relating to prepaying the Company's C$20 million Canadian based term loan (the "Retired Term Loan"). During the year ended December 31, 2020, the Company incurred $180,000 in finance expenses and recorded a $1,158,000 revaluation loss in connection with prepaying the Retired Term Loan.

On November 27, 2020, the Company and its lender executed an amending agreement to the Term Loan, allowing the Company to repay $7.5 million of the $15 million term loan balance on December 15, 2020 for a reduced prepayment fee of $19,000. Pursuant to the Term Loan Amending Agreement, the Company has the option to withdraw the remaining $12.5 million available balance prior to June 15, 2021.

The Term Loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger and administrative agent. The Term Loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. Twenty equal and consecutive quarterly principal payments commence on September 15, 2022. 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 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 Touchstone Exploration (Trinidad) Ltd. and its wholly owned Trinidadian subsidiary, POGL. The 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.

At all times the Company must maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments. Accordingly, the Company classified $294,000 as non-current restricted cash on the consolidated statements of financial position as at March 31, 2021 and December 31, 2020.

The Term Loan is measured at amortised cost, with the aggregate associated financing fees 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**	**Term Loan liability**	**Term Loan**
Balance, January 1, 2020	13,966	-	13,966
Advance, net of fees	-	14,617	14,617
Payments	(14,750)	(7,500)	(22,250)
Revaluation loss on prepayment	1,158	-	1,158
Accretion	173	59	232
Effect of change in foreign exchange rates	(547)	-	(547)
Balance, December 31, 2020	**-**	**7,176**	**7,176**
Accretion	**-**	**15**	**15**
Balance, March 31, 2021	**-**	**7,191**	**7,191**

Pursuant to the Term Loan, a failure of any covenant constitutes an event of default. Upon an event of default, the lender can declare the principal balance and any accrued interest immediately due and payable. The Company routinely reviews all 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.

Other liabilities

Lease liabilities

The Company is a party to lease arrangements for head office space and office equipment. Lease agreements are negotiated on an individual basis and contain varying terms and conditions.

The following table details the movements in the Company's lease liabilities for the three months ended March 31, 2021 and year ended December 31, 2020.

($000's)	**Three months ended March 31, 2021**	Year ended December 31, 2020
Balance, beginning of year	**383**	335
Lease modifications	**-**	235
Interest expense	**5**	21
Payments	**(20)**	(222)
Effect of change in foreign exchange rates	**5**	14
Balance, end of period	**373**	383
Current (included in accounts payable and accrued liabilities)	**44**	48
Non-current	**329**	335
Lease liabilities	**373**	383

Production liability

In connection with the Retired Term Loan, the Company 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 entered into an amended production payment agreement to continue the obligation under its previous terms and conditions.

The production liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts. In the first quarter of 2021, Touchstone recognized a production liability revaluation gain of $71,000, versus a loss of $260,000 recorded in the first quarter of 2020. At March 31, 2021, the Company's estimated production liability balance was $1,384,000, of which $1,174,000 was classified as non-current and included in other liabilities on the consolidated statement of financial position (December 31, 2020 - $1,519,000 and $1,357,000, respectively).

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. Although the effects of COVID-19 had a material effect on the Company's realized crude oil prices in 2020, the Company believes that future cash flows and debt capacity 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 crude oil and natural gas production, crude oil 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. Touchstone will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability.

The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at March 31, 2021.

($000's)	Undiscounted cash outflows	Financial maturity by period		
		Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	**11,594**	11,594	-	-
Income taxes payable	**271**	271	-	-
Lease liabilities	**434**	61	130	243
Term loan principal	**7,500**	-	2,625	4,875
Term loan interest	**2,257**	589	1,014	654
Estimated production liabilities	**2,435**	384	2,051	-
Total financial liabilities	**24,491**	**12,899**	**5,820**	**5,772**

The Company actively monitors its liquidity to ensure that cash flows, credit facility capacity and working capital are adequate to support these financial liabilities, as well as the Company's capital programs.

Contractual Obligations, Commitments and Guarantees

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under the Cory Moruga and Ortoire block exploration and production licences with the MEEI, commitments regarding a long-term drilling rig contract and various lease commitments for office space and motor vehicles. The following table outlines the Company's estimated minimum contractual capital requirements as at March 31, 2021.

($000's)	Total	Estimated payments due by year			
		2021	2022	2023	Thereafter
Operating agreement commitments					
Coora blocks	**3**	3	-	-	-
WD-4 block	**6**	6	-	-	-
WD-8 block	**5**	5	-	-	-
New Dome block	**2**	2	-	-	-
South Palo Seco block	**771**	771	-	-	-
Fyzabad block	**926**	44	75	76	731
Cory Moruga exploration block	**1,783**	86	123	128	1,446
Ortoire exploration block	**9,703**	7,928	71	74	1,630
Drilling rig commitments	**3,880**	1,240	960	960	720
Office and equipment leases	**995**	313	128	128	426
Minimum payments	**18,074**	**10,398**	**1,357**	**1,366**	**4,953**

Under the terms of its Heritage operating agreements, Touchstone must fulfill minimum work obligations on an annual basis over the specific licence term. With respect to these obligations, as at March 31, 2021, the Company had two shallow development wells and three heavy workovers to perform prior to the end of 2021.

The Company has completed negotiations regarding new ten-year lease operatorship agreements relating to its Coora-1, Coora-2, WD-4 and WD-8 development blocks with Heritage (see "*Operating Agreements*"). The arrangements include licence fees and minimum work obligations for each property which are not disclosed in the table above. Similar to its previous agreements, the Company will also be required to provide aggregate guarantees of approximately $506,000 to support the future minimum work obligations subsequent to execution.

The Company's Ortoire exploration and production licence, which was originally set to expire on October 31, 2020, was extended for an additional nine-month term through July 31, 2021. Pursuant to the licence amendment, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres, and the Company is obligated to drill an additional exploration well to a true vertical depth of 10,000 feet prior to June 2021. As at March 31, 2021, Touchstone drilled four of five exploration minimum commitment wells and commenced the required seismic program (see "*Ortoire Operations*") for further details.

In March 2021, the Company entered into a minimum three-year drilling services contract with a third party to supply a North American based drilling rig to Trinidad in late 2021. Pursuant to the contract, the Company is required to utilize the rig for a minimum of 120 days per annum over the initial three-year term and is obligated to pay for rig mobilization and demobilization costs.

Market Risk Management

Touchstone is exposed to normal financial risks inherent in the international oil and gas industry including, but not limited to, commodity price risk, foreign exchange rate risk and credit risk. The risk exposures are proactively reviewed by Touchstone, and Management seeks to mitigate these risks through various business processes and management controls.

Management has overall responsibility for the establishment of risk management strategies and objectives. Touchstone's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits, and to monitor adherence to risk limits. Risk management policies are reviewed and revised regularly to reflect changes in market conditions and the Company's operating activities. 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.

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. Further, Touchstone's realized crude oil price is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond the Company's control. Consequently, any changes in crude oil pricing could affect the Company's cash flow from operations, the value of the Company’s properties, the level of capital expenditures and Touchstone's ability to meet financial 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 has no commodity financial contracts in place as of the date hereof or during the three months ended March 31, 2021. 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 financial results. Although the sales prices of crude oil are determined by reference to US$ denominated benchmark prices, the majority of the invoices for such sales are paid in TT$, exposing the Company to foreign exchange risk. To mitigate this risk, the Company attempts to match revenues received in TT$ by entering into contracts denominated and payable in TT$ when possible. 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 cash balances denominated in Canadian dollars and pounds sterling, on head office costs and a production liability denominated in Canadian dollars, and costs denominated and payable in pounds sterling required to maintain its AIM listing. Any material movements in the C$ to US$ and the pounds sterling to US$ exchange rates may also have a material effect on the Company's reporting results (see "*Results of Operations - Foreign exchange and foreign currency translation*").

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency risk 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 months ended March 31, 2021.

Credit risk

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

The aging of accounts receivable as at March 31, 2021 and December 31, 2020 is disclosed in the following table.

($000's)	**March 31, 2021**	December 31, 2020
Not past due	**3,352**	2,781
Past due (greater than 90 days)	**2,792**	1,904
Accounts receivable	**6,144**	4,685

The Company has further credit risk associated with its long-term finance lease receivable balances. Touchstone has determined that the associated credit risk is negligible, as the assets are secured by the underlying equipment, with ownership transferring to the counterparties subsequent to receipt of the final lease payments (see "*Finance leases*").

Further details relating to Touchstone's financial assets and credit risk can be found in Note 3 "*Financial Assets and Credit Risk*" of the interim financial statements.

Operating Agreements

Touchstone operates Trinidad based upstream oil and gas activities under LOAs and FOAs with Heritage, state exploration and production licences with the MEEI and private exploration and production agreements with individual landowners. The LOAs and FOAs contain marketing arrangements, whereas any oil sold from MEEI licences and private agreements are marketed under a Heritage crude oil agreement. In addition, the Company executed a long-term natural gas sales agreement related to all future natural gas sales from the Ortoire property in December 2020.

Lease operatorship agreements

The Company's LOAs governing its four core properties (Coora-1, Coora-2, WD-4 and WD-8) with Heritage were further amended in April 2021 to extend the maturity dates from December 31, 2020 to May 31, 2021. The LOAs were extended under pre-existing terms and conditions while Heritage seeks regulatory approval regarding new ten-year LOAs for each property.

Upon execution, the Company will be subject to annual minimum production levels and minimum work commitments from 2021 through 2030 under each property agreement. Failing to reach either the annual minimum production levels or complete the annual minimum work obligations will not constitute a breach provided either the minimal productions levels have been attained or the minimum work obligations have been completed, as the case may be. The material terms of the new LOAs are substantially similar to the previous LOAs.

Farmout agreements

The Company's FOAs governing its New Dome and South Palo Seco properties with Heritage expire on December 31, 2021. The Company and Heritage have the option to extend the term of the arrangements by five years subject to the parties agreeing on minimal work obligations.

The agreements are subject to five-year minimum work commitments from 2017 through 2021. As of March 31, 2021, 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 three well recompletions prior to the end of 2021 (see "*Contractual Obligations, Commitments and Guarantees*" for further details). The South Palo Seco property is considered non-core as we had no sales volumes in the first quarter of 2021 (year ended December 31, 2020 production from South Palo Seco represented 0.1 percent of total crude oil production).

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 and Ortoire exploration properties. The licences typically are for an initial six-year term, with the option to extend certain acreage a further 19 years upon a commercial discovery.

The Company's Ortoire exploration and production licence (Touchstone 80 percent operating working interest, Heritage 20 percent), which was originally set to expire on October 31, 2020, was extended for an additional nine-month term through July 31, 2021. Pursuant to the licence amendment, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres, and the Company is obligated to drill an additional exploration well to a true vertical depth of 10,000 feet prior to June 2021 (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details). In February 2021, the MEEI approved the Company's field development plan for the Coho area, which extends the exploration and production licence for the defined 1,317-acre area through October 31, 2039.

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 or extended. The Palo Seco property is considered non-core as it represented 0.6 percent of Company crude oil production during the first quarter of 2021 (2020 - 0.6 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 three months ended March 31, 2021, production volumes produced under expired private lease agreements represented 1.6 percent of total Company production (2020 - 2.0 percent).

Off-balance Sheet Arrangements

The Company does not believe it has any guarantees or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

Related Party Transactions

The Company’s Corporate Secretary and a director is a senior partner of the Company’s Canadian legal counsel, Norton Rose Fulbright Canada LLP. For the three months ended March 31, 2021, $21,000 in legal fees and disbursements charged by Norton Rose Fulbright Canada LLP were incurred, of which $21,000 were included in accounts payable and accrued liabilities as at March 31, 2021 (2020 - $83,000 and $83,000, respectively).

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.

A full list of the significant estimates and judgements made by Management in the preparation of its financial statements is included in Note 4 "*Use of Estimates, Judgements and Assumptions*" of the audited 2020 financial statements.

Control Environment

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at March 31, 2021. 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 March 31, 2021. There were no changes during the three months ended March 31, 2021 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 2020 Annual Information Form dated March 25, 2021, which can be found on the Company's SEDAR profile (www.sedar.com) and website (www.touchstoneexploration.com). Refer to "*Advisory on Forward-Looking Statements*" in this MD&A for additional information regarding the risks to which Touchstone and its business operations are subject to.

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, foreign exchange rate risk and credit risk. The following are certain key risks, uncertainties and opportunities associated with the Company's business that can impact financial results.

Pandemics

Pandemics, epidemics or outbreaks of an infectious disease in the jurisdictions in which the Company operates, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has resulted in emergency actions taken by governments worldwide which has had an effect in all of the Company's operating jurisdictions. The actions taken by various governments have typically included but have not been limited to travel bans, mandatory and self-imposed quarantines and isolations, physical distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil demand. Additionally, such actions have resulted in volatility and disruptions in regular business operations, supply chains and financial markets as well as declining trade and market sentiment. COVID-19 as well as other factors initially resulted in the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread and resurgence of COVID-19 and its variants, oil prices and the global equity markets deteriorated significantly in 2020. Despite the approval of certain vaccines by global regulatory bodies, the ongoing evolution of the development and distribution of an effective vaccine also continues to raise uncertainty, and global equity markets could remain under pressure. These events and conditions caused a significant decrease in the valuation of oil and natural gas companies in 2020 and a decrease in confidence in the oil and natural gas industry.

While market conditions have recently improved, the full extent of the risks surrounding the COVID-19 pandemic is continually evolving in light of an effective distribution of the vaccine and also through subsequent waves, or additional variants of COVID-19 continue to emerge which are more transmissible or cause more severe disease. The risks disclosed in the Company's Annual Information Form for the year ended December 31, 2020 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 and volatility of the market price of the Company's common shares; operational risks related to increasing operating costs or declines in production levels, capital project delays, international shipping delays, delays in receiving government regulatory approvals, marketing arrangement counterparty performance or payment delays, and government regulations; ability to obtain additional financing, and other risks related to cyber-security as the Company's workforce in Canada and Trinidad predominantly works from remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

Touchstone's field operations are located in areas relatively remote, and in certain facilities, a small concentration of personnel may work in close proximity to one another. Should an employee or visitor become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The Company takes every precaution to strictly follow domestic industrial hygiene and occupational health guidelines. There can be no assurance that COVID-19 or another infectious illness will not impact the Company's personnel and ultimately its operations.

Foreign location of assets and foreign economic and political risk

Touchstone is subject to additional 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; royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which Touchstone's operations will be conducted. The Company's operations may also be adversely affected by the laws and policies of Trinidad affecting foreign trade, taxation and investment. If the Company's operations are disrupted and/or the economic integrity of its projects are threatened for unexpected reasons, its business may be harmed. Prolonged problems may threaten the commercial viability of its operations. In addition, there can be no assurance that contracts, licences, licence applications or other legal arrangements will not be adversely affected by changes in governments in foreign jurisdictions, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Commodity prices and marketing

Numerous factors beyond the Company's control do and will continue to affect the marketability and price of crude oil acquired, produced or discovered by the Company. Accordingly, commodity prices are the Company's most significant financial risk. Prices for crude oil are subject to large fluctuations in response to relatively minor changes in the supply of and demand, market uncertainty, and a variety of additional factors beyond the control of the Company, including pandemics. These factors include economic and political conditions in the United States, Canada, Europe, Russia, China and emerging markets, the actions of Organization of Petroleum Exporting Countries and other oil and gas exporting nations, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of crude oil, risks of supply disruption, the price of foreign imports, and the availability of alternative fuel sources. Prices for crude oil are also subject to the availability of foreign markets and Heritage's ability to access such markets. A material decline in commodity prices will result in a reduction of the Company's petroleum revenue and cash from operations. The economics of producing from some wells may change because of lower prices, which could result in reduced production and a reduction in the volumes and the value of the Company's reserves. The Company may also elect not to produce from certain wells at lower prices.

The Company entered into a long-term fixed price natural gas sales agreement in 2020 with NGC, which contains options for price negotiations on each fifth anniversary of the initial production date. The price of natural gas in Trinidad is predominantly based on domestic supply and demand, with demand largely from domestic power generation and petrochemical facilities. There can be no guarantee that the Company may be able to negotiate future price increases for natural gas, and a material decline in future natural gas sales prices will result in a reduction of the Company's petroleum revenue and cash from operations. Lower natural gas prices may also affect the volume and value of the Company's natural gas reserves rendering certain reserves uneconomic.

These factors could result in a material decrease in the Company's expected petroleum revenue and a reduction in its oil and natural gas production, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Company's reserves, borrowing capacity, petroleum revenue, profitability and cash from operations, and may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Environmental regulations

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

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

Climate change

Touchstone's exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require the Company to comply with future local GHG emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties.

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 cash from operations 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 term credit facility that is secured against the current and future assets of the Company's Trinidad upstream oil and gas subsidiaries. Touchstone is required to comply with covenants under this facility, and in the event it does not comply, access to capital could be restricted or repayment may be required. The Company routinely reviews the covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants under the 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 or sell the working interests.

Operational matters

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 purchasers and ability to market

The Company is exposed to sole purchaser risk in Trinidad as Heritage is the sole purchaser of crude oil production, and NGC will be the sole purchaser of future natural gas production. Touchstone's ability to market its petroleum products depends upon numerous factors beyond its control, including: the availability of third-party pipeline capacity; the supply of and demand for petroleum; the availability of alternative fuel sources; the counterparty's future financial viability; and the effects of weather conditions. Deliverability uncertainties relate to third-party processing and storage facilities, operational problems affecting pipelines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of crude oil, and domestic usage of natural gas. Because of these factors, Touchstone could be unable to market or to obtain competitive prices for the crude oil and natural gas 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 in a material 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 Trinidad concessions 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 licences and sub-licences, 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 MEEI licence which have expired and are currently being renegotiated. Based on opinions obtained from Trinidad legal counsel, the Company is continuing to recognize petroleum 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. See "*Operating Agreements"* in this MD&A for further information.

Retention of key personnel

A loss in the key personnel of Touchstone could delay the completion of certain projects or otherwise have a material adverse effect on the Company. Shareholders are dependent on the Company's Management and staff in respect of the administration and management of all manners relating to the Company's assets. Any deterioration of Touchstone's corporate culture could adversely affect its long-term success. To mitigate this risk, the Company focuses on long-term succession planning and provides internal opportunities for advancement.

Cyber-security

Touchstone employs and depends upon information technology systems to conduct its business. These systems have the potential to introduce information security risks, which are growing in both complexity and frequency and could include potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of Touchstone's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities. Further, disturbance to critical information technology services, or breaches of information security, could have a negative effect on the Company's assets, performance and earnings, and reputation. The significance of any such event is difficult to quantify but may in certain circumstances be material and could have an adverse effect on the Company's business, financial condition and results of operations.

Selected Quarterly Information

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

Three months ended	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Operational				
Average daily production *(bbls/d)*	**1,297**	1,274	1,310	1,396
Net wells drilled	**-**	1.6	-	-
Brent benchmark price[1] *($/bbl)*	**61.04**	44.32	42.91	29.70
Operating netback[2] *($/bbl)*	**21.98**	13.90	14.09	10.73
Financial *($000's except per share amounts)*				
Petroleum sales	**6,120**	4,414	4,725	3,755
Cash (used in) from operating activities	**(1,234)**	167	4,126	(1,921)
Funds flow from (used in) operations[3]	**538**	(736)	192	(450)
Per share – basic and diluted[2][3]	**0.00**	(0.00)	0.00	(0.00)
Net (loss) earnings	**(460)**	1,655	(703)	(2,742)
Per share – basic and diluted	**(0.00)**	0.01	(0.00)	(0.01)
Exploration capital expenditures	**2,954**	9,031	5,758	1,249
Development capital expenditures	**127**	186	211	92
Total capital expenditures	**3,081**	9,217	5,969	1,341
Working capital surplus[2]	**(10,552)**	(12,933)	(869)	(6,534)
Principal non-current balance of term loan	**7,500**	7,500	15,000	15,000
Net (surplus) debt[2] – end of period	**(3,052)**	(5,433)	14,131	8,466
Share Information *(000's)*				
Weighted average shares outstanding				
Basic	**209,400**	197,686	184,277	183,640
Diluted	**209,400**	206,072	184,277	183,640
Outstanding shares – end of period	**209,400**	209,400	184,408	184,161

Notes:
(1) Dated Brent 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 (used in) operations represents net earnings (loss) excluding non-cash items. See "*Non-GAAP Measures*" for further information.

Three months ended	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Operational				
Average daily production *(bbls/d)*	1,589	1,690	1,729	1,768
Net wells drilled	-	0.8	0.8	-
Brent benchmark price(1) *($/bbl)*	50.27	63.17	61.95	69.04
Operating netback(2) *($/bbl)*	18.61	25.12	24.56	26.85
Financial *($000's except per share amounts)*				
Petroleum sales	6,698	8,920	9,011	9,708
Cash (used in) from operating activities	(76)	2,090	(1,205)	1,832
Funds flow from operations(3)	1,257	2,018	1,082	1,310
Per share – basic and diluted(2)(3)	0.01	0.01	0.01	0.01
Net loss	(9,240)	(3,549)	(1,053)	(833)
Per share – basic and diluted	(0.05)	(0.02)	(0.01)	(0.01)
Exploration capital expenditures	1,823	5,838	3,234	681
Development capital expenditures	220	157	517	315
Total capital expenditures	2,043	5,995	3,751	996
Working capital (surplus) deficit(2)	(8,094)	1,139	805	(2,062)
Principal non-current balance of term loan	13,338	15,364	11,328	11,459
Net debt(2) – end of period	5,244	16,503	12,133	9,397
Share Information *(000's)*				
Weighted average shares outstanding – basic and diluted	169,361	160,691	160,688	160,688
Outstanding shares – end of period	183,489	160,703	160,688	160,688

Notes:
(1) Dated Brent 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.

The oil and gas exploration and production industry is cyclical. The Company’s financial position, results of operations and cash flows are principally impacted by production levels and commodity prices, particularly crude oil prices. Commodity price fluctuations can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenue and cash flow available for exploration and development and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company’s capital program is dependent on cash flow generated from operations and access to capital markets.

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

- In the first quarter of 2021, the Company generated $0.5 million in funds flow from operations predominantly from increased production and realized pricing from the fourth quarter of 2020. The Company proceeded with its Ortoire exploration activities, incurring a total of $3.1 million in capital expenditures. As a result, net surplus decreased by $2.4 million from the fourth quarter of 2020.
- In the fourth quarter of 2020, the Company completed a private placement that resulted in net proceeds of $28.4 million. As a result, the Company prepaid $7.5 million of its term loan balance and increased exploration capital expenditures in the quarter, ending the quarter with a net surplus of $5.4 million. Predominately based on increased crude oil future pricing, net impairment recoveries of $7.8 million were recorded. The impairment reversals, which were partially offset by

related $3.9 million deferred income tax expenses, contributed to the Company recognizing net earnings of $1.7 million in the quarter.

- In the third quarter of 2020, net debt increased by $5.7 million or 67 percent from the second quarter of 2020, reflective of $5.8 million in exploration investments in the quarter. Average crude oil pricing increased by 34 percent from the prior quarter, which contributed to a $0.6 million increase in funds flow from operations to $0.2 million.
- Based on crude oil demand declines caused by COVID-19, second quarter 2020 realized crude oil pricing decreased by 36 percent from the prior quarter. Reduced expenditures on field operations also reduced crude oil production by 12 percent from the first quarter of 2020. These combined effects decreased second quarter operating netbacks by 42 percent, resulting in $0.5 million in funds flow used in operations. The Company continued with its exploration activities, investing $1.3 million which was the main driver in the increase in net debt of $3.2 million or 61 percent from the first quarter of 2020.
- In the first quarter of 2020, the Company recognized property and equipment impairments of $19.2 million as a result of decreased forecasted crude oil pricing from the market effects of COVID-19. The impairments were slightly offset by an associated deferred tax recovery of $10.1 million, resulting in a net loss of $9.2 million reported in the quarter. Touchstone completed a private placement in February 2020 for net proceeds of $10.9 million, which increased working capital and decreased net debt as of March 31, 2020.
- In the fourth quarter of 2019, the Company recognized a reversal of $1.3 million in previously accrued interest on income tax balances, which predominately led to a $0.9 million increase in funds flow from operations relative to the third quarter of 2019. Touchstone recorded $7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of $3.9 million, contributing to a net loss of $3.5 million recognized in the quarter. The Company extended its Canadian based term loan credit facility by C$5 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt by 36 percent from the third quarter of 2019.
- In the third quarter of 2019, Touchstone drilled its first Ortoire exploration well. The investment led to a 29 percent increase in net debt from the second quarter of 2019.

Advisory on Forward-Looking Statements

Certain information provided in this MD&A may constitute forward-looking statements and information (collectively, "forward-looking statements") within the meaning of applicable securities laws. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to assumptions, risks and uncertainties, many of which are beyond the control of the Company. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved.

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, recompletion, surface facility and tie-in 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, the impact of COVID-19 on future operations, 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, including future anticipated funds flow from operations;
- the future impact the COVID-19 pandemic will have on the Company's future operations and future petroleum pricing;
- future demand for the Company's petroleum products and economic activity in general;
- the Company's future capital expenditure and seismic programs, including the anticipated timing of completion, allocation and costs thereof and the method of funding;
- the Company's estimated timing of development and ultimate production from its Ortoire exploration wells;
- crude oil and natural gas production levels and estimated field production levels;
- production testing results and the Company's anticipated future production testing operations;
- 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;
- forecasted differential to Brent reference pricing realized in the future;
- terms and title of exploration and production licences and the expected renewal of certain contracts, including the LOAs;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated and future regulatory approvals and exploration and production licence and LOA renewals or amendments;
- access to third-party facilities and infrastructure;
- expected levels of operating costs, G&A expenses and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil;
- treatment under current and future governmental regulatory regimes and tax laws;

- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- the Company's ability to reverse property and equipment impairments in the future;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future liquidity and future sources of liquidity;
- the Company's future compliance with its Term Loan covenants and its ability to make future scheduled interest and principal payments;
- estimated amounts of the Company's future obligations in connection with its production liability and the Company's ability to make such scheduled payments;
- 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 under the Company's profile on SEDAR (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, working capital and net debt. These terms do not have a standardized meaning prescribed under GAAP and therefore may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash from operating activities, net earnings, net earnings per share, total assets, total liabilities, or other measures of financial performance as determined in accordance with GAAP. Management uses these non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

Funds flow from operations and funds flow from operations per share

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.

Operating netback

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

($000's unless otherwise stated)	**Three months ended March 31,**	
	2021	2020
Petroleum sales	**6,120**	6,698
Royalties	**(1,843)**	(2,019)
Operating expenses	**(1,711)**	(1,975)
Operating netback	**2,566**	2,704
Production *(bbls)*	**116,730**	145,301
Operating netback *($/bbl)*	**21.98**	18.61

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

($000's)	Three months ended March 31, 2021	2020
Funds flow from operations	**538**	1,257
Other income	**(23)**	(41)
Expenses		
G&A	**1,535**	1,167
Net finance	**149**	738
Current income tax	**341**	32
Realized foreign exchange	**26**	(14)
Change in non-cash other	**-**	(435)
Operating netback	**2,566**	2,704

Net (surplus) debt

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 (surplus) 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 (surplus) debt for the periods indicated.

($000's)	**March 31, 2021**	December 31, 2020	March 31, 2020
Current assets	**(22,417)**	(29,312)	(19,961)
Current liabilities	**11,865**	16,379	11,867
Working capital surplus	**(10,552)**	(12,933)	(8,094)
Principal non-current balance of term loan	**7,500**	7,500	13,338
Net (surplus) debt	**(3,052)**	(5,433)	5,244

The following table reconciles total liabilities per the interim financial statements to net (surplus) debt for the periods indicated.

($000's)	**March 31, 2021**	December 31, 2020	March 31, 2020
Total liabilities	**39,470**	44,187	39,726
Lease liabilities	**(329)**	(335)	(66)
Other liabilities	**(1,174)**	(1,357)	-
Decommissioning liabilities	**(11,912)**	(11,919)	(11,451)
Deferred income tax liability	**(6,999)**	(7,021)	(3,200)
Variance between carrying value and principal value of term loan	**309**	324	196
Current assets	**(22,417)**	(29,312)	(19,961)
Net (surplus) debt	**(3,052)**	(5,433)	5,244

Oil and Gas Advisories

Oil and Gas Matters

References in this MD&A to production test rates and initial flow rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which the well will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. A final pressure transient analysis and/or well test interpretation has yet to be carried out in respect of the Cascadura Deep-1 well. Accordingly, the Company cautions that the production test results contained herein should be considered preliminary.

Oil and Gas Measures

Where applicable, natural gas has been converted to barrels of oil equivalent based on six thousand cubic feet to one barrel of oil. The barrel of oil equivalent rate is based on an energy equivalent conversion method primarily applicable at the burner tip, and given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

Corporate Information

Directors

John D. Wright
Chair of the Board

Paul R. Baay

Kenneth R. McKinnon

Peter Nicol

Beverley Smith

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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Auditor

Ernst and Young LLP
Calgary, Alberta
Port of Spain, Trinidad

Reserves Evaluator

GLJ Ltd.
Calgary, Alberta

Legal Counsel

Norton Rose Fulbright LLP
Calgary, Alberta
London, United Kingdom

Nunez and Co.
Port of Spain, Trinidad

Transfer Agent and Registrar

Odyssey Trust Company
Calgary, Alberta

UK Nominated Advisor and Joint Broker

Shore Capital
London, United Kingdom

UK Joint Broker

Canaccord Genuity
London, United Kingdom

UK Public Relations

Camarco
London, United Kingdom

Abbreviations

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

Oil and Gas 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
MMBtu	million British Thermal Units
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
API	American Petroleum Institute gravity
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