



**Touchstone Exploration Inc.**

**Management's Discussion and Analysis**

**June 30, 2019**

## **Management's Discussion and Analysis**

### **As at and for three and six months ended June 30, 2019**

---

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. ("Touchstone", "we", "our", "us" or the "Company") for the three and six months ended June 30, 2019 with comparisons to the three and six months ended June 30, 2018 is dated August 13, 2019 and should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2019, as well with the Company's audited consolidated financial statements as at and for the year ended December 31, 2018. The unaudited interim consolidated financial statements and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with Touchstone's MD&A for the year ended December 31, 2018, as disclosure which is unchanged from December 31, 2018 may not be duplicated herein.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with the Canadian securities regulatory authorities, including the Company's December 31, 2018 Annual Information Form dated March 26, 2019, which can be found on the Company's SEDAR profile ([www.sedar.com](http://www.sedar.com)).

Unless otherwise stated, all financial amounts presented herein are rounded to thousands of United States dollars ("\$" or "US\$") as further described in the section titled "*Changes to Accounting Policies*" in this MD&A.

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. Certain prior year amounts have been reclassified to conform to current year presentation.

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

### **About Touchstone Exploration Inc.**

---

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

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

## Financial and Operating Results Summary

	Three months ended			Six months ended		
	2019	June 30, 2018	% change	2019	June 30, 2018	% change
<b>Operating Highlights</b>						
Average daily oil production ( <i>bbls/d</i> )	1,768	1,717	3	1,944	1,631	19
Net wells drilled	-	3	(100)	-	5	(100)
Brent benchmark price ( <i>\$/bbl</i> )	69.01	74.53	(7)	66.03	70.67	(7)
Operating netback <sup>(1)</sup> ( <i>\$/bbl</i> )						
Realized sales price	60.33	61.97	(3)	58.91	60.63	(3)
Royalties	(17.25)	(17.49)	(1)	(16.19)	(17.18)	(6)
Operating expenses	(16.23)	(14.90)	9	(14.52)	(15.31)	(5)
	26.85	29.58	(9)	28.20	28.14	-
<b>Financial Highlights</b>						
<i>(\$000's except as indicated)</i>						
Petroleum sales	9,708	9,685	-	20,723	17,897	16
Cash flow from operating activities	1,832	4,711	(61)	4,569	3,690	24
Funds flow from operations <sup>(2)</sup>	1,310	2,507	(48)	3,740	4,569	(18)
Per share – basic and diluted <sup>(1)(2)</sup>	0.01	0.02	(50)	0.02	0.04	(50)
Net loss	(833)	(523)	59	(1,018)	(393)	159
Per share – basic and diluted	(0.01)	(0.00)	n/a	(0.01)	(0.00)	n/a
Exploration capital expenditures	681	334	104	1,041	511	104
Development capital expenditures	315	3,506	(91)	714	6,358	(89)
Total capital expenditures	996	3,840	(74)	1,755	6,869	(74)
Working capital surplus				(2,062)	(2,844)	(27)
Principal balance of term loan				11,459	11,420	-
Long-term lease liabilities				613	-	n/a
Net debt <sup>(1)</sup> – end of period				10,010	8,576	17
<b>Share Information (000's)</b>						
Weighted average shares outstanding – basic and diluted	160,688	129,021	25	150,891	129,021	17
Outstanding shares – end of period				160,688	129,021	25

### 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 financial measure included in the Company's consolidated statements of cash flows. See "Non-GAAP Measures".

### Second quarter operating results

In the first half of 2019, Touchstone conducted minimal capital development activities and continued to focus on managing working capital, maintaining net debt levels and preparing for the initial Ortoire exploration well that spudded on August 7, 2019. Second quarter development capital expenditures totaled \$315,000 which included continuing recompletion activities.

Second quarter 2019 crude oil production averaged 1,768 bbls/d, a 3% increase relative to the 1,717 bbls/d produced in the second quarter of 2018. Second quarter average daily production decreased by 17% from the first quarter of 2019. First quarter 2019 volumes were buoyed by flush production from wells drilled in the fourth quarter of 2018. As this flush production declined, the Company focused on converting the wells to pump as well as recompleting initial low rate producing wells. As a result of these initiatives, various wells and associated production were off-line during the second quarter. Production from the 2018 development drilling campaign contributed an average of approximately 413 bbls/d of

incremental production in the second quarter of 2019 versus 692 incremental bbls/d in the first quarter of 2019.

### **Second quarter financial results**

Our second quarter operating netback was \$26.85 per barrel compared to \$29.58 per barrel in the second quarter of 2018. Realized second quarter 2019 crude oil pricing was \$60.33 per barrel, 3% less than the \$61.97 per barrel received in the equivalent quarter of 2018. Second quarter 2019 royalty expenses were consistent with the second quarter of 2018, both on a per barrel basis and as a percentage of petroleum sales. In comparison to the second quarter of 2018, operating expenses on a per barrel basis increased 9%, predominately due to extensive well servicing activities conducted during the three months ended June 30, 2019.

Touchstone generated second quarter 2019 funds flow from operations of \$1,310,000 (\$0.01 per share), representing a decrease of \$1,197,000 or 48% from the prior year comparative period. The variance was mainly a result of increased current income taxes recorded in the 2019 second quarter, as increased supplemental petroleum tax was incurred based on minimal developmental capital activity in the second quarter of 2019. As a result, we recognized a net loss of \$833,000 (\$0.01 per share) in the second quarter of 2019 versus a net loss of \$523,000 (\$0.00 per share) in the equivalent prior year quarter.

Touchstone exited the second quarter with a cash balance of \$7,250,000, a working capital surplus of \$2,062,000 and a C\$15 million principal term loan balance. Our June 30, 2019 net debt position of \$10,010,000 represented net debt to trailing twelve-month funds flow from operations of 1.3 times. As a result of an extension executed in the first quarter of 2019, our credit facility does not require the commencement of principal payments until January 1, 2021, and we continued to be comfortably within the financial covenants as at June 30, 2019.

### **Results of Operations**

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

### **Financial highlights**

(\$000's except for per share amounts)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Net loss	<b>(833)</b>	(523)	59	<b>(1,018)</b>	(393)	100
Per share – basic and diluted	<b>(0.01)</b>	(0.00)	n/a	<b>(0.01)</b>	(0.00)	n/a
Cash flow from operating activities	<b>1,832</b>	4,711	(61)	<b>4,569</b>	3,690	24
Funds flow from operations <sup>(1)</sup>	<b>1,310</b>	2,507	(48)	<b>3,740</b>	4,569	(18)
Per share – basic and diluted <sup>(1)(2)</sup>	<b>0.01</b>	0.02	(50)	<b>0.02</b>	0.04	(50)

Notes:

- (1) Additional GAAP financial measure included in the Company's consolidated statements of cash flows. See "Non-GAAP Measures".
- (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

During the three months ended June 30, 2019, the Company recognized a net loss of \$833,000 (\$0.01 per share) versus a net loss of \$523,000 (\$0.00 per share) recorded in the prior year equivalent quarter. In comparison to the second quarter of 2018, a decrease in funds flow from operations of \$1,197,000 in the current quarter was partially offset by a \$1,089,000 decrease in deferred tax expense.

Net loss for the six months ended June 30, 2019 was \$1,018,000 (\$0.01 per share), representing an increase of \$625,000 from the \$393,000 net loss recognized in the corresponding 2018 period. The variance was mainly a result of a year-over-year decrease in funds flow from operations of \$829,000.

Details of the change in net loss from the three and six months ended June 30, 2018 to the three and six months ended June 30, 2019 are included in the table below.

(\$000's)	Three months ended June 30	Six months ended June 30
Net loss - 2018	(523)	(393)
Sales volume variance	288	3,433
Realized price variance	(265)	(607)
Royalties	(42)	(624)
Other income	3	(364)
Expenses		
Operating	(283)	(587)
General and administrative	(38)	20
Cash finance expenses	74	40
Current income taxes	(965)	(2,292)
Realized foreign exchange	(6)	26
<b>Total cash variances</b>	<b>(1,234)</b>	<b>(955)</b>
Non-cash loss on financial derivatives	112	168
Unrealized foreign exchange	(65)	(404)
Share-based compensation	(18)	(24)
Depletion and depreciation	(208)	(765)
Impairment	22	100
Loss on decommissioning liabilities	9	9
Non-cash finance expenses	(17)	143
Deferred income taxes	1,089	1,103
<b>Total non-cash variances</b>	<b>924</b>	<b>330</b>
<b>Net loss - 2019</b>	<b>(833)</b>	<b>(1,018)</b>

## Cash flow from operating activities and funds flow from operations

Second quarter 2019 cash flow from operating activities decreased by \$2,879,000 or 61% from the prior year equivalent quarter. The variance relative to the prior year was a result of decreases of \$1,197,000 in funds flow from operations, \$1,511,000 in changes in non-cash working capital and \$171,000 incurred for the purchase of derivative options in the second quarter of 2019.

For the six months ended June 30, 2019, cash provided by operations increased \$879,000 from the comparative 2018 period. Relative to 2018, a year-over-year increase in non-cash working capital of \$1,726,000 was partially offset by a decrease in funds flow from operations of \$829,000 and an \$18,000 increase related to derivative option purchases.

During the three months ended June 30, 2019, the Company generated funds flow from operations of \$1,310,000. The \$1,197,000 decrease was mainly a result of an increase of \$965,000 of current income tax expenses recognized in the 2019 second quarter as a result of decreased capital expenditures that qualified for credits against supplemental petroleum taxes.

For the six months ended June 30, 2019, funds flow from operations was \$3,740,000, representing an 18% decrease relative to the \$4,569,000 recognized in the 2018 equivalent period. Compared to the 2018 period, 2019 increases in operating netbacks of \$1,615,000 were offset by an increase of \$2,292,000 in current income tax expenses.

Details of the change in funds flow from operations from the three and six months ended June 30, 2018 to the three and six months ended June 30, 2019 are noted in the following table.

(\$000's)	Three months ended June 30	Six months ended June 30
Funds flow from operations – 2018 <sup>(1)</sup>	2,507	4,569
Sales volume variance	288	3,433
Realized price variance	(265)	(607)
Royalties	(42)	(624)
Other income	3	(364)
Operating expenses	(283)	(587)
General and administrative expenses	(38)	20
Cash finance expenses	74	40
Current income tax expenses	(965)	(2,292)
Realized foreign exchange expense	(6)	26
Change in non-cash other	21	126
Decommissioning expenditures	16	-
<b>Funds flow from operations – 2019<sup>(1)</sup></b>	<b>1,310</b>	<b>3,740</b>

Note:

(1) Additional GAAP financial measure included in the Company's consolidated statements of cash flows. See "Non-GAAP Measures".

### Production volumes

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	%	2019	2018	%
			change			change
Oil production (bbls)	160,921	156,275	3	351,801	295,173	19
Average daily oil production (bbls/d)	1,768	1,717	3	1,944	1,631	19

Second quarter 2019 crude oil sales increased 3% compared to the second quarter of 2018 yet decreased 16% from production achieved in the first quarter of 2019. In comparison to the prior quarter, current quarter production decreased due to increased flush production from wells drilled in late 2018 produced in the first quarter and various wells drilled in 2018 that required optimization in the second quarter with limited well servicing equipment availability.

During the six months ended June 30, 2019, crude oil production increased 19% from the comparative prior year period based on incremental production achieved from the Company's 2018 drilling efforts, which contributed average production of approximately 552 bbls/d in the year to date 2019 period.

The table below summarizes crude oil production by property during the three and six months ended June 30, 2019 and 2018.

(bbls)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Coora 1	30,011	32,941	(9)	75,344	66,053	14
Coora 2	6,746	6,786	(1)	13,700	12,274	12
WD-4	58,443	56,459	4	118,475	108,578	9
WD-8	44,318	32,179	38	99,555	54,225	84
New Dome	2,184	2,663	(18)	4,480	4,575	(2)
South Palo Seco	391	705	(45)	1,070	1,137	(6)
Barrackpore	1,009	2,894	(65)	2,466	5,231	(53)
Fyzabad	9,778	13,761	(29)	19,757	25,867	(24)
Icacos <sup>(1)</sup>	-	925	(100)	-	2,099	(100)
Palo Seco	888	1,184	(25)	1,830	2,345	(22)
San Francique	7,153	5,778	24	15,124	12,789	18
<b>Production</b>	<b>160,921</b>	<b>156,275</b>	<b>3</b>	<b>351,801</b>	<b>295,173</b>	<b>19</b>

Note:

(1) The Icacos property was sold on December 22, 2018.

### Crude oil pricing (excluding derivative contracts)

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Brent average (\$/bbl) <sup>(1)</sup>	69.01	74.53	(7)	66.03	70.67	(7)
WTI average (\$/bbl) <sup>(1)</sup>	59.81	67.88	(12)	57.36	65.37	(12)
Avg. realized price (\$/bbl)	60.33	61.97	(3)	58.91	60.63	(3)
Realized price discount as a % of Brent	(12.6)	(16.9)		(10.8)	(14.2)	
Realized price premium (discount) as a % of WTI	0.9	(8.7)		2.7	(7.3)	

Note:

(1) Average for the periods indicated. Source: US Energy Information Administration.

Touchstone's crude oil realized price has historically correlated to the Brent benchmark price. Global crude oil prices increased in the second quarter of 2019, with Brent reference price averaging 9% higher than the first quarter of 2019. However, 2019 average oil prices decreased in comparison to the prior year. For the three and six months ended June 30, 2019, average Brent reference pricing was 7% less than both of the comparative periods of 2018.

The Company's crude oil price received is based on quality differentials and therefore are attributed to factors that are beyond the Company's control. Relative to the second quarter of 2018, the Brent differential realized during the second quarter of 2019 narrowed from 16.9% to 12.6%. Similarly, the Brent differential realized during the six months ended June 30, 2019 narrowed to 10.8% versus 14.2% in the equivalent period of 2018.

The Company realized an average price of \$60.33 per barrel in the second quarter of 2019 compared to an average of \$61.97 per barrel in the corresponding period of 2018. The 3% decrease resulted from a 7% decrease in the Brent reference price, partially offset by a 4% narrowing of the realized Brent reference differential.

The Company realized an average price of \$58.91 per barrel during the six months ended June 30, 2019, a 3% decrease relative to the \$60.63 price received in the equivalent 2018 period. The decrease was attributed to a 7% decrease in the average Brent reference price, offset by a 3% narrowing of the realized differential to Brent.

## Petroleum sales

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
<b>Petroleum sales</b>	<b>9,708</b>	9,685	-	<b>20,723</b>	17,897	16

The Company recognized petroleum sales of \$9,708,000 during the three months ended June 30, 2019 versus \$9,685,000 recognized in the prior year comparative quarter. \$288,000 of the change was a result of increased production, partially offset by a \$265,000 negative realized pricing variance. For the six months ended June 30, 2019, petroleum sales were \$20,723,000, representing a \$2,826,000 or 16% increase from the \$17,897,000 recognized in the equivalent 2018 period. \$3,433,000 of the increase was attributed to increased production, offset by a realized price variance of \$607,000.

Touchstone sells all of its crude oil to Heritage Petroleum Company Limited ("Heritage"), with title transferring at the Company's various sales batteries. As at June 30, 2019, the Company held 6,337 barrels of crude oil inventory versus 7,559 barrels held as at December 31, 2018.

## Commodity price financial derivatives

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

In April 2019, the Company purchased put option contracts for 800 bbls/d at a strike price of Brent \$56.10 per barrel from June 1, 2019 to December 31, 2019. The put options were purchased from a financial institution for an upfront cash premium of \$171,000. The options may be settled on a monthly basis during the option exercise period. The June 2019 options expired out of the money. For the three and six months ended June 30, 2019, the Company recorded derivative gains of \$25,000 and \$25,000, respectively (2018 - \$87,000 and \$143,000) related to commodity management contracts. For further information, refer to the "Risk Management" section of this MD&A.

## Operating netbacks

The components of operating netback for the three and six months ended June 30, 2019 and 2018 are set forth below.

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Petroleum sales <sup>(1)</sup>	<b>9,708</b>	9,685	-	<b>20,723</b>	17,897	16
Royalties	<b>(2,776)</b>	(2,734)	2	<b>(5,695)</b>	(5,071)	12
Operating expenses	<b>(2,612)</b>	(2,329)	12	<b>(5,107)</b>	(4,520)	13
<b>Operating netback<sup>(2)</sup></b>	<b>4,320</b>	4,622	(7)	<b>9,921</b>	8,306	19
(\$/bbl)						
Brent benchmark price	<b>69.01</b>	74.53	(7)	<b>66.03</b>	70.67	(7)
Discount	<b>(8.68)</b>	(12.56)		<b>(7.12)</b>	(10.04)	
Realized sales price	<b>60.33</b>	61.97	(3)	<b>58.91</b>	60.63	(3)
Royalties	<b>(17.25)</b>	(17.49)	(1)	<b>(16.19)</b>	(17.18)	(6)
Operating expenses	<b>(16.23)</b>	(14.90)	9	<b>(14.52)</b>	(15.31)	(5)
<b>Operating netback<sup>(2)</sup></b>	<b>26.85</b>	29.58	(9)	<b>28.20</b>	28.14	-

Notes:

(1) Excludes other income.

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



## Royalties

(\$000's unless otherwise stated)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Crown royalties	1,181	1,046		2,395	1,885	
Private royalties	109	137		209	264	
Overriding royalties	1,486	1,551		3,091	2,922	
<b>Royalties</b>	<b>2,776</b>	<b>2,734</b>	<b>2</b>	<b>5,695</b>	<b>5,071</b>	<b>12</b>
<b>As a % of petroleum sales</b>	<b>28.6%</b>	<b>28.2%</b>	<b>1</b>	<b>27.5%</b>	<b>28.3%</b>	<b>(3)</b>

Touchstone incurs a crown royalty rate of 12.5% on production under Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") and Heritage licences. For private leases, the Company incurs private royalties between 10% and 12.5% of petroleum sales. On the WD-8, Coora and WD-4 blocks, the Company operates under lease operatorship agreements ("LOAs"), which in addition to crown royalties apply a sliding scale notional overriding royalty ("NORR") that ranges from 10% to 35% on predefined monthly base production levels. For any production volumes sold in excess of base production levels, the Company incurs an enhanced NORR ("enhanced NORR") of 8% to 22.5%. The NORR and enhanced NORR rates are indexed to the average price of oil realized in the production month. The LOAs allow for NORR and enhanced NORR incentives for the drilling or sidetracking of a replacement well as follows:

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

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

2019 second quarter royalties were consistent with the prior year second quarter, representing 28.6% of petroleum sales.

For the six months ended June 30, 2019, royalties represented 27.5% of petroleum sales compared to 28.3% in the prior year comparative period. The 3% decrease on a percentage of petroleum sales basis was a result of increased production in 2019 from the 2018 drilling campaign which qualified for enhanced NORR incentives.

## Operating expenses

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
<b>Operating expenses</b>	<b>2,612</b>	<b>2,329</b>	<b>12</b>	<b>5,107</b>	<b>4,520</b>	<b>13</b>

The Company's second quarter operating expenses were \$2,612,000, representing \$16.23 per barrel. In comparison to the second quarter of 2018, current period operating expenses increased by \$283,000 and 9% on a per barrel basis from the \$14.90 per barrel incurred in 2018. This increase was primarily based on increased well servicing costs incurred in the second quarter of 2019 to optimize wells drilled in late 2018.

Operating expenses for the six months ended June 30, 2019 were \$5,107,000 or \$14.52 per barrel. Per barrel operating expenses decreased 5% relative to the \$15.31 per barrel recognized in the comparative prior year period mainly as a result of approximately \$244,000 (representing \$0.69 per barrel) in well servicing and motor vehicle costs which are now classified as repayments of lease liabilities following the Company's adoption of IFRS 16 Leases ("IFRS 16") (refer to "Changes to Accounting Policies").

### General and administrative expenses ("G&A")

(\$000's unless otherwise stated)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Gross G&A	1,640	1,692	(3)	3,205	3,277	(2)
Capitalized G&A	(153)	(243)	(37)	(403)	(455)	(11)
<b>G&amp;A expenses</b>	<b>1,487</b>	<b>1,449</b>	<b>3</b>	<b>2,802</b>	<b>2,822</b>	<b>(1)</b>
<b>On a per barrel basis</b>	<b>9.24</b>	<b>9.27</b>	<b>-</b>	<b>7.96</b>	<b>9.56</b>	<b>(17)</b>

Compared to the second quarter of 2018 and year to date 2018 periods, 2019 G&A expenses remained consistent as decreases in capitalized G&A were offset by decreases in foreign exchange variances from the translation of Canadian head office costs reductions in head office rent and office costs which are now classified as repayment of lease liabilities following the Company's adoption of IFRS 16 (refer to "Changes to Accounting Policies").

### Net finance expenses

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Interest income	(29)	(46)		(60)	(90)	
Term loan interest expense	223	232		445	463	
Term loan revaluation gain	-	(219)		(277)	(219)	
Production payment liability revaluation (gain) loss	(23)	194		209	320	
Accretion on term loan	78	78		151	148	
Accretion on decom. liabilities	90	65		180	129	
Lease liability interest expense	24	-		50	-	
Other	(112)	4		(126)	4	
<b>Net finance expenses</b>	<b>251</b>	<b>308</b>	<b>(19)</b>	<b>572</b>	<b>755</b>	<b>(24)</b>

Interest income included interest earned from funds on deposit and interest generated from a finance lease (refer to "Capital Lease").

Second quarter and year to date June 30, 2019 term loan interest expenses remained consistent with the prior year equivalent periods, as the Company's \$15 million term loan bears an 8% fixed interest rate. Term loan revaluation gains represented the impact of revaluations of the Company's term loan that was extended by one year initially in June 2018 and further extended in March 2019. The production payment liability revaluation loss was a result of the increased production payment liability estimated by the Company in each reporting period. The estimated liability varied in each reporting period on the aforementioned extensions of the obligation in 2018 and 2019 and changes to internally forecasted production and forward commodity pricing (see "Liquidity and Capital Resources - Term loan").

Lease liability interest expense was recognized in 2019 as a result of the adoption of IFRS 16 (refer to "Changes to Accounting Policies").

### Foreign exchange and foreign currency translation

The Company's presentation currency is the United States dollar (refer to "Changes to Accounting Policies"). The parent company has a Canadian dollar functional currency while its Trinidadian subsidiaries have a Trinidad and Tobago dollar functional currency. In each reporting period, the change

in values of the C\$ and TT\$ relative to the US\$ reporting currency are recognized. The applicable rates used to translate the Company's TT\$ and C\$ denominated items were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
<b>Average foreign exchange rates<sup>(1)</sup></b>						
US\$:C\$	1.34	1.29	4	1.33	1.28	4
US\$:TT\$	6.77	6.72	1	6.77	6.73	1
	June 30, 2019	March 31, 2019		June 30, 2019	December 31, 2018	
<b>Closing foreign exchange rates<sup>(1)</sup></b>						
US\$:C\$	1.31	1.34	(2)	1.31	1.36	(4)
US\$:TT\$	6.77	6.77	-	6.77	6.80	-

Note:

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

The income and expenses of the Company's Canadian head office and Trinidad operations are translated to US\$ at the average monthly exchange rates relative to the date of the transactions. Fluctuations in the exchange rate between the TT\$ and the US\$ could have a significant effect on reported results, as the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices and the majority of the Company's operating costs are denominated in TT\$. This is currently mitigated by the fact that the TT\$ is informally pegged to the US\$. The Company is also subject to foreign exchange exposure relating to Canadian head office expenses and its term loan, which are denominated in C\$. Any material movements in the C\$ to US\$ exchange rate may have a material effect on the Company's reporting results. The Company also has foreign exchange exposure on costs denominated in pounds sterling required to maintain its AIM listing.

During the three and the six months ended June 30, 2019, the C\$ depreciated 4% and the TT\$ weakened by 1% relative to the US\$ in comparison to the equivalent periods of 2018, respectively. As a result, the Company recorded foreign exchange losses of \$91,000 and \$129,000 during the three and six months ended June 30, 2019, respectively (2018 – loss of \$20,000 and gain of \$249,000). The majority of the 2019 translation differences in each period were unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

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

As at June 30, 2019 compared to March 31, 2019, the US\$ was 2% weaker relative to the C\$ and marginally stronger relative to the TT\$. As a result, a foreign currency translation loss of \$188,000 was reported during the second quarter of 2019 (2018 - gain of \$267,000).

In comparison to December 31, 2018, the US\$ was 4% weaker relative to the C\$ and slightly weaker relative to the TT\$ as at June 30, 2019. Touchstone recognized a foreign currency translation loss of \$221,000 during the six months ended June 30, 2019 (2018 - gain of \$542,000).

### **Share-based compensation**

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

On April 5, 2019, the Company granted 2,550,000 share options to officers, directors and employees at an exercise price of C\$0.23 per option. The share options have a five-year term and vest one third on each of the next three anniversaries of the grant date.

The Company also has an incentive share compensation plan which provides for the grant of incentive share options to purchase common shares of the Company at a C\$0.05 exercise price. A maximum of one million common shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant. The Company is phasing out its incentive share compensation plan, as no awards have been granted since June 2014.

At June 30, 2019, Touchstone had 9,129,400 share options and 15,000 incentive share options outstanding, with a weighted average exercise price of C\$0.29 per share and C\$0.10 per share, respectively. The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding Company common shares. At June 30, 2019, share options and incentive share options outstanding represented 5.7% of the Company's outstanding common shares (December 31, 2018 - 6.6%).

During the three and six months ended June 30, 2019, the Company recorded share-based compensation expenses of \$49,000 and \$80,000 in relation to share option plans, respectively (2018 - \$31,000 and \$56,000).

#### **Depletion and depreciation expense**

<i>(\$000's unless otherwise stated)</i>	<b>Three months ended June 30,</b>			<b>Six months ended June 30,</b>		
	<b>2019</b>	2018	% change	<b>2019</b>	2018	% change
Depletion expense	<b>1,086</b>	1,009	8	<b>2,373</b>	1,871	27
On a per barrel basis	<b>6.75</b>	6.46	5	<b>6.75</b>	6.34	6
Depreciation expense	<b>163</b>	32	100	<b>327</b>	64	100
<b>Depletion and depreciation expense</b>	<b>1,249</b>	1,041	20	<b>2,700</b>	1,935	40

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. As at June 30, 2019, \$68,390,000 in future development costs were included in petroleum asset cost bases for depletion calculation purposes (December 31, 2018 - \$68,644,000).

Assets in the exploration phase are not amortized. Depreciation expense is recorded based on corporate assets in Canada on a declining balance basis. The right-of-use ("ROU") assets recognized upon the Company's adoption of IFRS 16 are depreciated over their estimated useful lives on a straight-line basis (refer to "*Changes to Accounting Policies*").

Second quarter 2019 per barrel depletion expenses increased by 5% in comparison to the prior year equivalent period primarily based on increases in production. The annual second quarter depreciation increase was primarily attributable to the adoption of IFRS 16, as the recognition of ROU assets increased the Company's property and equipment balance by \$1,194,000 on January 1, 2019.

For the six months ended June 30, 2019, per barrel depletion expenses increased by 6% in comparison to the prior year equivalent period primarily based on the annual increase in production. Depreciation recognized in the year to date June 30, 2019 period increased \$263,000 from the equivalent 2018 period mainly from the adoption of IFRS 16.

### ***Impairment of non-financial assets***

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

At June 30, 2019 and 2018, Touchstone evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of these assessments, no indicators were identified, and no impairment or related reversal was recorded. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

During the three and six months ended June 30, 2019, the Company impaired \$63,000 and \$141,000 relating to lease expenses incurred on its East Brighton property, respectively (2018 - \$92,000 and \$185,000). These costs were impaired given the property's estimated recoverable value was \$nil. During the six months ended June 30, 2018, the Company incurred a net \$56,000 impairment charge relating to its Cory Moruga exploration concession. The decommissioning liability associated with the property was increased based on changes in estimates, and the corresponding abandonment asset was impaired given the property's estimated recoverable value was \$nil.

The Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of \$4,543,000 as at June 30, 2019 (December 31, 2018 - \$3,644,000).

### ***Decommissioning liabilities and abandonment fund***

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

Pursuant to production and exploration licences with the MEEI, the Company is obligated to remit \$0.25 per barrel sold into an escrow account in the name of the MEEI. The payments are used as a contingency fund for remediation of pollution arising from petroleum operations carried out under the relevant licence and the eventual abandonment of wells and decommissioning of facilities used for operations conducted under the relevant licence. The MEEI shall return the funds in the escrow account once all obligations in respect of environmental remediation are fulfilled to the satisfaction of the MEEI. Contributions to the fund are reflected on the consolidated statements of financial position as long-term 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 long-term abandonment fund assets. As of June 30, 2019, the Company classified \$1,050,000 of accrued or paid contributions into MEEI and Heritage abandonment funds as long-term abandonment fund assets (December 31, 2018 - \$966,000).

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

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$8,644,000 as at June 30, 2019 based on a total inflation adjusted future liability of \$28,919,000 (December 31, 2018 - \$8,915,000 and \$31,606,000, respectively). The estimate included assumptions in respect of actual costs to abandon wells or reclaim a property, the time frame in which such costs will be incurred, and annual inflation factors. June 30, 2019 decommissioning liabilities were valued using a long-term risk-free rate of 7.9% and a long-term inflation rate of 3.3% (December 31, 2018 - 7.9% and 3.7%, respectively). \$90,000 and \$180,000 of accretion charges were recognized during the three and six months ended June 30, 2019 to reflect the increase in decommissioning liabilities associated with the passage of time, respectively (2018 - \$65,000 and \$129,000). Decommissioning obligation details as at June 30, 2019 were as follows:

Number of net well locations	Undiscounted balance (\$000's)	Inflation adjusted balance (\$000's)	Discounted balance (\$000's)
871	16,701	28,919	8,644

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities for the three and six months ended June 30, 2019 is included in Note 11 "*Decommissioning Liabilities and Abandonment Fund*" of the Company's June 30, 2019 unaudited interim consolidated financial statements.

#### ***Income tax expense and income taxes payable***

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

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

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

Annual PPT and UL taxes are calculated based on net taxable profits. Net taxable profits are determined by calculating gross revenue less: royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses. PPT losses may be carried forward indefinitely to reduce PPT in future years. UL losses cannot be carried forward to reduce future year UL. Developmental and

exploratory capital expenditure allowances (tangible and intangible) are amortized 50% in year one, 30% in year two and 20% in year three. All exploration expenditures, unsuccessful development expenditures and abandonment costs can be written off in the year incurred.

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

The following table sets forth current income tax expense for the three and six months ended June 30, 2019 and 2018.

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
SPT	1,237	393		2,707	608	
PPT/UL	128	36		244	81	
Business levy	10	4		14	9	
Green fund levy	60	37		88	63	
<b>Current income tax expense</b>	<b>1,435</b>	<b>470</b>	<b>100</b>	<b>3,053</b>	<b>761</b>	<b>100</b>

For the three and six months ended June 30, 2019, current income taxes were \$1,435,000 and \$3,053,000, respectively (2018 - \$470,000 and \$761,000). The annual increases in both reporting periods were predominately from increased SPT recorded in 2019 based on increased production and petroleum revenue and reduced capital activity, which qualified for less SPT input tax credits. Details regarding the Company's June 30, 2019 income tax payable balance are noted in the following table.

(\$000's)	Principal	Interest	Total
Prior to 2019	-	2,270	2,270
2019 tax accruals less instalments paid	1,408	-	1,408
<b>Income taxes payable</b>	<b>1,408</b>	<b>2,270</b>	<b>3,678</b>

Touchstone's \$16,544,000 deferred income tax liability balance represented the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases as at June 30, 2019 (December 31, 2018 - \$14,994,000). The deferred tax liability balance mainly related to the discrepancy of the tax values over the carrying values of the Company's petroleum assets. The Company recorded deferred tax expenses of \$556,000 and \$1,498,000 during the three and six months ended June 30, 2019, respectively (2018 - \$1,645,000 and \$2,601,000).

The Company previously acquired a Trinidad company that had overdue income tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the acquired subsidiary specified that upon confirmation from the BIR, the acquired subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the acquired subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of June 30, 2019, \$2,270,000 (December 31, 2018 - \$2,262,000) in related interest was accrued in income taxes payable.

The acquired subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and

the full interest balance is the responsibility of the seller. During 2017, the seller was placed into joint liquidation. Management has received confirmation from external counsel that financial position of the seller and the Company's ability to recover funds under the indemnity remain unchanged. The Company continues to work with the BIR to resolve this matter and does not believe that it will be required to make any payments for the seller's portion of any interest.

## Capital Expenditures

### Exploration asset expenditures

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

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Lease payments	206	137		406	271	
Geological	45	180		148	216	
Drilling and completions	392	-		392	-	
Capitalized G&A	38	17		95	24	
<b>Exploration asset expenditures</b>	<b>681</b>	<b>334</b>	<b>100</b>	<b>1,041</b>	<b>511</b>	<b>100</b>

Touchstone incurred \$206,000 and \$406,000 in head licence costs for the Ortoire and East Brighton properties during the three and six months ended June 30, 2019, respectively (2018 - \$137,000 and \$271,000). Throughout 2019 the Company continued to prepare for its first exploration well in Ortoire, incurring \$392,000 in pre-drilling costs during the three months ended June 30, 2019 (2018 - \$nil). All geological expenditures and capitalized G&A amounts incurred in the periods noted above were related to the Ortoire concession.

### Property and equipment (development) expenditures

(\$000's)	Three months ended June 30,			Six months ended June 30,		
	2019	2018	% change	2019	2018	% change
Drilling and completions	200	3,274		406	5,921	
Capitalized G&A	115	226		308	431	
Corporate assets / other	-	6		-	6	
<b>Development expenditures</b>	<b>315</b>	<b>3,506</b>	<b>(91)</b>	<b>714</b>	<b>6,358</b>	<b>(89)</b>

The Company conducted minimal field development activity in both the second quarter and year to date June 30, 2019 periods, with minimal developmental well recompletions performed. During the three and six months ended June 30, 2018, the Company drilled three net wells and five net wells, respectively.

## Liquidity and Capital Resources

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

As at June 30, 2019, Touchstone had a cash balance of \$7,250,000, a working capital surplus of \$2,062,000, and a C\$15 million principal term loan balance. Attributable to limited capital expenditures and the net funds received from the first quarter private placement, Touchstone's net debt was \$10,010,000, which was 30% lower than the December 31, 2018 balance despite a \$1,128,000 increase



in lease liabilities from the adoption of IFRS 16 (refer to "*Changes to Accounting Policies*"). The Company's 2018 developmental capital investments increased both production and funds flow from operations from the prior year, as net debt to trailing twelve-month funds flow from operations was 1.3 times as of June 30, 2019 versus 1.7 times as at December 31, 2018. As a result of an extension executed in the first quarter of 2019, the Company's C\$15 million credit facility does not require the commencement of principal payments until January 1, 2021.

The Company's near-term development plan is strategically balanced between maintaining base production levels and proceeding with exploratory activities on the Ortoire property while maintaining a net debt to trailing funds flow from operations ratio below 2.0 times. Touchstone will continue to take a measured approach to 2019 developmental drilling in an effort to manage financial liquidity while focusing on the Ortoire exploration opportunity.

Management's long-term strategy is to maintain net debt to annual funds flow from operations at or below a ratio of 2.0 times. The Company also monitors its capital management through the net debt to net debt plus equity ratio. Management's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1. Touchstone's internal capital management calculations for the six months ended June 30, 2019 and the year ended December 31, 2018 are summarized in the table below.

(\$000's)	Target measure	June 30, 2019	December 31, 2018
Current assets		(17,518)	(15,854)
Current liabilities		15,456	19,172
Working capital (surplus) deficit <sup>(1)</sup>		(2,062)	3,318
Principal long-term portion of term loan		11,459	11,004
Long-term lease liabilities		613	-
Net debt <sup>(2)</sup>		10,010	14,322
Shareholders' equity		34,565	31,217
Net debt plus equity		44,575	45,539
Trailing twelve-month funds flow from operations <sup>(3)</sup>		7,585	8,414
<b>Net debt to funds flow from operations</b>	<b>&lt; 2.0 times</b>	<b>1.3</b>	<b>1.7</b>
<b>Net debt to net debt plus equity</b>	<b>&lt; 0.4 times</b>	<b>0.2</b>	<b>0.3</b>

Notes:

- (1) Working capital (surplus) deficit is a Non-GAAP measure and is calculated as current assets minus current liabilities as they appear on the consolidated statements of financial position.
- (2) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "*Non-GAAP Measures*" for further information.
- (3) Additional GAAP financial measure included in the Company's consolidated statements of cash flows. Trailing twelve-month funds flow from operations as at June 30, 2019 include funds flow from operations for the six months ended June 30, 2019 plus funds flow from operations for the July 1, 2018 through December 31, 2018 interim period. See "*Non-GAAP Measures*".

Following the adoption of IFRS 16, the Company now recognizes lease liabilities in its determination of net debt. Lease liabilities are affected by the amount of future lease payments, anticipated lease terms, and the Company's estimated incremental borrowing rate for a specific lease arrangement. Changes to the Company's lease obligations could have a material impact on the Company's net debt and its net debt to funds flow from operations ratios in future periods (refer to "*Changes to Accounting Policies*").

### **Term loan**

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

Effective June 15, 2018, the Company and the lender entered into a Second Amending Agreement to the Credit Agreement, which extended the term loan maturity date to November 23, 2022 and extended all principal payments by one year. Effective March 29, 2019, the Company and the lender entered into a Third Amending Agreement to the Credit Agreement (the "2019 Amendment"), which extended the term loan maturity date to November 23, 2023. The Company is required to repay C\$810,000 per quarter commencing on January 1, 2021 through October 1, 2023, and the then outstanding principal balance is repayable on the maturity date. As consideration for the Amendment, the Company paid the lender a financing fee of C\$150,000 (\$112,000).

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

- from July 1, 2019 to November 23, 2019, a fee of 2% of the amount prepaid; and
- from November 24, 2019 to November 22, 2023, a fee of 1% of the amount prepaid.

In connection with the term loan, the Company granted the lender a production payment equal to 1% of total petroleum sales from then current Company land holdings in Trinidad. Concurrent with the execution of the 2019 Amendment, the Company and the lender extended the production payment agreement to mature on October 31, 2023 regardless of any repayment or prepayment of the term loan. The term loan and the Company's obligations in respect of the production payment are principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries.

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

The debt instrument is comprised of two financial liability components: the term loan liability and the production payment liability.

At inception the term loan liability was measured at fair value, net of all transaction fees, using a discount rate of 12%. The term loan was revalued based on the 2019 Amendment, resulting in a gain of \$277,000 recognized during the six months ended June 30, 2019 (2018 - \$219,000). The discount on the term loan is unwound using the effective interest rate method to the face value at maturity and is charged to net finance expenses on the consolidated statements of comprehensive income (loss). Term loan accretion charges for the three and six months ended June 30, 2019 were \$78,000 and \$151,000, respectively (2018 - \$78,000 and \$148,000). The term loan liability balance was \$10,305,000 as at June 30, 2019 (December 31, 2018 - \$10,130,000).

The production payment liability is revalued at each reporting period based on internal estimated future production and forward crude oil pricing forecasts using a discount rate of 15%. As a result of these changes in estimates and the 2019 Amendment, a revaluation gain of \$23,000 and a net revaluation loss of \$209,000 were recognized during the three and six months ended June 30, 2019, respectively (2018 – losses of \$194,000 and \$320,000). The production payment liability balance was \$766,000 as at June 30, 2019, with \$193,000 classified as short-term on the consolidated statement of financial position (December 31, 2018 - \$733,000 and \$180,000, respectively).

The term loan arrangement contains industry standard representations and warranties, positive and negative covenants and events of default. The financial covenants and the Company's estimated position as at June 30, 2019 are set forth below.

<b>Covenant</b>	<b>Covenant threshold</b>	<b>Six months ended June 30, 2019</b>
Net funded debt to equity ratio <sup>(1)</sup>	< 0.50 times	<b>0.12 times</b>
Net funded debt to EBITDA ratio <sup>(2)</sup>	< 2.50 times	<b>0.42 times</b>

Notes:

- (1) Net funded debt is defined as interest-bearing debt including lease liabilities less cash reserves. Equity is defined as book value of shareholders' equity less accumulated other comprehensive loss.
- (2) Means the ratio of net funded debt to EBITDA for the trailing twelve-month period. EBITDA is defined as net earnings before interest, income taxes and non-cash items.

Following the adoption of IFRS 16, the Company's "net funded debt" balance as defined in its credit agreement has increased with the inclusion of the Company's lease liabilities. Compliance with future credit facility covenants are not expected to be impacted by this change.

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

### **Restricted cash**

As at June 30, 2019, the Company had cash collateralized bonds totaling \$271,000 related to its future work commitments on its Heritage concessions (December 31, 2018 - \$271,000). The balance was classified as long-term restricted cash on the consolidated statements of financial position as the bonds terminate at the expiration of the relevant licence agreement.

### **Capital lease**

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

The lease arrangement was accounted for as a finance lease, as substantially all of the risks and rewards of ownership are held by the lessee. The adoption of IFRS 16 did not affect the capital lease arrangement (refer to "*Changes to Accounting Policies*"). At June 30, 2019, the Company's finance lease receivable was \$1,337,000, of which \$937,000 was classified as long-term other assets (December 31, 2018 - \$1,447,000 and \$1,047,000, respectively).

### **Liquidity risk**

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

prices, capital expenditures, royalty expenses, operating expenses, general and administrative expenses and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, capital expenditures, production expectations and other factors that in the Company's view would impact cash flow.

To manage its capital structure in a period of low or volatile crude oil prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. Given that the Company has minimal development work obligations and guarantees, the Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. Estimated undiscounted cash outflows relating to financial liabilities as at June 30, 2019 were as follows:

(\$000's)	Undiscounted amount	Less than 1 year	1 to 3 years	4 to 5 years
Accounts payable and accrued liabilities	11,585	11,585	-	-
Income taxes payable	3,678	3,678	-	-
Term loan principal	11,459	-	3,713	7,746
Estimated term loan production payments	1,438	290	709	439
Term loan interest payments	3,129	918	1,573	638
Lease liabilities	1,226	584	518	124
<b>Financial liabilities</b>	<b>32,515</b>	<b>17,055</b>	<b>6,513</b>	<b>8,947</b>

## Market Risk Management

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

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

### Commodity price risk

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

On April 17, 2019, the Company entered into the following financial derivative contracts to mitigate its exposure to fluctuations in commodity prices:

Oil contract	Volume	Pricing point	Strike price	Term
Put options	800 barrels per day	Brent ICE	US\$56.10 per barrel	June 1, 2019 to December 31, 2019

Touchstone recognized the \$171,000 premium for the put options as a derivative financial asset. The derivatives are subsequently recorded at their estimated fair value based on the difference between the contracted price and the period-end forward price using quoted market prices. As at June 30, 2019, the Company recorded a financial derivative asset of \$196,000 related to the put options (December 31, 2018 - \$nil).

The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development capital programs.

### ***Foreign currency risk***

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

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company has no contracts in place to manage foreign currency risk as at the date hereof or during the three and six months ended June 30, 2019 and 2018.

### **Contractual Obligations, Commitments and Guarantees**

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

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

The following table outlines the Company's estimated minimum contractual capital requirements as at June 30, 2019.

(\$000's)	Total	2019	2020	2021	Thereafter
Operating agreement commitments					
Coora blocks	111	7	15	16	73
WD-4 block	259	16	35	37	171
WD-8 block	239	15	32	34	158
New Dome block	17	1	2	2	12
South Palo Seco block	1,522	79	727	133	583
Fyzabad block	1,021	36	73	74	838
Exploration agreement commitments					
Ortoire block	7,716	2,765	4,951	-	-
East Brighton block	2,476	157	2,319	-	-
Office leases	714	136	300	278	-
Equipment leases	263	111	146	6	-
<b>Minimum payments</b>	<b>14,338</b>	<b>3,323</b>	<b>8,600</b>	<b>580</b>	<b>1,835</b>

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

The following table sets forth the Company's June 30, 2019 estimated costs and timing of its minimum future Ortoire exploration commitments, which included acquiring and processing 85-line kilometres of 2D seismic and the drilling of four vertical wells.

(\$000's)	Total	2019	2020	2021	Thereafter
Lease payments	716	265	451	-	-
2D seismic	2,000	-	2,000	-	-
Drilling commitments	5,000	2,500	2,500	-	-
<b>Minimum payments</b>	<b>7,716</b>	<b>2,765</b>	<b>4,951</b>	<b>-</b>	<b>-</b>

The Company's June 30, 2019 estimated costs and timing of its minimum future East Brighton exploration commitments, which included the drilling of one well to a total depth of 5,000 true vertical feet, are disclosed in the following table.

(\$000's)	Total	2019	2020	2021	Thereafter
Lease payments	476	157	319	-	-
Drilling commitments	2,000	-	2,000	-	-
<b>Minimum payments</b>	<b>2,476</b>	<b>157</b>	<b>2,319</b>	<b>-</b>	<b>-</b>

## Operating Agreements

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

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

### ***Lease operatorship agreements***

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

As of June 30, 2019, the Company satisfied all of its minimum work obligations stipulated in its LOAs through December 31, 2020, which included drilling 10 wells and performing 11 well recompletions.

### ***Farmout agreements***

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

As of June 30, 2019, the Company satisfied all of its minimum work obligations stipulated in its New Dome FOA through December 31, 2021, which included performing three well recompletions. The South Palo Seco FOA requires drilling two development wells and performing four well recompletions. One well recompletion required in 2018 was completed to date, and one well scheduled to be drilled in 2018 remains outstanding. The Company has received approvals for two drilling locations on the South Palo Seco property and anticipates drilling activities to commence once Heritage has rectified surface lease issues (see the "*Contractual Obligations, Commitments and Guarantees*" section for further details). The South Palo Seco property is considered non-core as it represented 0.3% of total Company crude oil production during the six months ended June 30, 2019 (year ended December 31, 2018 - 0.4%) and 0.01% of proved plus probable reserves at December 31, 2018.

### ***MEEI exploration and production licences***

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

The Company's Fyzabad and Palo Seco agreements with the MEEI contain no major work obligations or covenants. The Palo Seco licence expired on August 19, 2013, and Touchstone is currently negotiating an extension. The Company has permission from the MEEI to operate in the interim period. The Company has no indication that the licence will not be renewed. During the three and six months ended June 30, 2019, production volumes produced under the expired licence represented 0.6% and 0.5% of total production, respectively (2018 - 0.8% and 0.8%).

### ***Private lease agreements***

Touchstone also negotiates private lease agreements with individual land owners. Lease terms are typically 35 years in duration and contain no minimum work obligations. The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, Touchstone is continuing to recognize petroleum sales on the

producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the producing properties have been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the three and six months ended June 30, 2019, production volumes produced under expired private lease agreements represented 1.8% and 1.7% of total production, respectively (2018 - 2.4% and 2.5%).

### **Crude oil marketing agreement**

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

## **Changes to Accounting Policies**

---

### **Presentation currency**

The Company changed its presentation currency from Canadian dollars to United States dollars effective January 1, 2019, with retrospective application on comparative figures in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 21 *Foreign Currency* ("IAS 21"). The change in accounting policy was made to better reflect the Company's international business activities and to improve comparability of the Company's financial results with other internationally focused junior oil and gas companies. Touchstone's functional currencies of the parent company and its subsidiaries remained unchanged.

For comparative purposes, historical consolidated financial statements have been restated to reflect financial results had they been presented in US\$ since the Company's inception. The change in presentation currency does not have an economic impact on the Company's underlying operations and transactions. However, elements of earnings or loss and any ratios incorporating elements of earnings and loss have changed as a result of different currency rates being applied thereto.

The Company's shareholders previously approved a special resolution approving the reduction of the stated capital of the Company's common shares by an aggregate amount of up to C\$150 million, which was partially implemented on November 30, 2017 thereby reducing the Company's C\$ accumulated deficit to \$nil. The change in presentation currency created an accumulated deficit at that time, as the Company's historical accumulated deficit balance presented in US\$ exceeded the translated C\$ capital reduction on November 30, 2017.

### **Adoption of IFRS 16 Leases**

Effective January 1, 2019, the Company adopted IFRS 16 which requires the recognition of a ROU asset and associated lease liability for most leasing arrangements where the Company is acting as the lessee. Prior to the adoption of this standard, identified leases where the Company was the lessee were categorized as either operating or finance leases, and operating leases were not subject to recognition on the consolidated statements of financial position. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from previous guidance. The Company is the lessee in the majority of its lease arrangements; however, the Company does have one material lease arrangement where it acts as the lessor.

The Company elected to apply IFRS 16 using the modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the



cumulative effect of IFRS 16 as an adjustment to opening accumulated deficit at January 1, 2019 and applies the standard prospectively. Accordingly, comparative information before adoption has not been restated and continues to be reported under the previous guidance.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets (included in property and equipment) were measured at the amount equal to the lease liability on January 1, 2019 less any amount previously recognized for office lease inducements, with no impact on opening accumulated deficit.

The Company identified ROU lease assets and liabilities related to head office space, oilfield service equipment, motor vehicles and office equipment. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from recognition requirements. The impact on the consolidated statement of financial position as at January 1, 2019 is detailed below.

(\$000's)	January 1, 2019
ROU asset (included in property and equipment)	1,194
<b>Increase in total assets</b>	<b>1,194</b>
Short-term portion of lease liabilities (included in accounts payable and accrued liabilities)	482
Provisions and accounts payable and accrued liabilities	(158)
Long-term portion of lease liabilities	870
<b>Increase in total liabilities and shareholders' equity</b>	<b>1,194</b>

The adoption of IFRS 16 did not affect its finance lease where the Company is the lessor.

Certain of the Company's performance measures including funds flow from operations, net debt, and operating netbacks are impacted by the adoption of IFRS 16. Where lease payments for certain arrangements were previously included in operating expense and G&A, these payments are now reflected as payments of interest and lease obligations, which increase total funds flow from operations and operating netbacks. In addition, lease liabilities are now recognized in the determination of net debt. As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable. As of January 1, 2019, lease liability amounts are included in the Company's quarterly calculated term loan covenants (see "*Liquidity and Capital Resources - Term loan*").

Further information regarding the change in presentation currency and the adoption of IFRS 16 is included in Note 3 "*Changes to Accounting Policies*" to the Company's June 30, 2019 unaudited interim consolidated financial statements.

## Share Information

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The table below summarizes the outstanding common shares, share options and incentive share options as at the date of this MD&A, June 30, 2019 and December 31, 2018.

	August 13, 2019	June 30, 2019	December 31, 2018
Common shares outstanding	160,688,095	160,688,095	129,021,428
Share options outstanding	9,009,400	9,129,400	8,534,640
Incentive share options outstanding	15,000	15,000	15,000
<b>Fully diluted common shares</b>	<b>169,712,495</b>	<b>169,832,495</b>	<b>137,571,068</b>

## **Significant Accounting Estimates, Judgements and Assumptions**

---

The preparation of financial statements in conformity with IFRS requires Management to make estimates, judgments, 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.

Except as disclosed below, there were no changes to the Company's significant estimates, judgments or assumptions used in applying accounting policies during the three and six months ended June 30, 2019. Further details on the Company's significant accounting policies and significant accounting estimates, judgements and assumptions can be found in Note 5 "*Use of Estimates, Judgements and Assumptions*" to the December 31, 2018 consolidated financial statements.

### **Leases**

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further Management judgment and estimation in various areas specific to the contractual arrangements.

In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option.

Lease obligations are estimated using a discount rate equal to the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company's incremental borrowing rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

### **Control Environment**

---

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at June 30, 2019. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control - Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Based on this evaluation, Management concluded that both ICFR and DC&P were effective as at June 30, 2019. There were no changes during the three months ended June 30, 2019 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 and to facilitate the preparation of relevant, reliable and timely information. Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

## Business Risks

---

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

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

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

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

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

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

## Advisory on Forward-Looking Statements

---

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

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

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

- the Company's business and operational strategies, including targeted jurisdictions and technologies used to execute its strategies;
- financial condition and outlook and results of operations;
- the Company's future capital expenditure programs, including the anticipated timing, allocation and costs thereof and the method of funding;
- crude oil production levels and estimated field production levels;
- the performance characteristics of the Company's oil and natural gas properties;
- expectations regarding the ability of the Company to raise capital and to continually add to reserves through acquisitions and development;
- future development and exploration activities to be undertaken in various areas and timing thereof, including the fulfillment of minimum work obligations and exploration commitments;
- terms and estimated future expenditures of the Company's contractual commitments and their timing of settlement;
- terms and title of exploration and production licences and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated or future regulatory approvals;
- access to facilities and infrastructure;

- expected levels of operating costs, general and administrative costs and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil;
- treatment under current and future governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- the Company's position related to its uncertain tax positions;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future liquidity and future sources of liquidity;
- the Company's future compliance with its term loan covenants and its ability to make future scheduled principal payments;
- estimated amounts of the Company's future production payments in connection with its term loan;
- the potential of future acquisitions or dispositions;
- general economic and political developments in Trinidad;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning liabilities;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Estimates, Judgments 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 reserves on an economic basis and the potential for technical problems that could lead to well blow-outs and environmental damage. The Company is exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operation risks. The Company is subject to industry conditions including changes in laws and regulations, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced. There are uncertainties in estimating the Company's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The Company is subject to the risk that it will not be able to fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada and Trinidad, continued volatility in market prices for crude oil, the impact of significant volatility in market prices for oil, the ability to access sufficient capital from internal and external sources, changes in income tax laws or changes in tax laws, royalties and incentive programs relating to the Trinidad oil and gas industry, fluctuations in interest rates, and fluctuations in foreign exchange rates. The Company is subject to local regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, exploration, lease operating or farm-in rights related to the Company's crude oil and gas interests in Trinidad. Readers are cautioned that the foregoing list of risk factors is not exhaustive. Additional

information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

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

### **Non-GAAP Measures**

---

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

Funds flow from operations is an additional GAAP measure included in the Company's consolidated statements of cash flows. The Company calculates funds flow from operations per share by dividing funds flow from operations by the weighted average number of common shares outstanding during the applicable period.

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

The following table calculates operating netback for the periods indicated.

(\$000's unless otherwise stated)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Petroleum sales	9,708	9,685	20,723	17,897
Royalties	(2,776)	(2,734)	(5,695)	(5,071)
Operating expenses	(2,612)	(2,329)	(5,107)	(4,520)
<b>Operating netback</b>	<b>4,320</b>	<b>4,622</b>	<b>9,921</b>	<b>8,306</b>
Production (bbls)	160,921	156,275	351,801	295,173
<b>Operating netback (\$/bbl)</b>	<b>26.85</b>	<b>29.58</b>	<b>28.20</b>	<b>28.14</b>

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

(\$000's)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Funds flow from operations	1,310	2,507	3,740	4,569
Other income	(3)	-	(11)	(375)
Expenses				
G&A	1,487	1,449	2,802	2,822
Net finance	251	308	572	755
Current income tax	1,435	470	3,053	761
Realized foreign exchange	21	15	1	27
Change in non-cash other	(165)	(116)	(236)	(328)
Decommissioning expenditures	(16)	(11)	-	75
<b>Operating netback</b>	<b>4,320</b>	<b>4,622</b>	<b>9,921</b>	<b>8,306</b>

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

The following table summarizes working capital and net debt for the periods indicated.

(\$000's)	June 30, 2019	December 31, 2018	June 30, 2018
Current assets	(17,518)	(15,854)	(17,176)
Current liabilities	15,456	19,172	14,332
Working capital (surplus) deficit	(2,062)	3,318	(2,844)
Principal long-term portion of term loan	11,459	11,004	11,420
Long-term lease liabilities	613	-	-
<b>Net debt</b>	<b>10,010</b>	<b>14,322</b>	<b>8,576</b>



## Summary of Quarterly Results

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

Three months ended	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
<b>Operating Highlights</b>				
Average daily production ( <i>bbls/d</i> )	1,768	2,121	1,851	1,758
Net wells drilled	-	-	3	3
Brent benchmark price <sup>(1)</sup> ( <i>\$/bbl</i> )	69.01	63.10	68.76	75.10
Operating netback <sup>(2)</sup> ( <i>\$/bbl</i> )	26.85	29.35	22.55	28.39
<b>Financial Highlights</b> ( <i>\$000's except per share amounts</i> )				
Petroleum sales	9,708	11,015	9,970	9,862
Cash flow from operating activities	1,832	2,737	1,676	831
Funds flow from operations <sup>(3)</sup>	1,310	2,430	1,348	2,497
Per share - basic and diluted <sup>(2)(3)</sup>	0.01	0.02	0.01	0.02
Net (loss) earnings	(833)	(185)	552	199
Per share - basic and diluted	(0.01)	(0.00)	0.00	0.00
Exploration capital expenditures	681	360	1,603	443
Development capital expenditures	315	399	4,773	3,475
Total capital expenditures	996	759	6,376	3,918
Working capital (surplus) deficit	(2,062)	(1,963)	3,318	(1,568)
Principal balance of term loan	11,459	11,235	11,004	11,627
Long-term lease liabilities	613	744	-	-
Net debt <sup>(2)</sup> - end of period	10,010	10,016	14,322	10,059
<b>Share Information (000's)</b>				
Weighted avg. shares outstanding - basic	160,688	140,984	129,021	129,021
Weighted avg. shares outstanding - diluted	160,688	140,984	130,532	130,728
Outstanding shares - end of period	160,688	160,688	129,021	129,021

Notes:

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



Three months ended	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
<b>Operating Highlights</b>				
Average daily production (bbls/d)	1,717	1,543	1,448	1,437
Net wells drilled	3	2	-	1
Brent benchmark price <sup>(1)</sup> (\$/bbl)	74.53	66.86	61.45	52.10
Operating netback <sup>(2)</sup> (\$/bbl)	29.58	26.52	17.43	19.51
<b>Financial Highlights</b>				
<i>(\$000's except per share amounts)</i>				
Petroleum sales	9,685	8,212	5,214	4,559
Cash flow from (used in) operating activities	4,711	(1,021)	1,819	(563)
Funds flow from operations <sup>(3)</sup>	2,507	2,062	702	1,106
Per share - basic and diluted <sup>(2)(3)</sup>	0.02	0.02	0.01	0.01
Net (loss) earnings	(523)	130	2,876	(962)
Per share - basic and diluted	(0.00)	0.00	0.03	(0.01)
Exploration capital expenditures	334	177	260	161
Development capital expenditures	3,506	2,852	601	1,507
Total capital expenditures	3,840	3,029	861	1,668
Working capital surplus	(2,844)	(3,818)	(5,424)	(322)
Principal balance of term loan	11,420	11,630	11,951	12,027
Net debt <sup>(2)</sup> - end of period	8,576	7,812	6,527	11,705
<b>Share Information (000's)</b>				
Weighted avg. shares outstanding - basic	129,021	129,021	105,955	103,137
Weighted avg. shares outstanding - diluted	129,021	129,692	106,542	103,137
Outstanding shares - end of period	129,021	129,021	129,021	103,137

Notes:

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

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

## Currency and References to Touchstone

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

## Additional Information

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

## CORPORATE INFORMATION

### DIRECTORS

**John D. Wright**  
*Chairman of the Board*

**Paul R. Baay**

**Kenneth R. McKinnon**

**Peter Nicol**

**Stanley T. Smith**

**Thomas E. Valentine**

**Harrie Vredenburg**

### EXECUTIVE OFFICERS

**Paul R. Baay**  
*President and Chief Executive Officer*

**Scott Budau**  
*Chief Financial Officer*

**James Shipka**  
*Chief Operating Officer*

### STOCK EXCHANGE LISTING

Toronto Stock Exchange  
London Stock Exchange AIM  
Symbol: TXP

### HEAD OFFICE

**Touchstone Exploration Inc.**  
4100, 350 7<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada  
T2P 3N9

### OPERATING OFFICE

**Touchstone Exploration (Trinidad) Ltd.**  
#30 Forest Reserve Road  
Fyzabad, Trinidad, W.I.

### AUDITORS

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

### RESERVE EVALUATORS

**GLJ Petroleum Consultants 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

**Computershare Trust Company of Canada**  
Calgary, Alberta

### NOMINATED ADVISOR AND JOINT BROKER

**Shore Capital**  
London, United Kingdom

### JOINT BROKER

**GMP FirstEnergy**  
London, United Kingdom

### PUBLIC RELATIONS

**Camarco**  
London, United Kingdom

### ABBREVIATIONS

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

#### Oil

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

#### Other

AIM	AIM market of the London Stock Exchange plc
C\$	Canadian dollar
TSX	Toronto Stock Exchange
TT\$	Trinidad and Tobago dollar
\$ or US\$	United States dollar
£	Pounds sterling