



Touchstone Exploration Inc.

Management's Discussion and Analysis

September 30, 2021

Management's Discussion and Analysis

For the three and nine months ended September 30, 2021 and 2020

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. ("Touchstone", "we", "our", "us" or the "Company") for the three and nine months ended September 30, 2021 with comparisons to the three and nine months ended September 30, 2020 is dated November 10, 2021 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2021 (the "interim financial statements"), as well with the Company's audited consolidated financial statements as at and for the year ended December 31, 2020 (the "audited 2020 financial statements"). The interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with Touchstone's MD&A for the three months and year ended December 31, 2020, as disclosure which is unchanged from December 31, 2020 may not be duplicated herein.

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

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

About Touchstone Exploration Inc.

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

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

References to Touchstone

For convenience, references in this document to the "Company", "we", "us", "our", and "its" may, where applicable, refer only to Touchstone.

Additional Information

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with the Canadian securities regulatory authorities, including Touchstone's 2020 Annual Information Form dated March 25, 2021, which can be accessed online on SEDAR at www.sedar.com or from the Company's website at www.touchstoneexploration.com.

Financial and Operating Results Summary

	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Operational						
Average daily oil production ⁽¹⁾ (bbls/d)	1,333	1,310	2	1,344	1,431	(6)
Net wells drilled	0.8	-	n/a	0.8	-	n/a
Brent benchmark price (\$/bbl)	73.51	42.91	71	67.89	41.15	65
Operating netback ⁽²⁾ (\$/bbl)						
Realized sales price	62.37	39.20	59	58.06	38.54	51
Royalties	(19.36)	(11.17)	73	(17.75)	(10.82)	64
Operating expenses	(15.24)	(13.94)	9	(14.90)	(13.06)	14
Operating netback	27.77	14.09	97	25.41	14.66	73
Financial						
(\$000's except per share amounts)						
Petroleum sales	7,650	4,725	62	21,356	15,178	41
Cash from operating activities	384	4,126	(91)	158	2,129	(93)
Funds flow from operations ⁽³⁾	1,073	192	459	2,816	999	182
Per share – basic and diluted ⁽²⁾⁽³⁾	0.01	0.00	n/a	0.01	0.01	-
Net loss	(51)	(703)	(93)	(795)	(12,685)	(94)
Per share – basic and diluted	(0.00)	(0.00)	-	(0.00)	(0.07)	(100)
Exploration capital expenditures	7,542	5,758	31	17,160	8,830	94
Development capital expenditures	2,315	211	997	2,567	523	391
Total capital expenditures	9,857	5,969	65	19,727	9,353	111
Working capital deficit (surplus) ⁽²⁾				4,657	(869)	n/a
Principal long-term balance of term loan				7,125	15,000	(53)
Net debt ⁽²⁾ – end of period				11,782	14,131	(17)
Share Information (000's)						
Weighted avg. shares outstanding:						
Basic and diluted	210,732	184,277	14	209,968	179,112	17
Outstanding shares – end of period				210,732	184,408	14

Notes:

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

Third quarter 2021 operating results

Third quarter 2021 crude oil sales averaged 1,333 bbls/d, representing a 2 percent increase from the third quarter of 2020. The nominal increase in production was reflective of increased legacy well workover operations through 2021 that have mitigated annual natural declines. Touchstone incurred \$2,315,000 in development asset expenditures in the third quarter of 2021, primarily relating to third-party drilling rig mobilization fees and inventory for the Company's fourth quarter 2021 development drilling program.

Touchstone's focus in the third quarter of 2021 remained on Ortoire exploration operations, investing \$7,542,000 and progressing with the following exploration activities.

- Completed the Royston area 22-kilometre seismic program, which gave the Company further clarity regarding the Royston, Steelhead, Bass and Kraken exploration prospects.
- Drilled the Royston-1 exploration well, with wireline log data indicating an aggregate 393 gross feet of potential hydrocarbon pay.
- Continued Coho-1 natural gas facility construction operations, with pipeline installation operations commencing in late October 2021.
- Completed the design of the Cascadura natural gas facility, with facility separators currently being fabricated and facility equipment being sourced for procurement.

Third quarter 2021 financial results

Touchstone generated funds flow from operations of \$1,073,000 in the third quarter of 2021 compared to \$192,000 in the same period of 2020. In comparison to the third quarter of 2020, the increase primarily reflected a 59 percent increase in crude oil realized pricing, which contributed to a \$1,707,000 increase in third quarter 2021 operating netbacks. Relative to the third quarter of 2020, further savings in third quarter 2021 term loan interest costs were offset by increased general and administration ("G&A") costs and income tax expenses accrued from increased taxable income.

Touchstone recorded a net loss of \$51,000 (\$0.00 per share) in the third quarter of 2021 compared to a net loss of \$703,000 (\$0.00 per share) in the prior year equivalent quarter. The decreased 2021 net loss compared to the equivalent prior year period was primarily attributed to the aforementioned increase in operating netbacks, which were driven by stable production and increased realized pricing.

Based on increased capital spending, Touchstone exited the third quarter with a cash balance of \$5,004,000, a working capital deficit of \$4,657,000 and \$7,500,000 drawn on its term credit facility resulting in a net debt position of \$11,782,000. On October 1, 2021, the Company withdrew an additional \$7,500,000 on its term credit facility, resulting in a principal balance of \$15,000,000 currently outstanding. The Company's near-term liquidity is augmented by \$5,000,000 of current undrawn credit capacity, which may be accessed any time prior to the end of the 2021.

Touchstone's primary objective remains to bring the Coho and Cascadura area natural gas exploration discoveries at Ortoire onto production as soon as practicable. As the current economic and health-related challenges persist, the Company will continue to adapt business operations and capital programs to ensure health and safety and enhance long-term shareholder value.

Ortoire Operations

Licence

Effective October 31, 2014, the Company's indirect wholly owned subsidiary Primera Oil and Gas Limited ("POGL") entered into an 80 percent operating working interest in the Ortoire exploration and production licence with the Trinidad and Tobago Ministry of Energy and Energy Industries ("MEEI"). Heritage Petroleum Company Limited ("Heritage") holds the remaining 20 percent interest. The initial investment commitments under the licence included the drilling of four exploration wells and the shooting of 85-line kilometres of 2D seismic.

The Ortoire licence was originally effective for an initial term of six years, under which any approved commercial discovery can be extended for a further 19 years. The licence was extended for an additional nine-month term through July 31, 2021. Pursuant to the licence amendment, the Company's 2D seismic commitment was reduced from 85-line to 20-line kilometres, and the Company was obligated to drill an additional exploration well to a true vertical depth of 10,000 feet. Although the Company has an 80 percent

working interest in the Ortoire licence, it was responsible for 100 percent of the costs of fulfilling the exploration minimum work obligations. Touchstone received approval from the MEEI to spud the final commitment well in August 2021, and to date has completed all required minimum work obligations. The Company is currently seeking an extension to the exploration licence with the MEEI for areas that have not been proven commercial.

The following table sets forth Touchstone's aggregate Ortoire exploration investments as of September 30, 2021.

(\$000's)	September 30, 2021
Coho-1 drilling and testing	3,582
Coho-1 facility and pipeline	1,602
Cascadura-1ST1 drilling and testing	6,533
Cascadura Deep-1 drilling and testing	6,836
Cascadura facility	438
Chinook-1 drilling and testing	8,585
Royston-1 drilling	8,019
Seismic program	2,944
Licence financial obligations	3,745
Other	5,493
Total exploration investments	47,777

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

Coho

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

The final construction stages of the Coho facility are progressing, and the 3-kilometre pipeline field construction to the Central Block Baraka natural gas facility has commenced with pipeline commissioning expected in the first quarter of 2022.

Cascadura

Touchstone has completed the design of the surface facilities required to meet the initial and long-term production capabilities of the Cascadura-1ST1 and Cascadura Deep-1 exploration wells that have been successfully tested. Currently the facility separators are being fabricated, with other facility equipment being sourced for procurement.

Touchstone is working in conjunction with a third-party contractor on the Cascadura area Environmental Impact Assessment ("EIA") to submit to the Trinidad and Tobago Environmental Management Authority ("EMA"). The EIA relates to the comprehensive development of the Cascadura reservoir, including a proposed main surface facility and an 8.3-kilometre liquids pipeline that is expected to run south from the surface facility to the Heritage Catshill manifold. The surface facility currently contemplates a maximum production capacity of 200 MMcf/d of natural gas and 5,000 bbls/d of NGL production from both Cascadura-1ST1, Cascadura Deep-1 and any potential production from the expected future development of the Cascadura B and C locations.

The first phase of stakeholder engagement was completed in September 2021, with the final phase expected to be completed by the end of November 2021. The expected date of completion of the EIA and submission to the EMA is anticipated to occur by the end of 2021. The EMA has 80 business days to review the submitted EIA upon receipt.

Chinook

Subsequent to the fourth and final production test performed on the Chinook-1 well, the well was shut in on July 15, 2021 for a 30-day pressure buildup, and downhole pressure recorders were retrieved on August 16, 2021. Analysis of the pressure buildup data at this location suggests the Cruse reservoir is undamaged, small in size, and uneconomic to produce. Touchstone has submitted a notification of commercial potential for the Chinook area to the MEEI and is currently working on declaration of commerciality and comprehensive field development submissions.

Royston

The Royston-1 exploration well was spud on August 12, 2021 and was the final exploration commitment well under Touchstone's Ortoire licence. The well was drilled to a total depth of 10,700 feet and was the deepest exploration well drilled by Touchstone to date. Drilling samples and open hole wireline logs indicated that the well encountered a significant Herrera turbidite package with a total observed thickness of more than 1,000 feet. The overall Herrera section drilled in Royston-1 contained approximately 609 feet of clean sand, of which 393 gross feet in two unique thrust sheets appeared to be hydrocarbon pay based on mud gas logging and open hole logs.

Initial completion and production testing operations commenced on October 20, 2021. The Company has budgeted three completion flow tests to perform in the Herrera turbidite package which are expected to be completed by the end of 2021.

Touchstone completed its 2D seismic program licence commitment in the Royston area in the third quarter of 2021. Recording commenced on July 3, 2021 and was completed on July 26, 2021. Four northwest to southeast oriented lines were acquired totalling 22 kilometres in length. The Ortoire 2D seismic dataset was acquired and processed with an overlap of the Rio Claro Block 2D lines, which produced a high-quality merged product with signal to noise ratios up to four times better than previous 2D surveys completed in Trinidad. Seismic products have been interpreted at both the Mid Miocene and Cretaceous intervals, producing higher resolution structural maps with a greater degree of confidence over the Royston, Steelhead and Bass structures at Mid Miocene, and over the Kraken prospect at the Cretaceous level.

Results of Operations

Financial highlights

(\$000's except for per share amounts)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Net loss	(51)	(703)	(93)	(795)	(12,685)	(94)
Per share – basic and diluted	(0.00)	(0.00)	-	(0.00)	(0.07)	(100)
Cash from operating activities	384	4,126	(91)	158	2,129	(93)
Funds flow from operations ⁽¹⁾	1,073	192	459	2,816	999	182
Per share – basic and diluted ⁽²⁾	0.01	0.00	n/a	0.01	0.01	-

Notes:

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

Net loss

Touchstone recorded a net loss of \$51,000 (\$0.00 per share) in the third quarter of 2021 compared to a net loss of \$703,000 (\$0.00 per share) in the prior year equivalent quarter. The decreased 2021 net loss in relation to the prior year third quarter primarily reflected an increase of \$1,707,000 in operating netbacks, partially offset by increased G&A and income tax expenses.

Net loss for the nine months ended September 30, 2021 was \$795,000 (\$0.00 per share), representing a 94 percent decrease from the \$12,685,000 (\$0.07 per share) net loss recognized in the corresponding 2020 period. The decreased 2021 net loss in comparison to the 2020 period was predominately a result of a \$19,215,000 petroleum asset impairment loss recorded in the first quarter of 2020, partially offset by associated deferred tax recoveries of \$10,072,000. Prior year impairment losses were recognized due to crude oil price forecasts deteriorating from decreases in demand as a result of the onset of the novel coronavirus ("COVID-19") pandemic. In addition, year to date September 30, 2021 operating netbacks increased by \$3,573,000 from the comparative 2020 period, primarily reflecting increases in realized pricing.

Details of the change in net loss from the three and nine months ended September 30, 2020 to the three and nine months ended September 30, 2021 are included in the table below.

(\$000's)	Three months ended September 30,	Nine months ended September 30,
Net loss – 2020	(703)	(12,685)
Realized price variance	2,842	7,181
Sales volume variance	83	(1,003)
Royalties	(1,029)	(2,268)
Other revenue	(24)	(56)
Expenses		
Operating	(189)	(337)
General and administration	(544)	(1,530)
Cash finance	130	588
Current income tax	(322)	(811)
Realized foreign exchange	(57)	62
Total cash variances	890	1,826
Gain on asset dispositions	-	21
Unrealized foreign exchange	21	(156)
Equity-based compensation	(220)	(361)
Depletion and depreciation	54	334
Impairment	47	19,224
Non-cash finance expenses	(106)	1,368
Deferred income tax	(34)	(10,366)
Total non-cash variances	(238)	10,064
Net loss – 2021	(51)	(795)

Cash from operating activities

Details of the change in cash from operating activities from the three and nine months ended September 30, 2020 to the three and nine months ended September 30, 2021 are included in the table below.

(\$000's)	Three months ended September 30,	Nine months ended September 30,
Cash from operating activities – 2020	4,126	2,129
Increase in funds flow from operations	881	1,817
Net change in non-cash working capital	(4,623)	(3,788)
Cash from operating activities – 2021	384	158

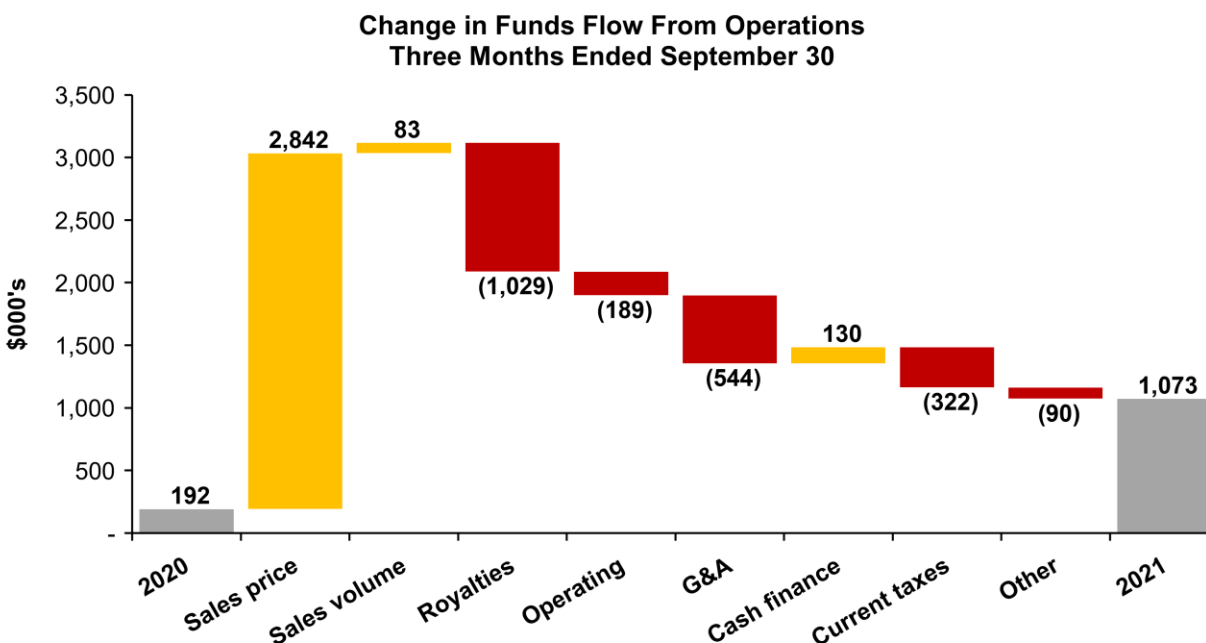
Funds flow from operations

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

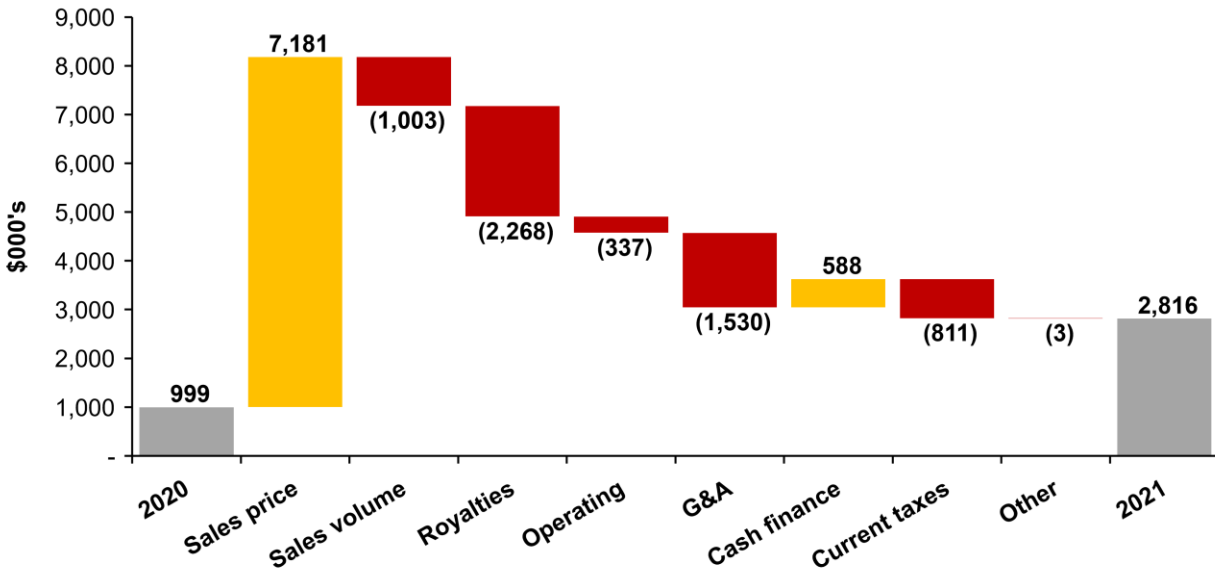
Touchstone generated \$1,073,000 in funds flow from operations in the third quarter of 2021 compared to \$192,000 in the prior year comparative quarter. The 2021 increase from the prior year period primarily reflected increased crude oil realized pricing, which increased 2021 third quarter operating netbacks by \$1,707,000 from 2020. Relative to the third quarter of 2020, further savings in third quarter 2021 cash finance expenses were offset by increased G&A costs and income taxes accrued from increased taxable income.

In the year to date September 30, 2021 period, the Company generated funds flow from operations of \$2,816,000, representing a 182 percent increase relative to the \$999,000 recognized in the prior year equivalent period. In comparison to the nine months ended September 30, 2020, increased operating netbacks of \$3,573,000 and cash finance savings achieved in the 2021 period were partially offset by increases in G&A expenses and current income taxes.

The following graphs summarize the change in funds flow from operations from the three and nine months ended September 30, 2020 to the three and nine months ended September 30, 2021.



**Change in Funds Flow From Operations
Nine Months Ended September 30**



Production volumes

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% change	2021	2020	% change
Production (bbls)						
Crude oil ⁽¹⁾	122,649	120,543	2	366,982	392,217	(6)
NGLs	-	-	-	842	1,621	(48)
Total	122,649	120,543	2	367,824	393,838	(7)
Average daily production (bbls/d)						
Crude oil ⁽¹⁾	1,333	1,310	2	1,344	1,431	(6)
NGLs	-	-	-	3	6	(50)
Total	1,333	1,310	2	1,347	1,437	(6)

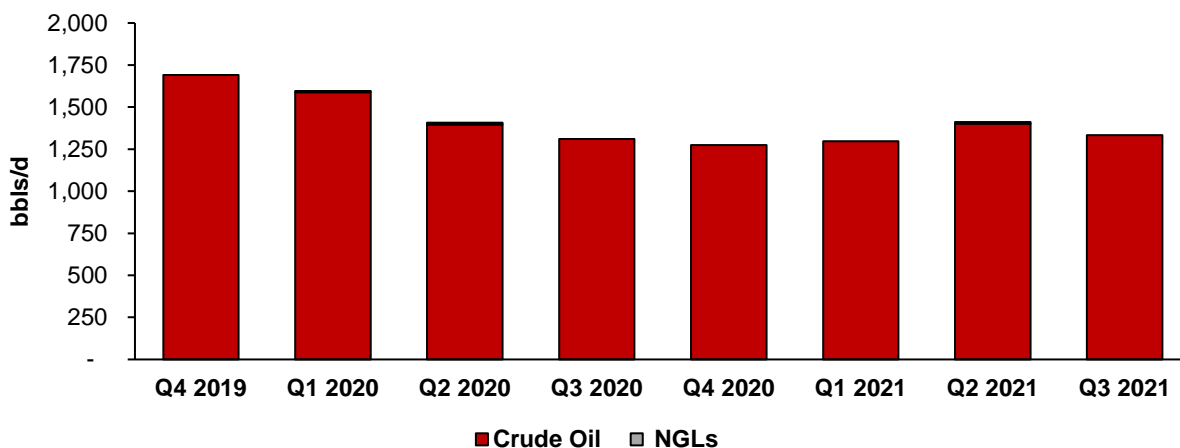
Note:

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

Touchstone's average production volumes increased by 2 percent to 1,333 bbls/d in the third quarter of 2021 from 1,310 bbls/d in the prior year equivalent quarter. The nominal increase was reflective of the Company's 2021 legacy well optimization program, which has arrested year-over-year natural declines.

Year to date 2021 crude oil production volumes declined 6 percent compared to the prior year comparative period, averaging 1,344 bbls/d. The decrease was reflective of natural declines, as the Company has not brought on additional development well production since January 2019. In addition, the Company sold 842 net barrels of NGLs produced from the Cascadura Deep-1 well test in April 2021, while an aggregate 1,621 barrels of NGLs produced from Cascadura-1ST1 well testing operations were sold during the nine months ended September 30, 2020.

Average Daily Production

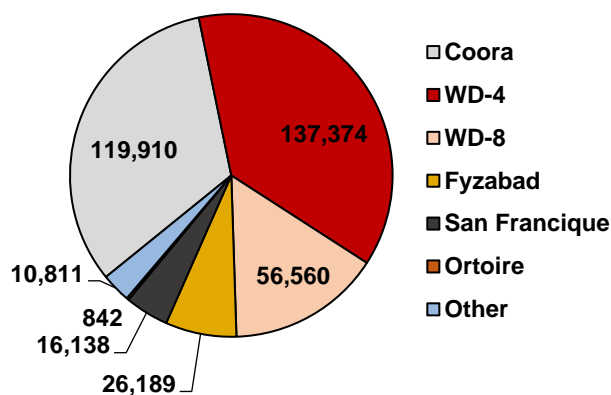


The following table and graphs summarize production by property during the three and nine months ended September 30, 2021 and 2020. All properties produced crude oil with the exception of Ortoire, which was comprised of test NGL production in all disclosed periods.

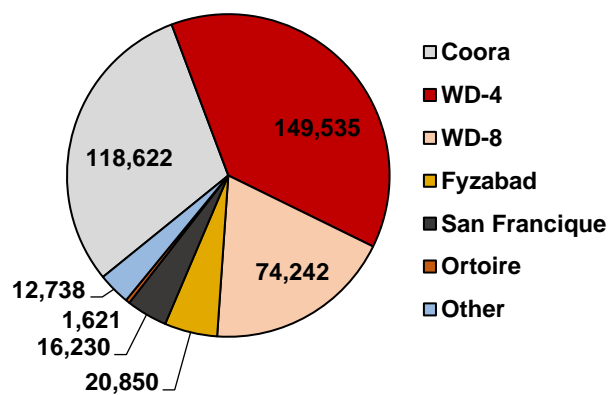
(bbls)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Coora-1	35,802	33,402	7	109,614	106,642	3
Coora-2	3,571	3,358	6	10,296	11,980	(14)
WD-4	46,590	46,967	(1)	137,374	149,535	(8)
WD-8	19,793	22,118	(11)	56,560	74,242	(24)
New Dome	1,290	2,047	(37)	4,703	6,123	(23)
South Palo Seco	-	164	(100)	-	405	(100)
Barrackpore	1,279	1,154	11	3,913	3,915	-
Fyzabad	8,917	5,998	49	26,189	20,850	26
Palo Seco	717	761	(6)	2,195	2,295	(4)
San Francique	4,690	4,574	3	16,138	16,230	(1)
Ortoire	-	-	-	842	1,621	(48)
Total production	122,649	120,543	2	367,824	393,838	(7)

Production by Property (bbls)

For the Nine Months Ended September 30, 2021



For the Nine Months Ended September 30, 2020



Benchmark and realized prices

	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Brent average (\$/bbl)	73.51	42.91	71	67.89	41.15	65
WTI average (\$/bbl)	70.56	40.93	72	64.82	38.32	69
Average realized price (\$/bbl)	62.37	39.20	59	58.06	38.54	51
Realized price discount as a % of Brent	(15.2)	(8.6)		(14.5)	(6.3)	
Realized price (discount) premium as a % of WTI	(11.6)	(4.2)		(10.4)	0.6	

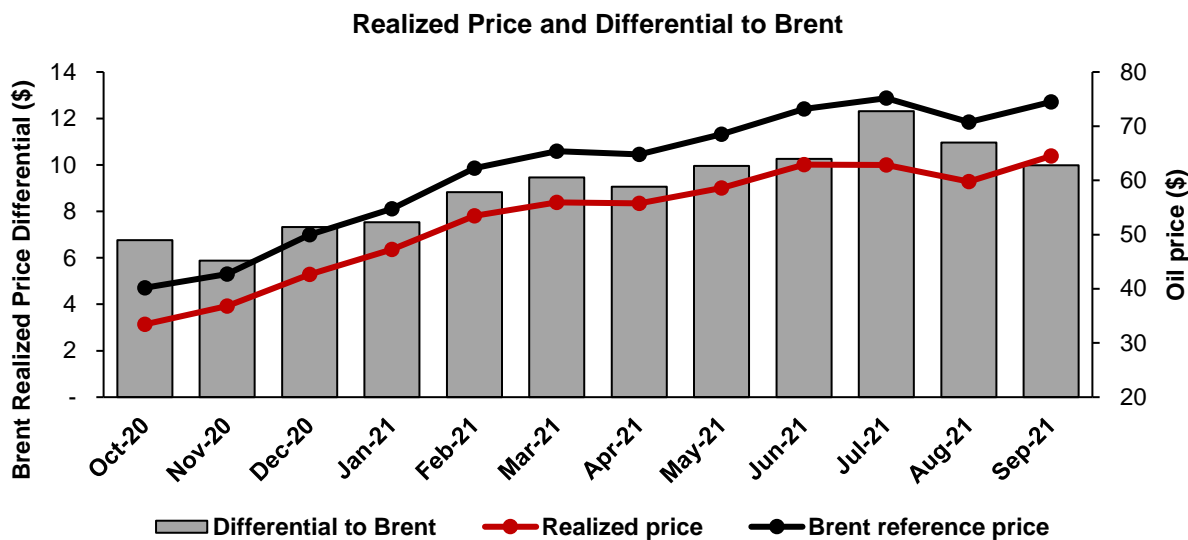
The Company's crude oil price received is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond its control. Touchstone's crude oil realized price has historically correlated to the Brent benchmark price, as Trinidad oil is classified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

The COVID-19 pandemic continues to impact the global economy, yet crude oil benchmark pricing has improved to levels above pre-pandemic, with third quarter 2021 crude oil benchmark prices increasing from both the second quarter of 2021 and the third quarter of 2020. The timing of a full economic recovery is challenging to forecast, with the overall outlook on global crude oil demand largely dependent on the status of COVID-19 and the spread of variants, vaccine rollouts, changes to social restrictions and businesses resuming regular operations. Benchmark crude oil pricing has positively responded to global participants maintaining production cuts, a global economic recovery and the return of energy demand, but the potential for volatility remains.

Relative to the third quarter of 2020, Touchstone's Brent differential realized during the third quarter of 2021 widened from 8.6 percent to 15.2 percent. Similarly, the Brent differential realized during the nine months ended September 30, 2021 increased to 14.5 percent versus 6.3 percent in the equivalent period of 2020. Based on revised pricing arrangements with Heritage in October 2020, the Company is forecasting a 14.0 percent discount to Brent throughout 2021 and beyond.

The Company realized an average price of \$62.37 per barrel in the third quarter of 2021 compared to an average of \$39.20 per barrel in the equivalent quarter of 2020. The 59 percent increase was driven by a 71 percent increase in Brent reference pricing, partially offset by a widening of the realized pricing differential in relation to Brent benchmark pricing.

For year to date September 30, 2021, Touchstone realized an average crude oil price of \$58.06 per barrel, a 51 percent increase relative to the \$38.54 price received in the equivalent 2020 period. The increase from the 2020 period was attributed to a 65 percent increase in the average Brent reference price, slightly offset by an increase in the realized pricing differential in relation to Brent.



Petroleum sales

(\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Petroleum sales	7,650	4,725	62	21,356	15,178	41

Touchstone sells all produced crude oil volumes to Heritage, with title transferring at various sales batteries. As at September 30, 2021, the Company held 4,356 barrels of crude oil inventory in comparison to 4,212 barrels as of December 31, 2020.

Petroleum sales in the third quarter of 2021 increased 62 percent to \$7,650,000 from \$4,725,000 in the third quarter of 2020. The \$2,925,000 increase consisted of \$2,842,000 from higher realized pricing and \$83,000 attributed from higher sales volumes. For the nine months ended September 30, 2021, petroleum sales were \$21,356,000, representing a \$6,178,000 or 41 percent increase from the \$15,178,000 recognized in the equivalent 2020 period. \$7,181,000 was attributed to higher realized prices in 2021, partially offset by a \$1,003,000 decrease attributed from reduced year to date 2021 sales volumes.

Royalties

(\$000's unless otherwise stated)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Crown royalties	873	549		2,423	1,757	
Private royalties	79	45		236	150	
Overriding royalties	1,423	752		3,869	2,353	
Royalties	2,375	1,346	76	6,528	4,260	53
On a per barrel basis	19.36	11.17	73	17.75	10.82	64
As a percentage of petroleum sales	31.0%	28.5%	9	30.6%	28.1%	9

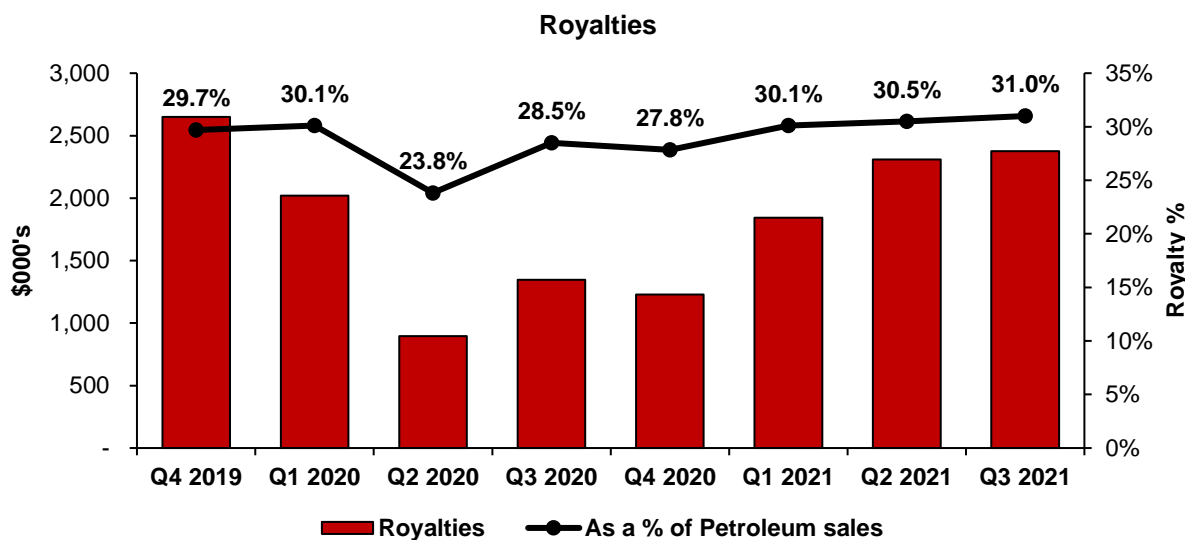
Touchstone is obligated to pay a crown royalty rate of 12.5 percent on all petroleum production under MEEI and Heritage licences. For private leases, the Company incurs private royalties between 10 and 12.5 percent of petroleum sales.

In June 2021, the Company executed ten-year LOAs with Heritage for its Coora, WD-4 and WD-8 blocks which included favourable royalty rate adjustments. In addition to the crown royalty rate of 12.5 percent,

the LOAs apply a sliding scale overriding royalty ("ORR") structure, which is indexed to the average price of oil realized in a production month. Base ORR rates are applicable to pre-defined monthly base production levels which decline by 2 percent per annum. For any monthly volumes sold in excess of base production levels, the Company incurs reduced enhanced ORR rates. The former arrangements allowed for new drill ORR incentives, which were reduced ORR rates applicable to production from new wells drilled in the initial two years. This concept has been replaced with the super enhanced ORR, which contemplates a further reduction in royalty rates based on increased property production from all field activities. The super enhanced ORR applies a 50 percent reduction from enhanced ORR rates for any production in excess of combined base and enhanced production levels. The LOA rates attributable under the Company's previous arrangements and the current LOAs are set forth in the table below.

Monthly realized oil price (\$)	Previous LOA Royalty %		Current LOA Royalty %		
	Base ORR	Enhanced ORR	Base ORR	Enhanced ORR	Super Enhanced ORR
≤ 10.00	10.00	8.00	10.00	6.00	3.00
10.01 - 20.00	13.00	9.00	13.00	6.50	3.25
20.01 - 30.00	15.00	10.00	15.00	7.00	3.50
30.01 - 40.00	20.00	12.00	20.00	7.50	3.75
40.01 - 50.00	25.00	13.00	25.00	8.00	4.00
50.01 - 70.00	33.00	17.50	28.00	15.50	7.75
70.01 - 90.00	33.00	17.50	33.00	17.00	8.50
90.01 - 200.00	35.00	22.50	35.00	20.00	10.00

Royalty expenses as a percentage of petroleum sales were 31.0 percent in the third quarter of 2021 versus 28.5 percent in the prior year equivalent quarter. Relative to the third quarter of 2020, the increase in royalties as a percentage of sales was primarily attributed to an increase in realized crude oil pricing received in the third quarter of 2021. For the nine months ended September 30, 2021, royalties represented 30.6 percent of petroleum sales compared to 28.1 percent in the prior year equivalent period, reflective of increased realized crude oil pricing in the 2021 year to date period.

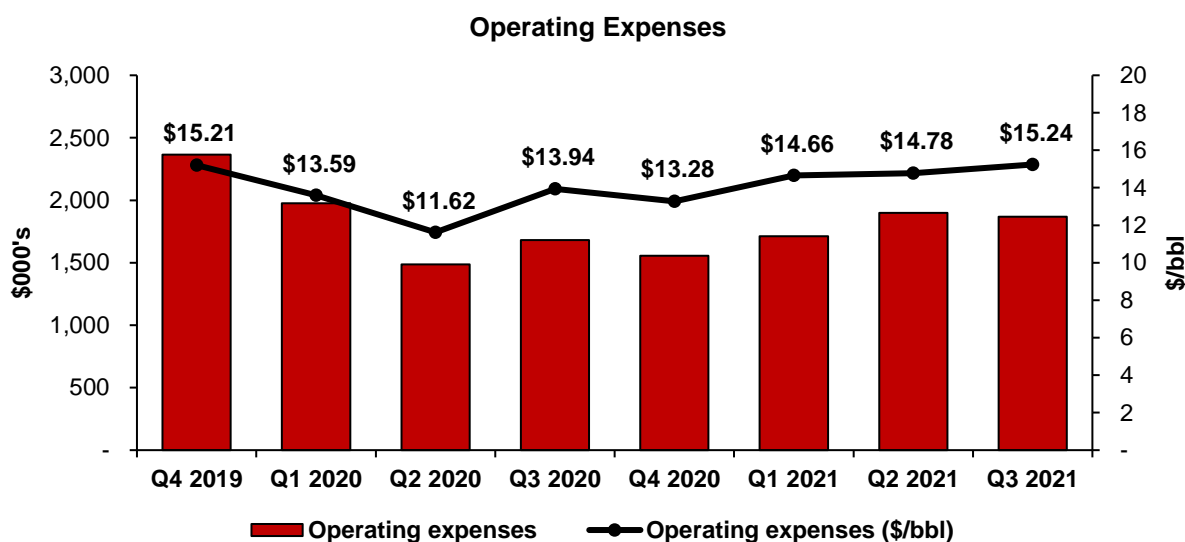


Operating expenses

(\$000's except per bbl amounts)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Operating expenses	1,869	1,680	11	5,479	5,142	7
On a per barrel basis	15.24	13.94	9	14.90	13.06	14

Third quarter and year to date 2021 operating costs increased 11 percent and 7 percent from the corresponding 2020 periods, respectively. 2021 operating expense increases in comparison to 2020 were predominantly from increased field and well servicing costs, as Touchstone initiated legacy oil production optimization efforts in 2021, while discretionary field operating costs were drastically reduced in March 2020 as a result of the onset of the COVID-19 pandemic. The 2021 optimization program has been successful, as crude oil production achieved in the third quarter of 2021 slightly increased in comparison to third quarter 2020 production, effectively mitigating natural declines. Further, field employees undertook pay reductions in March 2020 which were reinstated in September 2020.

Third quarter 2021 operating costs per barrel increased 9 percent from the third quarter of 2020, as Touchstone continued to service legacy wells throughout 2021. Operating expenses on a per barrel basis increased 14 percent to \$14.90 during the nine months ended September 30, 2021 compared to \$13.06 per barrel in the same period of 2020, as 2020 operating costs per barrel benefited from increased production, which spread the reduced fixed component of operating costs over a larger production base.



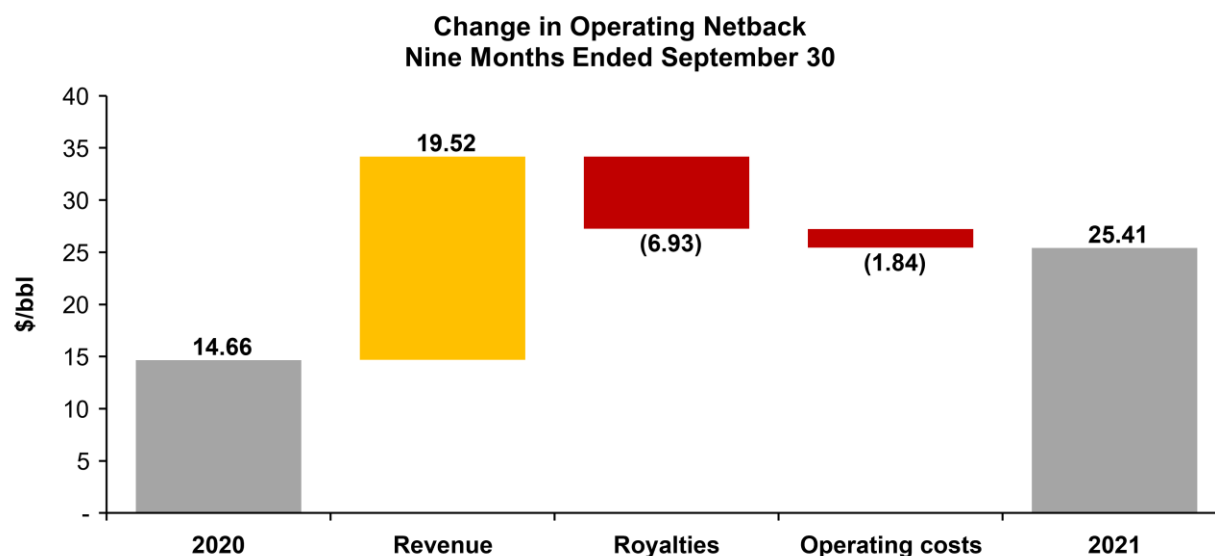
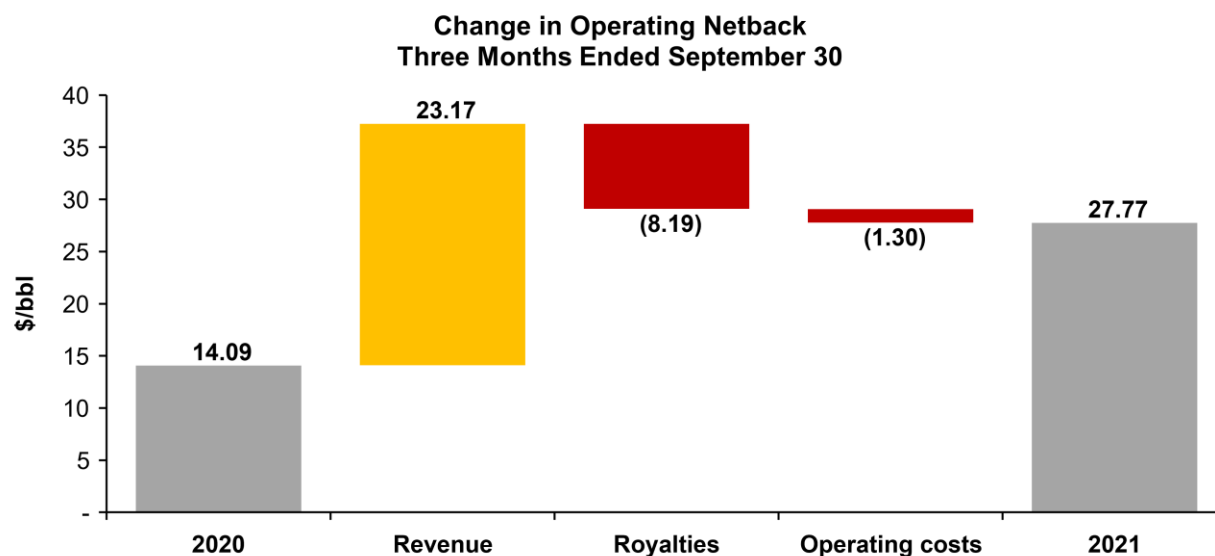
Operating netback

The components of operating netback for the three and nine months ended September 30, 2021 and 2020 are set forth below.

	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
<i>(\$'000's)</i>						
Petroleum sales	7,650	4,725	62	21,356	15,178	41
Royalties	(2,375)	(1,346)	76	(6,528)	(4,260)	53
Operating expenses	(1,869)	(1,680)	11	(5,479)	(5,142)	7
Operating netback⁽¹⁾	3,406	1,699	100	9,349	5,776	62
<i>(\$/bbl)</i>						
Brent benchmark price	73.51	42.91	71	67.89	41.15	65
Discount	(11.14)	(3.71)		(9.83)	(2.61)	
Realized sales price	62.37	39.20	59	58.06	38.54	51
Royalties	(19.36)	(11.17)	73	(17.75)	(10.82)	64
Operating expenses	(15.24)	(13.94)	9	(14.90)	(13.06)	14
Operating netback⁽¹⁾	27.77	14.09	97	25.41	14.66	73

Note:

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



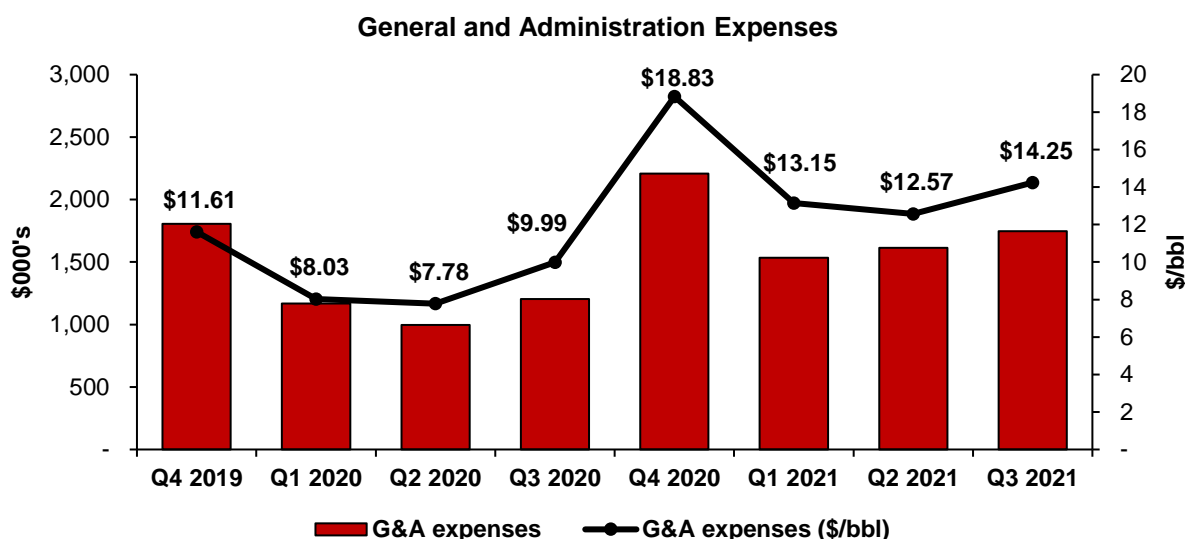
General and administration expenses

(\$000's except per bbl amounts)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% change	2021	2020	% change
Gross G&A expenses	1,993	1,348	48	5,673	3,828	48
Capitalized expenses	(245)	(144)	70	(776)	(461)	68
G&A expenses	1,748	1,204	45	4,897	3,367	45
On a per barrel basis	14.25	9.99	43	13.31	8.55	56

The increase in gross G&A expenses in the third quarter and year to date 2021 periods compared to the same periods in 2020 was primarily attributed to higher salaries and benefits, as all employees undertook pay reductions in March 2020 which were reinstated in September 2020. Further increases in 2021 public company expenses, insurance and foreign exchange realized from a stronger Canadian dollar relative to the US\$ were also reported in comparison to the equivalent 2020 periods.

The increase in capitalized G&A in the third quarter and year to date 2021 periods in relation to the prior year equivalent periods was predominantly from higher gross G&A costs based on the easing of 2020 cost reductions in 2021 and increased manpower activity allocated to the Ortoire exploration property.

Third quarter 2021 G&A expenses were \$14.25 per barrel, a 43 percent increase from the \$9.99 per barrel reported in the third quarter of 2020 based on higher net G&A costs. G&A expenses for the nine months ended September 30, 2021 on a per barrel basis increased by 56 percent to \$13.31 versus \$8.55 in the prior year comparative period. The increase was attributable to higher net G&A costs and lower production volumes in the year to date 2021 period compared to the same period in 2020.



Net finance expenses

(\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Interest income	(2)	(6)	(67)	(5)	(31)	(84)
Lease liability interest expense	5	5	-	14	15	(7)
Term loan interest expense	148	295	(50)	442	882	(50)
Term loan revaluation loss	-	-	-	-	1,158	(100)
Accretion on term loan	19	17	12	51	240	(79)
Term loan finance expense	-	-	-	-	180	(100)
Production liability revaluation loss (gain)	5	(137)	n/a	135	158	(15)
Accretion on decom. liabilities	66	87	(24)	206	210	(2)
Other	(8)	(4)	100	(36)	(49)	(27)
Net finance expenses	233	257	(9)	807	2,763	(71)
Cash net finance expenses	163	293	(44)	463	1,051	(56)
Non-cash net finance expenses	70	(36)	n/a	344	1,712	(80)
Net finance expenses	233	257	(9)	807	2,763	(71)

Net finance expenses for the three months ended September 30, 2021 were \$233,000 compared to \$257,000 for the same period of 2020. During the nine months ended September 30, 2021, net finance

expenses were \$807,000, representing a 71 percent decrease from the \$2,763,000 incurred in the prior year comparative period, with cash finance expenses decreasing by \$588,000 from the prior year period.

Third quarter and year to date 2021 term loan interest expense decreased in comparison to both prior year periods, reflecting a reduced interest rate and lower outstanding balance from the Company's term credit facility that was refinanced on June 15, 2020 (see "*Capital Management and Liquidity - Term loan*"). The debt refinancing also reduced year to date 2021 non-cash term loan accretion costs in comparison to the equivalent 2020 period. In addition, during the nine months ended September 30, 2020, Touchstone incurred \$180,000 in finance expenses and recorded a \$1,158,000 revaluation loss in connection with the debt refinancing and prepaying its former term loan.

Production liability revaluation amounts are recognized as a result of a change of production liabilities estimated by the Company at each reporting period. During the three and nine months ended September 30, 2021, Touchstone recognized non-cash losses of \$5,000 and \$135,000, respectively, predominately from the strengthening of strip crude oil pricing throughout 2021 (2020 - \$137,000 gain and \$158,000 loss). The estimated liability is subject to variability in each reporting period based on changes to internally forecasted petroleum production and forward commodity pricing (see "*Capital Management and Liquidity - Other liabilities*").

Foreign exchange and foreign currency translation

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

FX rates ⁽¹⁾	Three months ended		% change	Nine months ended		% change
	2021	September 30, 2020		2021	September 30, 2020	
US\$:C\$ average FX rate	1.26	1.33	(6)	1.25	1.35	(8)
US\$:TT\$ average FX rate	6.79	6.77	-	6.79	6.76	-
	September 30, 2021	June 30, 2021		September 30, 2021	December 31, 2020	
US\$:C\$ closing FX rate	1.27	1.24	3	1.27	1.27	-
US\$:TT\$ closing FX rate	6.80	6.79	-	6.80	6.77	-

Note:

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

The income and expenses of the Company's Canadian head office and Trinidad operations are translated to US\$ at the average monthly exchange rates relative to the date of the transactions. Fluctuations in the exchange rate between the TT\$ and the US\$ and the C\$ to US\$ could have a material effect on the Company's reported results (see "*Market Risk Management - Foreign currency risk*").

During the three and nine months ended September 30, 2021, the C\$ appreciated 6 percent and 8 percent relative to the US\$ in comparison to the corresponding average rates observed in the 2020 equivalent periods, respectively. Relative to the US\$, the TT\$ remained range bound during the three and nine months ended September 30, 2021 and 2020. In aggregate, the Company recorded a foreign exchange gain of \$48,000 and a foreign exchange loss of \$148,000 during the three and nine months ended September 30, 2021, respectively (2020 - \$84,000 gain and \$54,000 loss). \$99,000 of the \$148,000 year to date 2021 foreign exchange loss was unrealized in nature and may be reversed in the future as a result of fluctuations in prevailing exchange rates.

The assets and liabilities of the Company's subsidiaries are translated to US\$ dollars at the exchange rate on the reporting period date for presentation purposes, with all foreign currency differences recorded in other comprehensive loss. Relative to the US\$, the C\$ closed 3 percent weaker on September 30, 2021 versus June 30, 2021 and was consistent compared to December 31, 2020, while the TT\$ remained consistent in all corresponding periods. Touchstone recognized a foreign currency translation loss of \$228,000 and a foreign translation gain of \$42,000 during the three and nine months ended September 30, 2021, respectively (2020 - gains of \$141,000 and \$213,000).

Equity-based awards

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

Share options	Number of share options	Weighted average exercise price (C\$)
Outstanding, January 1, 2020	8,740,600	0.26
Granted	2,892,000	0.64
Exercised	(1,904,666)	0.30
Expired	(147,500)	2.10
Cancelled	(28,000)	0.42
Outstanding, December 31, 2020	9,552,434	0.34
Granted	3,013,000	1.70
Exercised	(1,332,100)	0.22
Outstanding, September 30, 2021	11,233,334	0.72
Exercisable, September 30, 2021	5,362,671	0.25

The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10 percent of the issued and outstanding Company common shares. As of September 30, 2021, Touchstone had 11,233,334 share options outstanding, representing 5.3 percent of the Company's outstanding common shares (December 31, 2020 - 9,552,434 share options representing 4.6 percent of the Company's then outstanding shares). The following table sets forth equity-compensation expenses recorded in relation to equity-compensation plans for the periods indicated.

(\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Gross equity-based compensation	381	95	301	728	237	207
Capitalized expenses	(76)	(10)	660	(157)	(27)	481
Equity-based compensation	305	85	259	571	210	172

For the three and nine months ended September 30, 2021, Touchstone recorded equity-based compensation of \$305,000 and \$571,000, respectively. The increases in 2021 equity-based compensation and capitalized equity-based compensation compared to the same periods of 2020 were primarily attributable to increases in the fair value of equity-based awards granted in 2020 and 2021 based on higher Company share prices versus previously granted awards. Further information regarding Touchstone's equity compensation plans is included in Note 12 "Shareholders' Capital" of the Company's interim financial statements.

Depletion and depreciation expense

(\$000's except per bbl amounts)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% change	2021	2020	% change
Depletion expense	703	656	7	2,230	2,306	(3)
Depreciation expense	23	124	(81)	118	376	(69)
Depletion and depreciation expense	726	780	(7)	2,348	2,682	(12)
Depletion expense on a per barrel basis	5.73	5.44	5	6.08	5.88	3

The Company's producing petroleum assets are subject to depletion expense. The net carrying value of producing assets is depleted using the unit of production method by reference to the ratio of production in the period over the related proven and probable reserves while also considering the estimated future development costs necessary to bring those reserves into production. Depletion expenses fluctuate based on the amount and type of capital spending, the recognition or reversal of petroleum asset impairments, the quantity of reserves added and production volumes.

In comparison to the third quarter of 2020, third quarter 2021 depletion increased 7 percent on an absolute basis and 5 percent on a per barrel basis. The increase in depletion predominately reflected increased carrying values from net petroleum asset impairment recoveries recognized in the fourth quarter of 2020. During the nine months ended September 30, 2021, depletion expenses decreased by 3 percent and increased by 3 percent on a unit of production basis in comparison to the equivalent period of 2020. The decline in depletion was predominately a result of lower 2021 year to date production in comparison to the corresponding 2020 period.

The decrease in depreciation expense reported in the third quarter of 2021 and year to date 2021 period relative to the corresponding 2020 periods was reflective of lower net asset carrying values in 2021. Further, the Company's oilfield service assets were leased to third parties effective March 1, 2021 and thus were no longer subject to depreciation (see "Finance Leases").

Impairment of non-financial assets

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

Exploration asset impairments

The following table summarizes exploration asset impairment losses by CGU for the periods indicated.

CGU (\$000's)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% change	2021	2020	% change
Cory Moruga	32	(1)		42	(11)	
East Brighton	-	80		-	62	
Impairment loss	32	79	(59)	42	51	(18)

During the three and nine months ended September 30, 2021, the Company incurred \$32,000 and \$42,000 in financial obligations relating to its Cory Moruga licence, respectively, which were impaired given the property's estimated recoverable value was \$nil. In the 2020 comparative periods, impairment reversals of \$1,000 and \$11,000 were recorded, reflecting Cory Moruga CGU decommissioning liability change in estimates.

During the three and nine months ended September 30, 2020, the Company recognized impairment losses related to East Brighton exploration assets of \$80,000 and \$62,000, respectively. The associated licence expired in December 2020.

As of September 30, 2021, the Company identified no indicators of impairment relating to its Ortoire CGU, which had a carrying value of \$47,777,000 (December 31, 2020 - \$30,680,000).

Property and equipment impairments

Property and equipment impairment losses by CGU for the specified periods are disclosed in the following table.

CGU (\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Coora	-	-		-	6,940	
WD-4	-	-		-	5,968	
WD-8	-	-		-	6,307	
Impairment loss	-	-	-	-	19,215	n/a

On September 30, 2021, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal, and no indicators were identified. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

On March 31, 2020, indicators of impairment were present due to the significant decline in crude oil forward pricing predominantly from the effects of COVID-19. Based on the results of impairment tests conducted on all petroleum asset CGUs, an aggregate impairment loss of \$19,215,000 was recognized during the nine months ended September 30, 2020 as reflected in the table above. Based on impairment tests conducted on December 31, 2020, an aggregate impairment reversal of \$8,708,000 was recorded, partially offsetting the first quarter 2020 impairment loss.

Estimating the recoverable amounts of the Company's CGUs involves several assumptions and estimates which are subject to estimation uncertainty, as well as a significant degree of judgement. Changes in any of the key judgements, such as a revision in reserves, changes in forecast commodity prices, inflation rates, capital and operating expenditures or the discount rate would impact the estimated recoverable amounts. Further information regarding impairment losses recorded during the year ended December 31, 2020 and their related measurement uncertainty is included in Note 8 "Impairments" of the Company's audited 2020 financial statements.

Decommissioning liabilities and abandonment fund

The Company's decommissioning and reclamation liabilities relate to future site restoration and well abandonment costs including the costs of production equipment removal and land reclamation based on current environmental regulations. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined.

Pursuant to production and exploration licences with the MEEI, the Company is obligated to remit \$0.25 per barrel sold into an escrow account in the name of the MEEI. The payments are used as a contingency fund for remediation of pollution arising from petroleum operations carried out under the relevant licence and the eventual abandonment of wells and decommissioning of facilities used for operations conducted

under the relevant licence. The MEEI shall return the funds in the escrow account once all obligations in respect of environmental remediation are fulfilled to the satisfaction of the MEEI. Contributions to the fund are reflected on the consolidated statements of financial position as 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 as long-term abandonment fund assets on the consolidated statements of financial position.

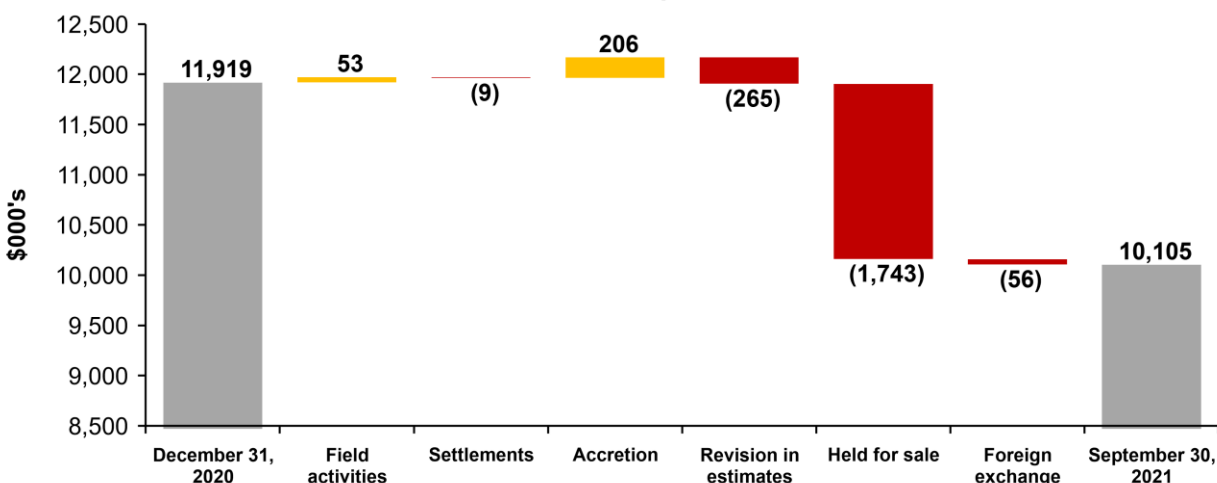
As of September 30, 2021, the Company classified \$1,249,000 of accrued or paid contributions into MEEI and Heritage abandonment funds as abandonment fund assets (December 31, 2020 - \$1,226,000). \$53,000 of the abandonment fund asset balance was reclassified as assets held for sale based on disposition letters of intent executed in the second quarter of 2021 (see "*Capital Expenditures and Dispositions - Property and equipment dispositions*").

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, the payments are included in operating expenses as incurred. Additionally, the Company is obligated to remit \$0.03 per barrel to Heritage into a general abandonment fund. The non-refundable proceeds are used as a contingency fund for the decommissioning and removal of infrastructure and facilities within a property and are expensed to operating costs as incurred.

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

Touchstone estimated the net present value of the cash flows required to settle its decommissioning liabilities to be \$10,105,000 as at September 30, 2021 (December 31, 2020 - \$11,919,000). The estimate included assumptions in respect of actual costs to abandon wells or reclaim a property, the time frame in which such costs will be incurred, and annual inflation factors. September 30, 2021 decommissioning liabilities were estimated using a weighted average long-term risk-free rate of 5.2 percent and a long-term inflation rate of 1.5 percent (December 31, 2020 - 4.9 and 1.8). \$66,000 and \$206,000 of accretion expenses were recognized during the three and nine months ended September 30, 2021 to reflect the increase in decommissioning liabilities associated with the passage of time, respectively (2020 - \$87,000 and \$210,000). \$1,743,000 of the decommissioning liability was reclassified as liabilities associated with assets held for sale as result of non-core asset disposition letters of intent executed in the second quarter of 2021 (see "*Capital Expenditures and Dispositions - Property and equipment dispositions*").

**Change in Decommissioning Liability
December 31, 2020 to September 30, 2021**



Decommissioning liability details as at September 30, 2021, excluding those classified as held for sale, are summarized in the table below.

Number of well locations (net)	Undiscounted balance (\$000's)	Inflation adjusted balance (\$000's)	Discounted balance (\$000's)
727	14,065	16,280	10,105

Environmental stewardship is a core value at Touchstone, and abandonment and reclamation activities are made in a prudent, responsible manner with the oversight of the Board and in accordance with local regulations. Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to future decommissioning expenditures, and the impact on the consolidated financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. Further information regarding decommissioning liabilities is included in Note 10 "Decommissioning Liabilities and Abandonment Fund" of the interim financial statements.

Income taxes

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

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

SPT is computed and remitted on a quarterly basis and is applicable to produced petroleum liquids. Actual rates vary based on the realized selling prices of petroleum liquids in the applicable quarter. For the 2021 and 2022 financial years, the SPT rate is nil when the weighted average realized price of petroleum liquids for a given quarter is below \$75.00 per barrel and 18 percent when weighted average realized prices fall between \$75.00 and \$90.00. The revenue base for the calculation of SPT is petroleum sales from liquids products less related royalties paid, less 25 percent investment tax credits on mature oilfields for allowable tangible and intangible capital expenditures incurred in the applicable fiscal quarter. The Company's Ortoire

property is not considered a mature oilfield, and thus no capital spending investment tax credits are applicable.

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

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

The following table sets forth current income tax expense for the three and nine months ended September 30, 2021 and 2020.

(\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
SPT	-	-		-	5	
PPT	248	23		759	197	
UL	99	9		303	72	
Business levy	5	4		16	11	
GFL	25	19		72	54	
Current income tax expense	377	55	585	1,150	339	239

During the three and nine months ended September 30, 2021, the Company recognized \$377,000 and \$1,150,000 of current income tax expenses, respectively, compared to \$55,000 and \$339,000 recognized in the corresponding 2020 periods. The increase in 2021 current income taxes relative to 2020 was attributed to accrued PPT and UL expenses based on increased year to date Trinidad operating entity estimated taxable profits.

Touchstone's \$7,224,000 net deferred income tax liability balance represented the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases as at September 30, 2021 (December 31, 2020 - \$7,021,000). The deferred tax balance remained in a liability position mainly from the discrepancy between the carrying values and the tax values of the Company's petroleum assets. During the three and nine months ended September 30, 2021, Touchstone recognized deferred tax expenses of \$88,000 and \$237,000, respectively (2020 - expense of \$54,000 and recovery of \$10,129,000). The year to date 2020 deferred tax recovery was primarily reflective of property and equipment impairment losses recorded in the period, which reduced financial statement carrying values and affected the corresponding deferred tax liability balance.

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of tax matters under review, and the Company believes that the provision for income taxes is adequate. Further information regarding the Company's income taxes is included in Note 11 "Income Taxes" of the interim financial statements.

Capital Expenditures and Dispositions

Exploration asset expenditures

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

(\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Licence financial obligations	175	212		775	175	
Geological and seismic	775	-		2,438	74	
Drilling, completions and well testing	5,946	4,861		12,232	7,405	
Equipment and facilities	237	592		700	935	
Capitalized G&A	169	66		555	194	
Other	240	27		460	47	
Total expenditures	7,542	5,758	31	17,160	8,830	94

Third quarter and year to date 2021 Ortoire exploration expenditures were \$7,542,000 and \$17,160,000 respectively. The Company incurred drilling and road construction expenditures for the Royston-1 well in the third quarter of 2021 and conducted Cascadura Deep-1 and Chinook-1 well testing operations during the September 30, 2021 year to date period. Further capital investments were directed toward the Coho-1 pipeline and production facility and the Royston area seismic program that was completed in July 2021 (see "Ortoire Operations" for further details).

During the comparative periods of 2020, the Company focused exploration investment on drilling the Chinook-1 well, two Cascadura-1ST1 production tests, and initial operations relating to the Coho-1 well tie-in.

Property and equipment (development) expenditures

(\$000's)	Three months ended			Nine months ended		
	2021	September 30, 2020	% change	2021	September 30, 2020	% change
Drilling and completions	2,197	44		2,293	167	
Capitalized G&A	76	78		221	267	
Corporate / other	42	89		53	89	
Total expenditures	2,315	211	997	2,567	523	391

For the three and nine months ended September 30, 2021, property and equipment expenditures were \$2,315,000 and \$2,567,000, respectively. Third quarter 2021 drilling and completion expenditures were related to rig mobilization fees and inventory for the Company's fourth quarter 2021 drilling program. Touchstone conducted negligible field development activity in all 2021 and 2020 periods, with minimal well recompletions performed.

Property and equipment dispositions

In May 2021, the Company executed letters of intent with a third party to dispose of three non-core properties for aggregate consideration of \$350,000, subject to customary closing adjustments. The transactions are subject to standard regulatory approvals and the extension of the associated production licences. Touchstone considers the properties to be non-core due to the associated decommissioning obligations, operating expenses that were substantially higher than the corporate average and limited scalability. The properties generated nominal operating netbacks and contributed 25 bbls/d of crude oil

sales during the nine months ended September 30, 2021 (2020 - 32 bbls/d).

Immediately prior to classifying the assets and associated liabilities as held for sale, the Company conducted a review of the assets' recoverable amounts based on the expected consideration to be received and transferred these assets at their carrying amount, with no impairment recognized. The following table specifies the carrying values that were classified as held for sale on the September 30, 2021 consolidated statement of financial position.

(\$000's)	September 30, 2021
Property and equipment	1,170
Abandonment fund	53
Assets held for sale	1,223
Decommissioning obligations	(1,743)
Liabilities associated with assets held for sale	(1,743)
Net liabilities held for sale	(520)

Finance Leases

Effective March 1, 2021, the Company entered into separate three-year arrangements to lease its oilfield service rigs and swabbing units to two third-party contractors for aggregate proceeds of approximately \$1,120,000. Principal payments commenced in March 2021, and the Company continues to hold title to the assets until all principal payments have been collected. The lease arrangements were classified as finance leases, as substantially all of the risks and rewards incidental to ownership of the underlying assets are held by the lessees. On March 1, 2021, the \$856,000 carrying value of the leased assets were reclassified from property and equipment to other assets on the consolidated statement of financial position. As of September 30, 2021, the Company's finance lease receivable was \$776,000, of which \$670,000 was included in long-term other assets on the consolidated statement of financial position.

Capital Management and Liquidity

Capital management

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

As at September 30, 2021, Touchstone had a cash balance of \$5,004,000, a working capital deficit of \$4,657,000 and \$7,500,000 drawn on its term credit facility. On October 1, 2021, the Company withdrew an additional \$7,500,000 of the credit facility, resulting in a principal balance of \$15,000,000 outstanding. Touchstone has the option to access the remaining \$5,000,000 available balance prior to December 31, 2021. The credit facility does not require the commencement of principal payments until September 2022, and financial covenants are not tested until the year ended December 31, 2022. The Company believes that available credit facility capacity combined with anticipated funds flow from operations will be sufficient to satisfy its 2021 and 2022 minimum work commitments and budgeted exploration activities.

The Company's current development plan is strategically balanced between increasing base crude oil production levels, bringing Ortoire natural gas discoveries onstream and proceeding with further Ortoire exploratory activities. Touchstone will continue to take a measured approach to future developmental and exploration drilling in an effort to manage financial liquidity while proceeding with this plan.

When evaluating the Company's capital structure, Management's long-term strategy is to maintain net debt to trailing twelve-month funds flow from operations at or below a ratio of two times in a normalized commodity price environment. This ratio may increase at certain times as a result of increased capital expenditures or low commodity prices. The Company also monitors its capital management through the net debt to total managed capital ratio. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to total managed capital at a ratio of less than 0.4 to 1. The Company's internal capital management calculations for the nine months ended September 30, 2021 and year ended December 31, 2020 are summarized in the table below.

(\$000's)	Target measure	September 30, 2021	December 31, 2020
Current assets		(14,097)	(29,312)
Current liabilities		18,754	16,379
Working capital deficit (surplus) ⁽¹⁾		4,657	(12,933)
Principal long-term balance of term loan		7,125	7,500
Net debt (surplus) ⁽¹⁾		11,782	(5,433)
Shareholders' equity		60,580	60,365
Total managed capital		72,362	54,932
Trailing twelve-month funds flow from operations ⁽²⁾		2,080	263
Net debt to funds flow from operations	at or < 2.0 times	5.66	n/a
Net debt to total managed capital	< 0.4 times	0.16	n/a

Notes:

- (1) Non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures presented by other companies. See "Non-GAAP Measures" for further information.
- (2) Additional GAAP term included in the Company's consolidated statements of cash flows. Funds flow from operations represents net loss excluding non-cash items. See "Non-GAAP Measures" for further information. Trailing twelve-month funds flow from operations as at September 30, 2021 includes the sum of funds flow from operations for the nine months ended September 30, 2021 and funds flow used in operations for the three-month October 1 through December 31, 2020 interim period.

Shareholders' equity

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. The following table summarizes Touchstone's outstanding common shares and share options as at the date of this MD&A, September 30, 2021 and December 31, 2020.

	November 10, 2021	September 30, 2021	December 31, 2020
Common shares outstanding	210,731,727	210,731,727	209,399,627
Share options outstanding	11,233,334	11,233,334	9,552,434
Fully diluted common shares	221,965,061	221,965,061	218,952,061

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

Term loan

Touchstone Exploration (Trinidad) Ltd., the Company's indirectly wholly owned Trinidadian subsidiary, entered into a \$20 million, seven-year term credit facility arrangement from a Trinidad-based financial institution effective June 15, 2020. On closing, the Company withdrew \$15 million to satisfy the Company's obligations relating to prepaying the Company's C\$20 million Canadian-based term loan (the "Retired Term Loan"). On November 27, 2020, the Company and its lender executed a term loan amending agreement, allowing the Company to repay \$7.5 million of the \$15 million term loan balance on December 15, 2020.

On June 25, 2021, the parties executed a second amending agreement to the term loan, which extended the principal availability period from June 15, 2021 to December 31, 2021.

The term loan is a senior secured syndicated loan, with the lender acting as initial lender, arranger, and administrative agent. The term loan bears a fixed interest rate of 7.85 percent per annum, compounded and payable quarterly. Twenty equal and consecutive quarterly principal payments commence on September 15, 2022. Prepayments are permitted with a one percent penalty and a 30-day notice period, and no penalty shall apply on principal repayments after three years. The term loan arrangement is principally secured by a pledge of equity interests and fixed and floating security interests over all present and after acquired assets of Touchstone Exploration (Trinidad) Ltd. and its wholly owned Trinidadian subsidiary, POGL. The agreement contains industry standard representations and warranties, undertakings, events of default, and financial covenants, which will be tested on an annual basis commencing with financial results for the year ending December 31, 2022.

As of September 30, 2021, the Company had \$7,500,000 principal drawn on the credit facility. For financial reporting purposes, the term loan is measured at amortised cost, with the aggregate associated financing fees unwound using the effective interest rate method to the face value at maturity. As of September 30, 2021 the total term loan balance was \$7,227,000, with \$6,852,000 classified as long-term and \$375,000 classified as current on the consolidated statement of financial position.

On October 1, 2021, the Company withdrew an additional \$7,500,000 of the credit facility, resulting in a principal balance of \$15,000,000 outstanding. The Company has the option to access the remaining \$5,000,000 available balance prior to December 31, 2021.

At all times the Company must maintain a cash reserves balance of not less than the equivalent of two subsequent quarterly interest payments. The Company classified \$294,000 as long-term restricted cash on the consolidated statements of financial position as at September 30, 2021 and December 31, 2020.

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

Other liabilities

Lease liabilities

The Company is a party to lease arrangements for office space and office equipment. As of September 30, 2021, Touchstone recognized \$341,000 in aggregate lease liabilities on the consolidated statement of financial position, of which \$294,000 was classified as long-term (2020 - \$336,000 and \$257,000, respectively).

Production liability

In connection with the Retired Term Loan, the Company granted its former lender a production payment equal to 1.33 percent of petroleum sales from Trinidad land holdings, payable quarterly through October 31, 2023. Upon repayment of the Retired Term Loan, the Company and the lender entered into an amended production payment agreement to continue the obligation under its previous terms and conditions.

The production liability is revalued at each reporting period based on internally estimated future production and forward petroleum pricing forecasts. During the three and nine months ended September 30, 2021, Touchstone recognized production liability revaluation losses of \$5,000 and \$135,000, respectively (2020 - \$137,000 gain and \$158,000 loss). At September 30, 2021, the Company's estimated production liability balance was \$1,371,000, of which \$1,111,000 was classified as long-term and included in other liabilities

on the consolidated statement of financial position (December 31, 2020 - \$1,519,000 and \$1,357,000, respectively).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Touchstone believes that future cash flows and debt capacity will be adequate to meet financial obligations as they come due.

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

To manage its capital structure, the Company may reduce its fixed cost structure, adjust capital and exploration spending, issue new equity or seek additional sources of debt financing. Touchstone will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. The following table sets forth estimated undiscounted cash outflows and financial maturities of the Company's financial liabilities as at September 30, 2021.

(\$000's)	Recognized in financial statements	Undiscounted cash outflows	Financial maturity by period		
			Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	Yes – liability	15,624	15,624	-	-
Income taxes payable	Yes – liability	1,012	1,012	-	-
Lease liabilities	Yes – liability	393	64	135	194
Term loan principal	Yes – liability	7,500	375	3,000	4,125
Term loan interest	No – recognized as incurred	1,963	588	903	472
Estimated production liability	Yes – liability	2,171	367	1,804	-
Total financial liabilities		28,663	18,030	5,842	4,791

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

Contractual Obligations and Commitments

The Company has minimum work obligations under various operating agreements with Heritage, exploration commitments under the Cory Moruga and Ortoire block exploration and production licences with the MEEI, commitments regarding a long-term drilling rig contract and various lease commitments for office space and motor vehicles.

The following table outlines the Company's estimated minimum contractual capital requirements as at September 30, 2021.

(\$000's)	Total	Estimated payments due by year			
		2021	2022	2023	Thereafter
Operating agreement commitments					
Coora blocks	12,631	1,173	3,454	90	7,914
WD-4 block	6,609	1,109	1,195	76	4,229
WD-8 block	6,575	1,108	1,192	73	4,202
Fyzabad block	901	19	75	76	731
Cory Moruga exploration block	1,711	30	121	118	1,442
Ortoire exploration block	1,853	45	69	73	1,666
Drilling rig commitments	2,880	234	960	960	726
Office and equipment leases	901	64	127	127	583
Minimum payments	34,061	3,782	7,193	1,593	21,493

Under the terms of its Heritage operating agreements, Touchstone must fulfill minimum work obligations on an annual basis over the specific licence term. With respect to these obligations, as at September 30, 2021, the Company had three development wells and two heavy workover commitments to perform prior to the end of 2021.

The exploration phase of the Ortoire exploration and production licence expired on July 31, 2021, and the Company received approval from the MEEI to spud the final commitment well in August 2021. As at September 30, 2021, the Company has fulfilled all minimum exploration work obligations with respect to the licence. The Company is currently seeking an extension to the exploration licence with the MEEI for areas that have not been proven commercial.

In March 2021, the Company entered into a minimum three-year drilling services contract with a third party to supply a North American based drilling rig to Trinidad in 2021. Pursuant to the contract, the Company is required to utilize the rig for a minimum of 120 days per annum over the initial three-year term and is obligated to pay for rig mobilization and demobilization costs. The drilling rig commenced operations on October 3, 2021.

Market Risk Management

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

Management has overall responsibility for the establishment of risk management strategies and objectives. Touchstone's risk management policies are designed to identify the risks faced by the Company, to set appropriate risk limits, and to monitor adherence to risk limits. Risk management policies are reviewed and revised regularly to reflect changes in market conditions and the Company's operating activities. Management of cash flow variability is an integral component of Touchstone's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board to establish risk management guidelines to be used by Management.

Commodity price risk

The Company is exposed to commodity price movements as part of its operations. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Further, Touchstone's realized crude oil price is based on quality differentials and international marketing arrangements and therefore are attributed to factors that are beyond the Company's control. Consequently, any changes in crude oil pricing could affect the Company's cash flow from operations, the value of the Company's properties, the level of capital expenditures and Touchstone's ability

to meet financial obligations as they come due.

Touchstone maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. Touchstone's strategy focuses on the periodic use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices while allowing for participation in commodity price increases. The Company has no commodity financial contracts in place as of the date hereof or during the nine months ended September 30, 2021 and 2020.

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

Foreign currency risk

Foreign currency exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the TT\$ and the US\$ could have a significant effect on financial results. Although the sales prices of crude oil are determined by reference to US\$ denominated benchmark prices, the majority of the invoices for such sales are paid in TT\$, exposing the Company to foreign exchange risk. To mitigate this risk, the Company attempts to match revenues received in TT\$ by entering into contracts denominated and payable in TT\$ when possible. In addition, the Company has US\$ denominated debt and related interest payments. These risks are currently mitigated by the fact that the TT\$ is informally pegged to the US\$.

The Company has further foreign exchange exposure on cash balances denominated in Canadian dollars and pounds sterling, on head office costs and a production liability denominated in Canadian dollars, and costs denominated and payable in pounds sterling required to maintain its AIM listing. Any material movements in the C\$ to US\$ and the pounds sterling to US\$ exchange rates may also have a material effect on the Company's reporting results (see "*Results of Operations - Foreign exchange and foreign currency translation*").

The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with petroleum sales paid in foreign currencies. The Company attempts to limit its exposure to foreign currency risk through collecting and paying foreign currency denominated balances in a timely fashion. The Company has no contracts in place to manage foreign currency risk as at the date hereof or during the nine months ended September 30, 2021 and 2020.

Credit risk

Credit risk is the risk of a counterparty failing to meet its obligations in accordance with the agreed upon terms. The Company may be exposed to third-party credit risk through its contractual arrangements with its current or future joint operation partners, marketers of its commodities and other parties. Touchstone has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and natural gas sales and financial derivative transactions. However, the Company is exposed to sole purchaser risk in Trinidad as Heritage is the sole purchaser of crude oil and the National Gas Company of Trinidad and Tobago ("NGC") is the sole purchaser of future natural gas production.

In addition, the Company historically has aged accounts receivables owing for Trinidad based value added taxes ("VAT"). In comparison to December 31, 2020, the Company's past due accounts receivable balance increased by \$1,570,000 as a result of increased overdue VAT balances based on elevated capital and operational spending in 2021. Although collection is erratic and therefore the timing thereof cannot be estimated with any certainty, the Company believes that all of the balances are ultimately collectable as it has not experienced any past collection issues.

The aging of accounts receivable as at September 30, 2021 and December 31, 2020 is disclosed in the following table.

(\$000's)	September 30, 2021	December 31, 2020
Not past due	3,658	2,781
Past due (greater than 90 days)	3,474	1,904
Accounts receivable	7,132	4,685

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

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

Operating Agreements

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

Lease operatorship agreements

In June 2021, Touchstone executed ten-year LOAs with Heritage for the Coora-1, Coora-2, WD-4 and WD-8 blocks effective January 1, 2021. The LOAs were renewed under substantially similar terms to the previous arrangements.

Under the new arrangements, the Company is subject to annual minimum production levels and minimum work commitments from 2021 through 2030 specified under each LOA. Failing to reach either the annual minimum production levels or complete the annual minimum work obligations will not constitute a breach provided the minimal production levels have been attained or the minimum work obligations have been completed, as the case may be.

The LOAs contain an aggregate minimum of 20 new infill wells and 40 well recompletions to be completed over the ten-year licence periods (see "*Contractual Obligations and Commitments*" for further details).

MEEI exploration and production licences

The Company has an exploration and production licences with the MEEI for its Fyzabad producing property and its Cory Moruga and Ortoire exploration properties. The licences typically are for an initial six-year term, with the option to extend certain acreage a further 19 years upon a commercial discovery. Refer to "*Ortoire Operations*" and "*Contractual Obligations and Commitments*" for further details regarding the Ortoire exploration and production licence and associated minimum work commitments.

Private lease agreements

Touchstone also negotiates private lease agreements with individual landowners. Lease terms are typically 35 years in duration and contain no minimum work obligations. The Company is operating under a number of Trinidad private lease agreements which have expired and are currently being renewed. Based on legal opinions received, Touchstone is continuing to recognize petroleum sales on the producing properties because the Company is the operator, is paying all associated royalties and taxes, and no title to the

producing properties has been disputed. The Company currently has no indication that any of the producing expired leases will not be renewed. The continuation of production from expired private leases during the renegotiation process is common in Trinidad based on antiquated land title processes. During the nine months ended September 30, 2021, production volumes produced under expired private lease agreements represented 1.7 percent of total Company production (2020 - 1.9 percent).

Off-balance Sheet Arrangements

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

Related Party Transactions

The Company's Corporate Secretary and a director is a senior partner of the Company's Canadian legal counsel, Norton Rose Fulbright Canada LLP. For the three and nine months ended September 30, 2021, \$4,000 and \$47,000 in legal fees and disbursements charged by Norton Rose Fulbright Canada LLP were incurred, respectively (2020 - \$18,000 and \$192,000). \$4,000 were included in accounts payable and accrued liabilities as at September 30, 2021 (2020 - \$33,000).

Significant Accounting Estimates, Judgements and Assumptions

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

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

Control Environment

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at September 30, 2021. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control - Integrated Framework (2013) to evaluate the design and effectiveness of ICFR. Based on this evaluation, Management concluded that both ICFR and DC&P were effective as at September 30, 2021. There were no changes during the three and nine months ended September 30, 2021 that had materially affected, or were reasonably likely to materially affect, ICFR.

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

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's 2020 Annual Information Form dated March 25, 2021, which can be found on the Company's SEDAR profile (www.sedar.com) and website (www.touchstoneexploration.com). Refer to "Advisory on Forward-Looking Statements" in this MD&A for additional information regarding the risks to which Touchstone and its business operations are subject to.

As a participant in the international oil and gas industry, the Company is exposed to a variety of risks including, but not limited to, political, operational, financial, and environmental risks. As discussed in the "Capital Management and Liquidity" and "Market Risk Management" sections of this MD&A, the Company is exposed to normal financial risks inherent in the international oil and gas industry including commodity price risk, foreign exchange rate risk, credit risk and liquidity risk. The following are certain key risks, uncertainties and opportunities associated with the Company's business that can impact financial results.

Pandemics

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

The Company's business, operations and financial condition have been adversely affected by COVID-19. Actions taken to reduce the spread of COVID-19 have resulted in volatility and disruptions in regular business operations, supply chains and financial markets, as well as declining trade and market sentiment. COVID-19, along with other factors, resulted in the deepest drop in crude oil prices that global markets have seen since 1991.

While market conditions have improved in 2021, the full extent of the risks surrounding the COVID-19 pandemic is continually evolving in light of an effective global distribution of effective vaccines and also through subsequent waves, or additional variants of COVID-19 continue to emerge which are more transmissible or cause more severe disease. The risks disclosed herein and in the Company's Annual Information Form for the year ended December 31, 2020 may be exacerbated as a result of the COVID-19 pandemic; market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates and volatility of the market price of the Company's common shares; operational risks related to increasing operating costs or declines in production levels, capital project delays, international shipping delays, delays in receiving government regulatory approvals, marketing arrangement counterparty performance or payment delays, and government regulations; ability to obtain additional financing; and other risks related to cyber-security as the Company's workforce in Canada and Trinidad predominantly works from remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

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

Foreign location of assets and foreign economic and political risk

Touchstone is subject to additional risks associated with international operations in Trinidad. The Company's operations may be adversely affected by changes in foreign government policies and legislation or social instability and other factors which are not within the control of Touchstone, including, but not limited to: nationalization, expropriation of property without fair compensation or marketable compensation; renegotiation or nullification of existing concessions and contracts; the imposition of specific drilling

obligations and the development and abandonment of fields; changes in energy and environmental policies or the personnel administering them; changes in oil and natural gas pricing policies; the actions of national labour unions; currency fluctuations and devaluations; currency exchange controls; economic sanctions; royalty and tax increases; and other risks arising out of foreign governmental sovereignty over the areas in which Touchstone's operations will be conducted. The Company's operations may also be adversely affected by the laws and policies of Trinidad affecting foreign trade, taxation and investment. If the Company's operations are disrupted and/or the economic integrity of its projects are threatened for unexpected reasons, its business may be harmed. Prolonged problems may threaten the commercial viability of its operations. In addition, there can be no assurance that contracts, licences, licence applications or other legal arrangements will not be adversely affected by changes in governments in foreign jurisdictions, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Commodity prices and marketing

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

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

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

Environmental regulations

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

of operation. The Company adopts prudent and industry-recommended field operating procedures for all operations, as well as maintaining a robust health, safety and environment program in order to protect the environment, its employees and consultants, and the general public.

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

Touchstone maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

Climate change

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

Refinancing and debt service

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

Touchstone currently has a term credit facility that is secured against the current and future assets of the Company's Trinidad upstream oil and gas subsidiaries. Touchstone is required to comply with covenants under this facility, and in the event it does not comply, access to capital could be restricted or repayment may be required. The Company routinely reviews the credit facility covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants. If Touchstone becomes unable to pay its debt service charges or otherwise commits an event of default, the lender may foreclose on such assets of Touchstone or sell the working interests. Current and future debt capital is subject to market conditions, and availability may increase or decrease from time to time.

Operational matters

The operation of oil and gas wells and sales facilities may involve a number of operational and natural hazards. Operational risks include competition, reservoir performance uncertainties, well blow-outs and other operating hazards, lack of infrastructure or transportation to access markets and monetize reserves, and regulatory, environment and safety concerns. The Company works to mitigate these risks by employing

highly skilled personnel and utilizing available technology. The Company maintains a corporate insurance program in amounts consistent with industry practices to protect against insurable losses. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce cash flows and may reduce future capital investments. Furthermore, the Company may be subject to specific project risks that may be required to process and market its natural gas reserves.

The oil and 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, infrastructure and sales contracts, drilling and other specialized technical equipment and for experienced key human resources.

Sole purchasers and ability to market

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

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

Exploration

As a participant in the oil and gas industry, the Company is exposed to a high level of exploration and production risk, upon which there is no assurance that hydrocarbon reserves will be discovered and economically produced. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless Touchstone can acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance that the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, the Company employs or contracts highly qualified geologists, uses technology such as 2D or 3D seismic and current information system technology as primary exploration tools and focuses exploration efforts in known hydrocarbon-producing basins. The Company may also choose to mitigate exploration risk through acquisitions that may require raising additional funds.

Trinidad exploration and production agreements

The current exploration and production licences, LOAs and joint operating agreements with respect to Touchstone's properties contain significant obligations on the part of the Company or its subsidiaries including minimum work commitments on Trinidad concessions which, upon a continuing default, may give

rise to the termination of the Company's operatorship interest therein. There are no assurances that all of these commitments will be fulfilled within the time frames allowed. As such, Touchstone may lose certain exploration and production rights on the blocks affected and may be subject to certain financial penalties that would be levied by Heritage, the MEEI, or the other parties thereto, as applicable. The current forms of licences and sub-licences, as applicable, may, in certain circumstances, be terminated at Heritage's or the MEEI's discretion and are subject to a defined term, and there is no certainty as to any renewal.

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

Cyber-security

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

Selected Quarterly Information

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

Three months ended	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Operational				
Average daily production (<i>bbls/d</i>)	1,333	1,402	1,297	1,274
Net wells drilled	0.8	-	-	1.6
Brent benchmark price ⁽¹⁾ (<i>\$/bbl</i>)	73.51	68.98	61.04	44.32
Operating netback ⁽²⁾ (<i>\$/bbl</i>)	27.77	26.30	21.98	13.90
Financial (<i>\$000's except per share amounts</i>)				
Petroleum sales	7,650	7,586	6,120	4,414
Cash from (used in) operating activities	384	1,008	(1,234)	167
Funds flow from (used in) operations ⁽³⁾	1,073	1,205	538	(736)
Per share – basic and diluted ⁽²⁾⁽³⁾	0.01	0.01	0.00	(0.00)
Net (loss) earnings	(51)	(284)	(460)	1,655
Per share – basic and diluted	(0.00)	(0.00)	(0.00)	0.01
Exploration capital expenditures	7,542	6,664	2,954	9,031
Development capital expenditures	2,315	125	127	186
Total capital expenditures	9,857	6,789	3,081	9,217
Working capital deficit (surplus) ⁽²⁾	4,657	(4,671)	(10,552)	(12,933)
Principal long-term balance of term loan	7,125	7,500	7,500	7,500
Net debt (surplus) ⁽²⁾ – end of period	11,782	2,829	(3,052)	(5,433)
Share Information (<i>000's</i>)				
Weighted average shares outstanding:				
Basic	210,732	209,757	209,400	197,686
Diluted	210,732	209,757	209,400	206,072
Outstanding shares – end of period	210,732	210,732	209,400	209,400

Notes:

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

Three months ended	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Operational				
Average daily production (bbls/d)	1,310	1,396	1,589	1,690
Net wells drilled	-	-	-	0.8
Brent benchmark price ⁽¹⁾ (\$/bbl)	42.91	29.70	50.27	63.17
Operating netback ⁽²⁾ (\$/bbl)	14.09	10.73	18.61	25.12
Financial (\$000's except per share amounts)				
Petroleum sales	4,725	3,755	6,698	8,920
Cash from (used in) operating activities	4,126	(1,921)	(76)	2,090
Funds flow from (used in) operations ⁽³⁾	192	(450)	1,257	2,018
Per share – basic and diluted ⁽²⁾⁽³⁾	0.00	(0.00)	0.01	0.01
Net loss	(703)	(2,742)	(9,240)	(3,549)
Per share – basic and diluted	(0.00)	(0.01)	(0.05)	(0.02)
Exploration capital expenditures	5,758	1,249	1,823	5,838
Development capital expenditures	211	92	220	157
Total capital expenditures	5,969	1,341	2,043	5,995
Working capital (surplus) deficit ⁽²⁾	(869)	(6,534)	(8,094)	1,139
Principal long-term balance of term loan	15,000	15,000	13,338	15,364
Net debt ⁽²⁾ – end of period	14,131	8,466	5,244	16,503
Share Information (000's)				
Weighted average shares outstanding:				
Basic and diluted	184,277	183,640	169,361	160,691
Outstanding shares – end of period	184,408	184,161	183,489	160,703

Notes:

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

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

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

- In the third quarter of 2021, the Company maintained base crude oil production levels and generated \$1.1 million in funds flow from operations. Capital expenditures increased from the prior quarter, as the Company drilled an exploration well and incurred rig mobilization and inventory costs for its upcoming development drilling program. The increased capital activity in the quarter led to an \$9 million increase in net debt from the second quarter of 2021.
- The Company generated \$1.2 million in funds flow from operations in the second quarter of 2021, reflecting 13 percent and 8 percent increases in realized crude oil pricing and production from the

first quarter of 2021, respectively. Ortoire exploration investment was \$6.7 million, resulting in a net debt balance of \$2.8 million.

- In the first quarter of 2021, the Company generated \$0.5 million in funds flow from operations predominantly from increased production and realized pricing from the fourth quarter of 2020. The Company proceeded with its Ortoire exploration activities, incurring a total of \$3.1 million in capital expenditures. As a result, net surplus decreased by \$2.4 million from the fourth quarter of 2020.
- Touchstone completed a private placement that resulted in net proceeds of \$28.4 million in the fourth quarter of 2020. As a result, the Company prepaid \$7.5 million of its term loan balance and increased exploration capital expenditures in the quarter, ending the quarter with a net surplus of \$5.4 million. Predominately based on increased crude oil future pricing, net impairment recoveries of \$7.8 million were recorded. The impairment reversals, which were partially offset by related \$3.9 million deferred income tax expenses, contributed to the Company recognizing net earnings of \$1.7 million in the quarter.
- In the third quarter of 2020, net debt increased by \$5.7 million or 67 percent from the second quarter of 2020, reflective of \$5.8 million in exploration investments in the quarter. Average crude oil pricing increased by 34 percent from the prior quarter, which contributed to a \$0.6 million increase in funds flow from operations to \$0.2 million.
- Based on crude oil demand declines caused by COVID-19, second quarter 2020 realized crude oil pricing decreased by 36 percent from the prior quarter. Reduced expenditures on field operations also reduced crude oil production by 12 percent from the first quarter of 2020. These combined effects decreased second quarter operating netbacks by 42 percent, resulting in \$0.5 million in funds flow used in operations. The Company continued with its exploration activities, investing \$1.3 million which was the main driver in the increase in net debt of \$3.2 million or 61 percent from the first quarter of 2020.
- In the first quarter of 2020, the Company recognized property and equipment impairments of \$19.2 million as a result of decreased forecasted crude oil pricing from the market effects of COVID-19. The impairments were slightly offset by an associated deferred tax recovery of \$10.1 million, resulting in a net loss of \$9.2 million reported in the quarter. Touchstone completed a private placement in February 2020 for net proceeds of \$10.9 million, which increased working capital and decreased net debt as of March 31, 2020.
- In the fourth quarter of 2019, the Company recognized a reversal of \$1.3 million in previously accrued interest on income tax balances, which predominately led to an increase in funds flow from operations to \$2 million. Touchstone recorded \$7.6 million of property and equipment impairment expenses which were partially offset by a deferred tax recovery of \$3.9 million, contributing to a net loss of \$3.5 million recognized in the quarter. The Company extended its Canadian-based term loan credit facility by C\$5 million to drill its second Ortoire exploration well in the quarter, thereby increasing net debt to \$16.5 million.

Non-GAAP Measures

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

Funds flow from operations and funds flow from operations per share

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

Operating netback

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

(\$000's unless otherwise stated)	Three months ended		Nine months ended	
	2021	September 30, 2020	2021	September 30, 2020
Petroleum sales	7,650	4,725	21,356	15,178
Royalties	(2,375)	(1,346)	(6,528)	(4,260)
Operating expenses	(1,869)	(1,680)	(5,479)	(5,142)
Operating netback	3,406	1,699	9,349	5,776
Production (bbls)	122,649	120,543	367,824	393,838
Operating netback (\$/bbl)	27.77	14.09	25.41	14.66

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

(\$000's)	Three months ended		Nine months ended	
	2021	September 30, 2020	2021	September 30, 2020
Funds flow from operations	1,073	192	2,816	999
Other revenue	(4)	(28)	(35)	(91)
Expenses				
G&A	1,748	1,204	4,897	3,367
Net finance	233	257	807	2,763
Current income tax	377	55	1,150	339
Realized foreign exchange	40	(17)	49	111
Change in non-cash other	(70)	36	(344)	(1,712)
Decommissioning expenditures	9	-	9	-
Operating netback	3,406	1,699	9,349	5,776

Net debt

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

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

(\$000's)	September 30, 2021	December 31, 2020	September 30, 2020
Current assets	(14,097)	(29,312)	(12,299)
Current liabilities	18,754	16,379	11,430
Working capital deficit (surplus)	4,657	(12,933)	(869)
Principal long-term balance of term loan	7,125	7,500	15,000
Net debt (surplus)	11,782	(5,433)	14,131

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

(\$000's)	September 30, 2021	December 31, 2020	September 30, 2020
Total liabilities	44,340	44,187	40,000
Lease liabilities	(294)	(335)	(257)
Other liabilities	(1,111)	(1,357)	(793)
Decommissioning liabilities	(10,105)	(11,919)	(9,692)
Deferred income tax liability	(7,224)	(7,021)	(3,144)
Variance between carrying and principal value of term loan	273	324	316
Current assets	(14,097)	(29,312)	(12,299)
Net debt (surplus)	11,782	(5,433)	14,131

Advisory on Forward-Looking Statements

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

Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production rates, production decline rates, the magnitude of and ability to recover petroleum reserves, plans for and results of drilling, production testing, surface facility and tie-in activities, well abandonment costs, the ability to secure necessary personnel, equipment and services, environmental matters, future commodity prices, changes to prevailing regulatory, royalty, tax and environmental laws and regulations, the impact of competition, the impact of COVID-19 on future operations, future capital and other expenditures (including the amount, nature and sources of funding thereof), future financing sources, business prospects and opportunities, risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties and risks related to lawsuits.

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

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

- the Company's business and operational strategies, including targeted jurisdictions and technologies used to execute its strategies;
- financial condition and outlook and results of operations, including future anticipated funds flow from operations;
- the future impact the COVID-19 pandemic will have on the Company's future operations and future petroleum pricing;
- future demand for the Company's petroleum products and economic activity in general;
- the Company's future capital expenditure programs, including the anticipated timing of completion, allocation and costs thereof and the method of funding;
- the Company's estimated timing of development and ultimate production from its Ortoire wells;
- current and future crude oil and natural gas production levels and estimated field production levels;
- well production testing results, interpretations of wireline logging data and potential future production rates forecasted therefrom;
- 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 exploration, acquisitions and development;
- future development and exploration activities to be undertaken in various areas and timing thereof, including future cash flows to be derived therefrom and the fulfillment of minimum work obligations and exploration commitments;
- terms and estimated future expenditures of the Company's contractual commitments and their timing of settlement;
- forecasted differential to Brent reference pricing realized in the future;
- terms and title of exploration and production licences and the expected renewal of certain contracts;
- the Company's expectations regarding its ability to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties;
- receipt of anticipated and future regulatory approvals and exploration and production licence renewals or amendments;
- access to third-party facilities and infrastructure;
- expected levels of operating costs, G&A expenses, finance expenses and other costs associated with the Company's business;
- the Company's risk management strategy and the future use of commodity derivatives to manage movements in the price of crude oil;
- treatment under current and future governmental regulatory regimes and tax laws;
- tax horizon, royalty rates and future tax and royalty rates enacted in the Company's areas of operations;
- the Company's ability to reverse property and equipment impairment losses in the future;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's future liquidity and future sources of liquidity;

- the Company's future compliance with its term loan covenants and its ability to make future scheduled interest and principal payments;
- estimated amounts of the Company's future obligations in connection with its production liability and the Company's ability to make such future scheduled payments;
- the potential of future acquisitions or dispositions, including receiving regulatory approvals related thereto;
- general economic and political developments in Trinidad;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning liabilities;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Estimates, Judgements and Assumptions*".

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

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

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

Abbreviations

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

Oil and gas measurement

bb1(s)	barrel(s)
bbls/d	barrels per day
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMBtu	million British Thermal Units
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousand barrels of oil equivalent

Other

AIM	AIM market of the London Stock Exchange plc
API	American Petroleum Institute gravity
Brent	Dated Brent
C\$	Canadian dollar
NGL(s)	Natural gas liquid(s)
psi	Pounds per square inch
TSX	Toronto Stock Exchange
TT\$	Trinidad and Tobago dollar
WTI	Western Texas Intermediate
\$ or US\$	United States dollar
£	Pounds sterling



Corporate Information

Directors

John D. Wright
Chair of the Board

Paul R. Baay
Kenneth R. McKinnon
Peter Nicol
Beverley Smith
Stanley T. Smith
Thomas E. Valentine
Harrie Vredenburg

Officers and Senior Executives

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

Brian Hollingshead
Vice President Engineering and Business Development

Alex Sanchez
Vice President Production and Environment

Cayle Sorge
Vice President Finance

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#30 Forest Reserve Road
Fyzabad, Trinidad, W.I.

Stock Exchange Listing

Toronto Stock Exchange
London Stock Exchange AIM
Symbol: TXP

Auditor

KPMG LLP
Calgary, Alberta

Reserves Evaluator

GLJ Ltd.
Calgary, Alberta

Legal Counsel

Norton Rose Fulbright LLP
Calgary, Alberta
London, United Kingdom

Nunez and Co.
Port of Spain, Trinidad

Transfer Agent and Registrar

Odyssey Trust Company
Calgary, Alberta

Link Group

London, United Kingdom

UK Nominated Advisor and Joint Broker

Shore Capital
London, United Kingdom

UK Joint Broker

Canaccord Genuity
London, United Kingdom

UK Public Relations

Camarco
London, United Kingdom