Touchstone Exploration Inc.

(formerly Petrobank Energy and Resources Ltd.)

Management's Discussion and Analysis

For the three and six months ended June 30, 2015

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. (formerly Petrobank Energy and Resources Ltd.) (the "Company" or "Touchstone") for the three and six months ended June 30, 2015 is dated August 12, 2015 and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the period ended June 30, 2015, as well as the Company's audited consolidated financial statements for the year ended December 31, 2014. The unaudited interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2014, as disclosure which is unchanged from December 31, 2014 may not be duplicated herein.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 30, 2015, and may be accessed through the SEDAR website at www.sedar.com.

Tabular amounts herein are in thousands of Canadian dollars and amounts in text are rounded to thousands of Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes. Certain prior year amounts have been reclassified to conform to current year presentation. Refer to the end of this MD&A for commonly used abbreviations in this document. Refer to page 25 for the Advisory on Forward-looking Statements and page 26 for Non-GAAP terms used in this MD&A.

On May 13, 2014, the Company completed a plan of arrangement with Touchstone Exploration Inc. (now Touchstone Energy Inc., a wholly-owned subsidiary of Touchstone) ("Old Touchstone"). Petrobank Energy and Resources Ltd. was the acquirer, and as such, comparative results prior to May 14, 2014 do not include the results of operations from Old Touchstone. All current and comparative share capital and per share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014. During the three months ended June 30, 2015, the Company received new information which revised the original accrued liabilities estimate in the preliminary purchase price allocation. This resulted in an increase in accounts payable and accrued liabilities of $477,000 and a corresponding increase to property and equipment. The purchase price allocation has been revised to reflect this amount. As the one year measurement period has elapsed, the purchase price allocation is now final. The related Trinidad cash generating unit property and equipment balances were impaired on December 31, 2014. Accordingly, an impairment charge of $477,000 was recognized in the 2014 statement of earnings. All comparative amounts have been restated accordingly.

On July 1, 2014, the Company determined that the Kerrobert and Luseland producing properties met the criteria for technical feasibility and commercial viability. As of July 1, 2014 all associated revenues, royalties and operating expenses of the two Canadian properties have been recognized in the consolidated statement of earnings (prior to July 1, 2014, all revenues and costs were capitalized to exploration assets). Dawson operating results continue to be capitalized to exploration assets as the property remains in the exploration stage. Therefore, it is important to note that throughout this MD&A, operational results such as revenue, royalties, and production expenses related to the Dawson property and Kerrobert and Luseland properties prior to July 1, 2014 may be referenced but are capitalized for financial reporting purposes and thus do not appear in the consolidated statements of earnings.

Highlights

During the three month period ended June 30, 2015 (“second quarter” or “Q2”), Touchstone reported:

- Average oil sales of 1,786 bbls/d, 1,625 bbls/d produced in Trinidad and 161 bbls/d produced in Canada. Quarterly production represented an increase of 46% over the comparative 2014 quarter and a decrease of 12% from the prior quarter.
- Funds flow from operations of $762,000 ($0.01 per basic share) compared to a loss of $4,007,000 (0.06 per basic share) in the comparative 2014 quarter and positive funds flow from operations of $425,000 ($0.01 per basic share) in the prior quarter.
- Trinidad operating netbacks of $3,898,000 ($26.35 per barrel), which offset Canadian operating netback losses of $229,000 ($15.66 per barrel). Company second quarter operating netbacks were $3,669,000 or $22.57 per barrel, which represented an increase of 41% from the prior year comparative quarter and a decrease of 13% from the prior quarter.
- The purchase of a further 35% working interest in the Trinidad East Brighton offshore license, bringing our working interest to 70%.
- A decrease in net debt of $471,000 from the prior quarter. Net debt as at June 30, 2015 was $5,755,000, including a working capital surplus of $1,730,000.

Financial and Operating Results

	Three months ended June 30		Six months ended June 30	
	2015	2014[1]	**2015**	2014[1]
Operating				
Average daily oil production (bbls/day)				
Trinidad	**1,625**	830	**1,683**	418
Canada	**161**	391[2]	**227**	390[2]
Company total	**1,786**	1,221[2]	**1,910**	808[2]
Average realized oil prices before derivatives ($/bbl)				
Trinidad	**66.67**	104.02	**62.59**	104.02
Canada	**49.37**	82.39[2]	**39.81**	78.99[2]
Company total	**65.12**	97.09[2]	**59.89**	91.92[2]
Trinidad operating netback[3] ($/bbl)				
Reference price – Brent	**75.74**	119.61	**71.49**	119.46
Petroleum revenue	**66.67**	104.02	**62.59**	104.02
Royalties	**(20.49)**	(36.53)	**(19.48)**	(36.53)
Net revenue	**46.18**	67.49	**43.11**	67.49
Realized gain on derivatives	**4.25**	-	**6.59**	-
Operating costs	**(24.08)**	(43.86)	**(22.02)**	(43.86)
Operating netback	**26.35**	23.63	**27.68**	23.63
Canada operating netback[3] ($/bbl)				
Reference price – WTI	**71.09**	-	**65.73**	-
Petroleum revenue	**49.37**	-	**39.81**	-
Royalties	**(6.63)**	-	**(4.85)**	-
Net revenue	**42.74**	-	**34.96**	-
Operating costs	**(58.40)**	-	**(48.72)**	-
Operating netback	**(15.66)**	-	**(13.76)**	-

[1]During the three and six months ended June 30, 2014, Canadian operating netbacks were netted against exploration assets as all properties were in the exploration stage. All Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.
[2]Average daily production and average realized prices include exploration property results.
[3]See “*Non-GAAP Measures.*”

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Financial *($000's except share and per share amounts)*				
Funds flow from operations[1]				
Trinidad	**2,410**	(373)	**5,503**	721
Canada	**(1,648)**	(3,634)	**(4,316)**	(6,842)
Company total	**762**	(4,007)	**1,187**	(6,121)
Per share – basic and diluted[1,2]	**0.01**	(0.06)	**0.01**	(0.11)
Net (loss) earnings	**(8,505)**	2,751	**(9,633)**	(1,216)
Per share – basic and diluted[2]	**(0.10)**	0.04	**(0.12)**	(0.02)
Capital expenditures				
Exploration assets	**291**	3,189	**479**	9,000
Property and equipment	**1,144**	7,797	**2,315**	7,816
Company total	**1,435**	10,986	**2,794**	16,816
Total assets – end of period			**125,788**	183,461
Net debt (surplus)[1] – end of period			**5,755**	(8,754)
Weighted average shares outstanding[2]				
Basic	**83,079,643**	65,813,486	**83,076,770**	57,328,053
Diluted	**83,079,643**	66,069,228	**83,076,770**	57,328,053
Outstanding shares[2] - end of period			**83,079,643**	81,738,643

[1] See "*Non-GAAP Measures.*"
[2] All current and comparative share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014.

Throughout 2015, Touchstone focused on operational initiatives to ensure the sustainability and future profitability of the Company in a low commodity price environment. As a result, production volumes in Canada and Trinidad declined based on reduced operating and capital investment. We remain focused on developing our core Trinidad resources, as we recompleted five Trinidad wells in the second quarter and twelve Trinidad wells through June 30, 2015.

Despite a decrease in realized oil prices, the Company maintained balance sheet strength with second quarter net debt of $5,755,000. This decrease in net debt was aided by two previously announced dispositions that closed in July. The corresponding net assets held for sale of $2,998,000 were included in working capital as of June 30, 2015. Had the transactions closed in the second quarter, net debt would have been $2,453,000.

Production volumes averaged 1,786 bbls/d during the three months ended June 30, 2015 (100% oil). Trinidad and Canadian petroleum sales averaged 1,625 bbls/d and 161 bbls/d, respectively, representing a combined increase of 46% from the comparative 2014 quarter and a decrease of 11% from the 2015 first quarter.

Excluding derivatives, Trinidad operating netbacks were $22.10 per barrel compared to $20.14 recognized in the first quarter of 2015. Quarterly average realized oil prices increased 14%, with royalty expenses increasing on a commensurate basis. Operating expenses per barrel increased 20% based on increased well servicing costs. The increase also relates to a 6% decline in production and thus less fixed cost absorption on a per unit basis. We realized a gain on derivatives of $628,000 or $4.25 per barrel during the quarter versus a gain of $1,379,000 or $8.80 per barrel in the first quarter of 2015. For the three months ended June 30, 2015, Trinidad operating netbacks were $3,898,000, which represented a decrease of $639,000 from the prior quarter due to a decrease in realized derivative gains and an overall 6% decrease in quarter-over-quarter production.

In Canada, the Company continued its focus on project economics versus production growth. Kerrobert operations incurred negative operating netbacks of $229,000 in the quarter versus negative netbacks of $336,000 recognized in the previous quarter. Although Kerrobert petroleum revenue decreased 11% based on production decreases of 37% from the prior quarter, operating costs decreased $224,000 or 20%. The Company has continually reduced Kerrobert facility expenses throughout the year as June 2015 operating expenses were 28% lower than January 2015.

For the quarter ended June 30, 2015, general and administrative costs were $2,276,000 which represented a decrease of 32% from the previous quarter. The Company continues to decrease general and administrative costs, as quarterly expenses decreased 15% from the prior quarter after deducting non-recurring severance charges of $691,000 that were recorded in the first quarter of 2015.

Funds flow from operations for the three months ended June 30, 2015 was $762,000 ($0.01 per basic share) versus a loss of $4,007,000 ($0.06 per basic share) in the prior year comparative quarter and positive funds flow from operations of $425,000 ($0.01 per basic share) in the first quarter of 2015. Trinidad operations generated funds flow from operations of $2,410,000, offsetting decreased Canadian funds flow losses of $1,648,000.

Due mainly to $6,783,000 in non-cash impairments, the Company recorded a net loss of $8,505,000 during the three months ended June 30, 2015. Our Dawson property was revalued to the sales proceeds of $2,100,000, resulting in an impairment charge of $2,562,000. $2,503,000 in Trinidad based decommission obligation assets were also impaired in the quarter, as additional decommissioning liabilities were recorded based on an increase in the expected Trinidad long-term inflation rate. Furthermore, a $2,206,000 unrealized loss on financial derivatives was booked in the quarter based on the fair value of our commodity price contracts as at June 30, 2015.

Outlook

Touchstone's capital program for 2015 remains flexible as we have minimal near-term commitments or financial obligations in Canada and Trinidad. Management continues to monitor current commodity prices and will continue to conserve capital and apply a prudent approach to capital expenditures. Based on the proceeds received from the Canadian dispositions subsequent to the quarter, we expect to drill two infill wells in Trinidad in 2015 and continue to optimize production from the 2014 Trinidad drilling program through up-hole recompletions. We remain committed to improving our cost structure and curtailing Canadian operating losses throughout the remainder of the year.

Company Profile

The Company 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 western Canada and the Republic of Trinidad and Tobago ("Trinidad"). The Company's common shares are traded on the Toronto Stock Exchange under the symbol "TXP". The Company's strategy is to leverage western Canadian enhanced oil recovery experience and capability to international onshore properties to create shareholder value. Jurisdictions will be targeted that have stable political and fiscal regimes coupled with large defined original oil in place.

Principal Properties

As at June 30, 2015, the Company's principal land holdings were as follows:

Property	Working interest	Lease type	Gross acres	Working interest acres
Trinidad				
Producing				
WD-8	100%	Lease Operatorship	650	650
Coora 1	100%	Lease Operatorship	1,230	1,230
Coora 2	100%	Lease Operatorship	469	469
WD-4	100%	Lease Operatorship	700	700
South Palo Seco	100%	Farmout Agreement	2,019	2,019
New Dome	100%	Farmout Agreement	69	69
Barrackpore	100%	Freehold	478	478
Fyzabad	100%	Crown & Freehold	804	804
Icacos	50%	Freehold	1,960	980
Palo Seco	100%	Crown	500	500
San Francique	100%	Freehold	2,306	2,306
Exploratory				
Siparia	50%	Freehold	160	80
East Brighton	70%	Crown	20,589	14,412
Moruga	100%	Freehold	3,300	3,300
Bovallius	100%	Freehold	976	976
Otaheite	100%	Freehold	935	935
St. John	100%	Freehold	408	408
Rousillac	100%	Freehold	570	570
Piparo	100%	Freehold	72	72
New Grant	100%	Freehold	687	687
Cory Moruga	16%	Freehold	11,969	1,939
Ortoire	80%	Crown	44,731	35,785
	73%		**95,582**	**69,369**
Canada				
Producing				
Kerrobert	100%	Crown & Freehold	801	801
Exploratory				
Kerrobert	96%	Crown & Freehold	6,159	5,938
Luseland	100%	Crown & Freehold	7,724	7,686
Dawson	100%	Crown	20,160	20,160
Beadle	84%	Freehold	9,420	7,944
Edam	100%	Crown	10,881	10,881
Druid	100%	Crown	8,641	8,641
Winter	100%	Crown	11,323	11,323
Unity	100%	Crown	240	240
	98%		**75,349**	**73,614**
Company total	**84%**		**170,931**	**142,983**

All properties are operated by Touchstone and are located onshore with the exception of East Brighton. The Company is operating under a number of Trinidad freehold lease agreements which have expired and are currently being renegotiated. Based on legal opinions received, the Company is continuing to recognize revenue on the producing blocks as the Company is the operator, no title to the revenue has been disputed and the Company is paying all associated royalties and taxes.

Summary of Financial and Operating Results

The Company's operations are conducted in Canada and Trinidad, which are the Company's reportable segments. The Company's Dawson property is in the exploration phase and accordingly, all directly attributable expenses, net of revenues, are capitalized as exploration assets. Prior to July 1, 2014, the Company's Kerrobert and Luseland properties were also in the exploration phase.

Production volumes

	Three months ended June 30		Six months ended June 30	
	2015	2014[1]	**2015**	2014[1]
Trinidad				
Total oil production (bbls)	**147,091**	75,573	**304,681**	75,573
Average daily oil production (bbls/d)	**1,625**	830	**1,683**	418
Canada				
Total oil production (bbls)	**14,624**	35,586	**41,049**	70,669
Average daily oil production (bbls/day)	**161**	391	**227**	390
Company total				
Total oil production (bbls)	**162,525**	111,159	**345,730**	146,242
Average daily oil production (bbls/day)	**1,786**	1,221	**1,910**	808

[1]Trinidad three and six months ended June 30, 2014 production includes results subsequent to the May 13, 2014 acquisition date.

Production volumes by property

	Three months ended June 30		Six months ended June 30	
(bbls)	**2015**	2014[1]	**2015**	2014[1]
Trinidad				
WD-8	**32,652**	19,893	**66,802**	19,893
Coora 1	**18,347**	10,024	**41,270**	10,024
Coora 2	**11,515**	6,751	**25,273**	6,751
WD-4	**49,574**	22,029	**99,424**	22,029
New Dome	**1,042**	887	**2,476**	887
South Palo Seco	**604**	290	**1,266**	290
Fyzabad	**19,750**	8,310	**38,695**	8,310
Icacos	**1,133**	693	**2,049**	693
Palo Seco	**1,713**	1,868	**3,681**	1,868
Barrackpore	**6,497**	1,055	**12,768**	1,055
San Francique	**5,074**	3,773	**10,977**	3,773
	147,901	75,573	**304,681**	75,573
Canada				
Kerrobert	**14,264**	31,320	**38,010**	63,772
Luseland	**-**	4,266	**3,039**	6,897
	14,264	35,586	**41,049**	70,669
Company total	**162,525**	111,159	**346,730**	146,242

[1]Trinidad three and six months ended June 30, 2014 production includes results subsequent to the May 13, 2014 acquisition date.

Production for the three months ended June 30, 2015 was 162,525 barrels per day, representing an increase of 46% from the comparative prior year period and a decrease of 11% from the first quarter of 2015. Trinidad quarterly production decreased 6% from the prior quarter in response to the Company's concerted effort to reduce operating costs and ensure that all capital programs are sustainable in the current commodity environment. Limited capital was invested in the quarter, with five recompletions performed in Trinidad. Kerrobert production decreased 37% on a quarterly basis as the Company continued to focus on decreasing Kerrobert operating costs with nominal capital spent during the quarter. Furthermore, the Luseland producing well was disposed of on February 28, 2015.

Production for the six months ended June 30, 2015 represented an increase of 136% from the prior year comparative period. Trinidad production increased 303% as the Company acquired its Trinidad operations effective May 14, 2014. Canada production decreased 42% from the prior year as Kerrobert production declined based on current year operating cost and capital reductions and Luseland operations were sold effective March 1, 2015.

Average reference and realized prices

	Three months ended June 30		**Six months ended June 30**	
	2015	2014	**2015**	2014
Reference prices (C$/bbl)				
Brent average	**75.74**	119.61	**71.49**	119.46
WTI average	**71.09**	112.71	**65.73**	110.80
WCS average	**56.97**	90.44	**49.55**	86.92
Average realized selling prices, excluding derivatives ($/bbl)				
Trinidad	**66.67**	104.02	**62.59**	104.02
Canada	**49.37**	82.39[1]	**39.81**	78.99[1]
Company total	**65.12**	97.09[1]	**59.89**	91.92[1]
Trinidad				
Realized price discount as a % of Brent	**12**	13	**12**	13
Realized price discount as a % of WTI	**6**	8	**5**	6
Canada				
Realized price discount as a % of WTI	**31**	27	**39**	29
Realized price discount as a % of WCS	**13**	9	**20**	9

[1]Average realized prices include exploration property petroleum sales.

Petroleum revenue

($000's)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014[1]	change	**2015**	2014[1]	change
Trinidad						
Crude oil	**9,861**	7,861	25	**19,071**	7,861	143
Canada						
Crude oil	**722**	-	100	**1,634**	-	100
Company total	**10,583**	7,861	35	**20,705**	7,861	163

[1]During the three and six months ended June 30, 2014, Canadian operating netbacks were netted against exploration assets as all properties were in the exploration stage. All Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad petroleum revenue was $9,861,000 during the second quarter of 2015 representing an average realized price of $66.67 or US$54.23 per barrel. The average realized price represented a 12% discount to average Brent prices and a 6% discount to average WTI prices. Trinidad petroleum sales increased 25% from the comparative 2014 quarter as Trinidad operations were acquired on May 13, 2014. Second quarter 2015 petroleum revenue increased 7% from the previous quarter, as realized price increases of 14% offset production decreases of 6%.

The Company enters into Trinidad based financial derivative contracts for the purposes of protecting funds flow from operations from the volatility of commodity prices. During the three and six months ended June 30, 2015, the Company's realized gains on financial derivatives were $628,000 and $2,007,000, respectively (2014 - $nil and $nil).

Canadian petroleum revenue for the quarter ended June 30, 2015 were $722,000 representing an average realized price of $49.37 per barrel. During the prior year comparative quarter, realized prices were $82.39 per barrel, resulting in $2,932,000 in revenue capitalized to exploration assets. Canadian petroleum revenue decreased 21% from the prior quarter as production decreases of 45% were slightly offset by a 43% increase in realized prices.

Royalties

($000's)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014[1]	change	**2015**	2014[1]	change
Trinidad						
Crown royalties	**1,011**	850		**2,209**	850	
Private royalties	**59**	145		**257**	145	
Overriding royalties	**1,683**	1,641		**2,892**	1,641	
User fees	**277**	125		**577**	125	
	3,030	2,761	10	**5,935**	2,761	115
Canada						
Crown royalties	**28**	-		**54**	-	
Overriding royalties	**69**	-		**145**	-	
	97	-	100	**199**	-	100
Company total	**3,127**	2,761	13	**6,134**	2,761	122

[1]During the three and six months ended June 30, 2014, Canadian operating netbacks were netted against exploration assets as all properties were in the exploration stage. All Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad charges a crown royalty rate of 12.5% on gross production under crown leases. For freehold or private leases, the Company incurs private royalties of 10% of gross revenue.

On the WD-8, Coora and WD-4 blocks, the Company operates under Lease Operatorship Agreements ("LOA"), which in addition to crown royalties apply a sliding scale notional overriding royalty ("NORR") that ranges from 33% to 35% on predefined base production levels. For any production volumes sold in excess of the base production levels, the Company incurs an enhanced NORR ("enhanced NORR") of 17.5% to 22.5%. The NORR and enhanced NORR rates are indexed to the price of oil realized in the production month. The LOA's allow for NORR and enhanced NORR incentives for the drilling or sidetracking of a replacement well as follows:

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

In addition to crown royalties, the South Palo Seco and New Dome blocks are subject to Farmout Agreements that stipulate NORR rates ranging from 23% to 25% and enhanced NORR rates ranging from 15% to 17%.

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

Trinidad royalties represented 30.7% and 31.1% of petroleum revenue for the three and six month periods ended June 30, 2015, respectively. These royalty rates are in line with past results, as approximately 77% of the Trinidad production in both periods was from the higher royalty LOA and Farmout agreement properties.

Canadian royalties represented 13.4% and 12.2% of petroleum revenue for the three and six months ended June 30, 2015, respectively. Prior year comparative royalty rates were 11.1% and 11.4%, respectively.

Operating expenses

($000's)	Three months ended June 30		%	Six months ended June 30		%
	2015	2014[1]	change	**2015**	2014[1]	change
Trinidad						
Operating expenses	**3,561**	3,315	7	**6,708**	3,315	102
Canada						
Operating expenses	**854**	-	100	**2,000**	-	100
Company total	**4,415**	3,315	33	**8,708**	3,315	163

[1]During the three and six months ended June 30, 2014, Canadian operating netbacks were netted against exploration assets as all properties were in the exploration stage. All Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad operating costs for the three months ended June 30, 2015 were $3,561,000, representing $24.08 per barrel or US$19.65 per barrel. Operating costs increased $4.01 per barrel versus the prior quarter based on an increase in well servicing and minor workovers. The increase also relates to a 6% decline in production and thus less fixed cost absorption on a per unit basis. On a year to date basis, Trinidad operating expenses represent $22.02 per barrel or US$17.87 per barrel.

Canadian operating expenses for the three months ended June 30, 2015 were $854,000 or $58.40 per barrel. The Company has focused on decreasing Kerrobert operating expenses and saw June 2015 operating expenses decrease 28% from January 2015 expenses. Main cost drivers continue to be electricity and gas costs for the facility incinerators.

Operating netbacks[1]

($/bbl)	Three months ended June 30		%	Six months ended June 30		%
	2015	2014[2]	change	**2015**	2014[2]	change
Trinidad						
Reference price - Brent	**75.74**	119.61	(37)	**71.49**	119.46	(40)
Petroleum revenue	**66.67**	104.02	(36)	**62.59**	104.02	(40)
Royalties	**(20.49)**	(36.53)	(44)	**(19.48)**	(36.53)	(47)
Net revenue	**46.18**	67.49	(32)	**43.11**	67.49	(36)
Realized gain on derivatives	**4.25**	-	100	**6.59**	-	100
Operating expenses	**(24.08)**	(43.86)	(45)	**(22.02)**	(43.86)	(50)
Operating netback	**26.35**	23.63	12	**27.68**	23.63	17
Canada						
Reference price - WTI	**71.09**	-		**65.73**	-	
Petroleum revenue	**49.37**	-		**39.81**	-	
Royalties	**(6.63)**	-		**(4.85)**	-	
Net revenue	**42.74**	-		**34.96**	-	
Operating expenses	**(58.40)**	-		**(48.72)**	-	
Operating netback	**(15.66)**	-		**(13.76)**	-	
Company operating netback	**22.57**	16.06	41	**22.77**	12.20	87

[1]See "*Non-GAAP Measures.*"
[2]During the three and six months ended June 30, 2014, Canadian operating netbacks were netted against exploration assets as all properties were in the exploration stage. All Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Excluding derivatives, Trinidad operating netbacks were $22.10 per barrel compared to $20.14 realized during the first quarter of 2015. Quarterly realized oil prices increased 14%, with royalties increasing on a commensurate basis. Operating expenses per barrel increased 20% based on well servicing cost increases. The Company realized a gain on derivatives of $628,000 or $4.25 per barrel during the three months ended June 30, 2015 versus a gain of $1,379,000 or $8.80 per barrel in the first quarter of 2015.

Based on the above factors, per barrel operating netbacks decreased 9% from the prior quarter and $639,000 on a total basis due to a 6% decrease in quarter-over-quarter production.

Canadian operations incurred negative operating netbacks of $229,000 or $15.66 per barrel during the second quarter versus $336,000 or $12.72 recognized during the three months ended March 31, 2015. Realized sales prices increased 43% on a quarterly basis, while operating losses on a per barrel basis increased 35%. However, total operating expenses decreased $292,000 as the Company continued to focus on decreasing Kerrobert operating losses.

General and administrative ("G&A") expenses

($000's)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014	change	**2015**	2014	change
Trinidad						
Gross G&A	**989**	981		**2,157**	981	
Capitalized G&A	**(127)**	(230)		**(255)**	(230)	
Net G&A	**862**	751	15	**1,902**	751	153
Canada						
Gross G&A	**1,590**	1,443		**4,114**	3,961	
Capitalized G&A	**(176)**	(117)		**(378)**	(246)	
Net G&A	**1,414**	1,326	7	**3,736**	3,715	1
Company total	**2,276**	2,077	10	**5,638**	4,466	26

G&A expenses primarily consist of management and administrative salaries and benefits, legal and professional fees, office rent, insurance, travel and other administrative expenses. For the quarter ended June 30, 2015, net G&A costs were $2,276,000 which represented an increase of 10% from the prior year comparative quarter and a decrease of 32% from the previous quarter. On a year to date basis, the Company incurred $5,638,000 in G&A, of which $691,000 related to non-recurring severance charges recorded in the first quarter of 2015. The Company continues to decrease G&A costs as quarterly expenses decreased 15% from the first quarter after deducting the aforementioned severance charges.

Acquisition-related costs

The Company incurred $2,975,000 in legal, advisory, and severance charges related to the Old Touchstone acquisition during the three and six months ended June 30, 2014.

Gain on asset disposition

Effective March 1, 2015, the Company disposed of its non-core Luseland cash generating unit for net proceeds of $2,200,000. The cash generating unit consisted of one producing well and various decommissioning obligations. Approximately 4,000 acres of undeveloped land and ancillary production equipment were also included in the sale. A gain of $130,000 was recognized in the statement of earnings as a result of the transaction.

Effective May 1, 2015, the Company leased rig equipment to a third party. The capital lease receivable is included in other assets and a loss of $6,000 was recognized on the transaction.

Loss on marketable securities

The Company's investment in marketable securities consisted of common shares in the capital of Lightstream Resources Ltd. ("Lightstream"). The fair value of the investment in marketable securities is recorded on the consolidated statement of financial position at the end of each period, with the change in the fair value included in the determination of net earnings.

During the three months ended March 31, 2015, the Company disposed of its remaining 243,613 Lightstream common shares. As a result, the loss on marketable securities for the three and six months ended June 30, 2015 was $nil and $51,000, respectively (2014 – gains of $8,105,000 and $7,606,000). Since the Old Touchstone acquisition, the Company has sold all of its Lightstream common shares for net proceeds of $21,728,000 or $6.15 per share.

Net finance expenses

($000's)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014	change	**2015**	2014	change
Interest income	**(7)**	(40)		**(10)**	(135)	
Interest expense	**115**	283		**213**	285	
Finance fees and other	**175**	1		**358**	1	
Net finance expense	**283**	244	16	**561**	151	272
Less: amortized credit facility expense	**(169)**	-		**(341)**	-	
Cash finance expense	**114**	244	(53)	**220**	151	46

Interest income includes interest on funds on deposit and interest related to a Trinidad capital lease. Interest income has decreased from the prior year as the Company formerly had cash balances that were held in short-term interest bearing securities.

Interest expense is primarily credit facility interest and commitment fees. Interest expense has decreased on a quarter and year to date basis from the prior year as interest was incurred on acquired Old Touchstone debt in the second quarter of 2014 prior to its June 30, 2014 repayment.

Financing fees are comprised primarily of the amortization of fees associated with the Company's bank loan established in December 2014. These expenses are amortized over the three year term of the facility.

Foreign exchange and foreign currency translation

The Company's presentation currency is the Canadian dollar. The Company and its Canadian subsidiaries have a Canadian dollar functional currency while the Trinidad subsidiaries have a Trinidad and Tobago dollar ("TT$") functional currency. Touchstone Exploration (Barbados) Ltd., a wholly-owned subsidiary of the Company, has a United States dollar ("US$") functional currency.

In each reporting period, the change in values of the US$ and TT$ relative to the Canadian dollar reporting currency are recognized. The applicable rates used to translate the Company's TT$ and US$ denominated financial statement items were as follows:

	June 30, 2015	December 31, 2014	% change	**June 30, 2015**	June 30, 2014	% change
Closing foreign exchange rates						
C$ / US$	**0.8017**	0.8620	(7)	**0.8017**	0.9367	(14)
C$ / TT$	**5.1256**	5.4945	(7)	**5.1256**	6.0277	(15)

The Company's main exposure to foreign currency risk relates to its working capital denominated in TT$ and debt balances denominated in US$. The TT$ depreciated relative to the Canadian dollar throughout the second quarter of 2015 and appreciated relative to the Canadian dollar throughout the six months ended June 30, 2015. This resulted in the Company recognizing total foreign exchange losses of $230,000 during the three months ended June 30, 2015 and total foreign exchange gains of $858,000 during the six months ended June 30, 2015 (2014 – losses of $110,000 and $102,000). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates.

In addition, the assets and liabilities of the Company's subsidiaries are translated to Canadian dollars at the exchange rate on the reporting period date. The income and expenses of the Company's Trinidad operations are translated to Canadian dollars at the average monthly exchange rates relative to the date of the transactions. All resulting foreign currency differences are recorded in other comprehensive income in the Company's consolidated statement of earnings. As a result of the quarterly depreciation and the year to date appreciation of the TT$ vis a vis the Canadian dollar, a foreign currency translation adjustment loss of $1,061,000 was recorded during the second quarter and a gain of $3,329,000 was recorded during the six months ended June 30, 2015.

The Company currently has no contracts in place that hedge against any fluctuations in exchange rates, but reviews its exposure to foreign currency variations on an ongoing basis.

Share-based compensation

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the five day weighted average trading price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company. The options expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding options at any time is limited to 10% of the issued and outstanding common shares. Share option amounts have been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination.

The Company has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a $0.05 exercise price. A maximum of two million incentive shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant. The incentive share options expire five years from the date of the grant. Incentive share option amounts have also been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination.

During the three and six months ended June 30, 2015, $159,000 and $147,000 in share-based compensation expense was recorded compared to credits of $160,000 and $26,000 recognized in the comparative 2014 periods, respectively. Share-based compensation expense decreased from the prior year comparative periods as unvested share options were forfeited based on employee departures, which resulted in a recovery of the related unvested share-based compensation expense initially recorded.

During the six months ended June 30, 2015, the Board of Directors approved and granted 1,826,800 share options (2014 – 4,130,090). At June 30, 2015, share options and incentive share options outstanding represented 6.9% of the common shares outstanding (December 31, 2014 – 6.2%).

Depletion and depreciation

($000's)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014	change	**2015**	2014	change
Trinidad						
Depletion and depreciation	**1,974**	1,167	69	**3,532**	1,167	203
Canada						
Depletion and depreciation	**150**	104	44	**403**	214	88
Company total	**2,124**	1,271	67	**3,935**	1,381	185

Depreciation is recorded relating to corporate assets in Canada and motor vehicles and rig equipment in Trinidad. Equipment and corporate assets are depreciated on a declining balance basis.

The Company's producing assets in Trinidad are subject to depletion. Effective July 1, 2014, the Company transferred the carrying values of the Kerrobert and Luseland properties to property and equipment and began to recognize associated depletion expenses. The net carrying value of producing assets is depleted using the unit of production method by reference to the ratio of production in the year over the related proven and probable reserves while also taking into account the estimated future development costs necessary to bring those reserves into production.

On a per barrel basis, second quarter 2015 Trinidad depletion and depreciation charges were $13.35 per barrel, while Canada depletion and depreciation charges were $10.26 per barrel. During the six months ended June 30, 2015, Trinidad and Canadian per barrel depletion and depreciation charges were $11.59 and $9.82, respectively. On a per unit basis, Trinidad depletion charges have decreased based on an increase in the Company's year-over-year crude oil reserves. As at June 30, 2015, $70,769,000 and $1,019,000 in future development costs have been added to the respective Trinidad and Canada cost bases for depletion calculation purposes (December 31, 2014 - $67,857,000 and $3,060,000).

Impairment

Impairment consists of the following non-cash charges:

($000's)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014	change	**2015**	2014	change
Trinidad						
Exploration assets – Cory Moruga CGU	**887**	-		**887**	-	
Exploration assets – East Brighton CGU	**786**	-		**786**	-	
Property and equipment – Various CGUs	**2,503**	-		**2,503**	-	
	4,176	-	100	**4,176**	-	100
Canada						
Exploration assets – Dawson CGU	**2,562**	-		**2,562**	-	
Exploration assets – Kerrobert CGU	**-**	-		**-**	898	
Property and equipment – other	**-**	164		**-**	164	
Other assets - patents	**-**	295		**-**	295	
	2,562	459	458	**2,562**	1,357	89
Company total	**6,738**	459	100	**6,738**	1,357	397

On June 30, 2015, an impairment charge of $887,000 was recorded with respect to the Company's interest in the Trinidad Cory Moruga block based on uneconomic well performance. During the quarter ended June 30, 2015, the Company acquired an additional 35% working interest in the offshore Trinidad East Brighton block for nominal cash consideration. As a result of this transaction, an additional $786,000 in decommissioning obligations were recorded. The corresponding decommissioning assets were valued at $nil, resulting in a $786,000 impairment charge.

At June 30, 2015, the Company's Trinidad decommissioning obligations were revalued using the adjusted long-term Trinidad inflation rate of 4%, which represented a 1% increase from the previous estimate. The corresponding $2,503,000 increase to the decommissioning obligation asset balance was valued at $nil and charged to impairment, as the restated cash generating units were impaired as at December 31, 2014 and thus no headroom remained.

An impairment charge of $2,562,000 was recorded to write down the Dawson cash generating unit to the lesser of carrying value and the subsequent transaction proceeds. On July 14, 2015, the Company closed the sale of the property with no gain or loss recorded on the transaction.

On March 31, 2014, the Company recorded an impairment charge of $898,000 relating to the Kerrobert property. The impairment resulted primarily from first quarter 2014 operating costs exceeding generated revenues. A further impairment of $164,000 was recorded at June 30, 2014 to write the value of equipment held at the Company's research lab based on fair values less costs to sell. Finally, on June 30, 2014 the Company performed an impairment assessment on the value of the patents and other intangible assets, resulting in a $295,000 impairment charge.

Accretion and decommissioning obligations

During the three and six months ended June 30, 2015, the Company recorded $153,000 and $312,000 in accretion related to its decommissioning obligations, respectively (2014 - $111,000 and $149,000). The increase is mainly a result of the decommissioning obligations acquired in the Old Touchstone acquisition.

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal based on current regulations and economic circumstances. The total decommissioning obligation is estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The accounts payable balance of the decommissioning obligation represents accrued amounts relating to a Trinidad abandonment fund that is short-term in nature. Decommissioning obligation details as at June 30, 2015 were as follows:

	# of well/facility locations	Undiscounted balance	Inflation adjusted balance	Discounted balance
Trinidad	776	33,906	75,012	18,183
Canada	63	4,868	6,344	5,072
Company total	**839**	**38,774**	**81,356**	**23,255**

Decommissioning liabilities have been discounted using a weighted average risk-free rate of $7.5% and 1.7% for Trinidadian and Canadian based liabilities, respectively (December 31, 2014 – 7.5% and 1.8%). The liabilities have been calculated using an inflation rate of 4% and 2% per annum for Trinidadian and Canadian based liabilities, respectively (December 31, 2014 – 3% and 2%).

Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures and the impact on the financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates.

Income tax expense and income taxes payable

The Company pays the following taxes and levies to the Government of Trinidad and Tobago:

- Supplemental Petroleum Tax ("SPT") 18% of gross revenue less royalties
- Petroleum Profits Tax ("PPT") 50% of net chargeable profits
- Unemployment Levy ("UL") 5% of net chargeable profits
- Business Levy 0.2% of gross petroleum revenue less royalties
- Green Fund Levy 0.1% of gross petroleum revenue
- Withholding taxes 10% of interest paid to Canadian sources

SPT taxes are calculated and remitted on a quarterly basis. Actual rates vary based on the realized selling prices of oil in the applicable quarter. The SPT tax is 0% when the weighted average realized price of oil for a given quarter is below $50 per barrel. The revenue base for the calculation of SPT is gross revenue less royalties, less 20% investment tax credits for certain allowable capital expenditures incurred in the applicable fiscal quarter. Annual PPT and UL taxes are calculated based on net chargeable profits. Net chargeable profits are determined by calculating gross revenue less royalties, SPT paid during the year, capital allowances, operating, administration and certain finance expenses. Withholding taxes are payable when Trinidadian entities pay interest on head office intercompany loans. Interest charges are deductible for PPT and UL purposes when paid.

($000's)	**Three months ended June 30** **2015**	2014	% change	**Six months ended June 30** **2015**	2014	% change
Trinidad						
SPT	**402**	319		**533**	319	
PPT	**-**	171		**-**	171	
UL	**-**	17		**-**	17	
Business levy	**28**	20		**28**	20	
Green fund levy	**21**	9		**30**	9	
Withholding taxes	**-**	30		**-**	30	
Company total	**451**	566	(20)	**591**	566	4

Trinidad income taxes for the three and six months ended June 30, 2015 were $3.05 and $1.94 per barrel, respectively. The decrease in current tax expense from the prior period is a result of decreased Trinidad cash flows as a result of the decrease in oil prices. PPT and UL taxes were nil for the quarter and year to date 2015 as the Company had loss carryforwards and tax credits from the 2014 drilling program to offset against income taxes payable. Tax expenses increased from the previous quarter as SPT was only payable for one entity during the first quarter of 2015 due to lower realized oil prices. The Company's Canadian operations continue to remain in a loss position and are thus not taxable.

Old Touchstone previously acquired a Trinidad subsidiary that has overdue tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which include both principal and interest components. The August 19, 2011 purchase and sales agreement of the acquired entity specifies that upon confirmation from the BIR, the entity is responsible for the principal tax balances and the seller is responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest and the seller indemnified the entity with respect to the interest amounts. Subsequent to the acquisition date, the acquired entity was responsible for interest on the principal balance until repaid. As of June 30, 2015, $3,001,000 in related interest has been accrued in income taxes payable.

On October 9, 2012, the BIR accepted the acquired entity's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. The entity has subsequently received BIR tax statements showing approximately $3.4 million in principal amounts and $24.3 million in interest balances outstanding. The Company believes that the principal balance has been fully paid and the full interest balance is the responsibility of the seller. The Company continues to work with the seller and the

BIR to resolve this matter and does not believe that it will be required to make any further principal payments nor any payments for the seller's portion of any interest should a waiver not be granted.

The June 30, 2015 income tax payable balance was comprised of the following:

($000's)	**Principal**	**Interest**	**Total**
Prior year taxes (2014 and prior)	846	4,268	5,114
Current year tax accruals less instalments	442	-	442
Income taxes payable	**1,288**	**4,268**	**5,556**

The deferred income tax liability balance represents the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. The Company currently does not recognize any benefit for its Canadian tax losses. The deferred tax liability balance relates to the discrepancy of the fair values over the carrying values of the assets acquired in the Old Touchstone business combination. During the three and six months ended June 30, 2015, the Company recorded deferred tax recoveries of $2,452,000 and $1,875,000 (2014 – $514,000 and $514,000).

Funds flow netbacks[1]

($/bbl)	**Three months ended June 30**		%	**Six months ended June 30**		%
	2015	2014[2]	change	**2015**	2014[2]	change
Trinidad						
Operating netback[1]	**26.35**	23.63	12	**27.68**	23.63	17
G&A	**(5.83)**	(9.94)	(41)	**(6.24)**	(9.94)	(37)
Cash finance expense	**(0.74)**	0.01	(100)	**(0.67)**	0.01	(100)
Current income taxes	**(3.05)**	(7.49)	(59)	**(1.94)**	(7.49)	(74)
Funds flow netback	**16.73**	6.21	169	**18.83**	6.21	203
Canada						
Operating netback[1]	**(15.66)**	-		**(13.76)**	-	
G&A	**(96.69)**	-		**(91.01)**	-	
Cash finance expense	**(0.34)**	-		**(0.37)**	-	
Current income taxes	-	-		-	-	
Funds flow netback	**(112.69)**	-		**(105.14)**	-	
Company funds flow netback	**5.10**	(9.91)	(151)	**4.11**	(23.24)	(118)

[1]See "*Non-GAAP Measures.*"
[2]During the three and six months ended June 30, 2014, Canadian operating netbacks were netted against exploration assets as all properties were in the exploration stage. All Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

For the three and six months ended June 30, 2015, Trinidad funds flow netbacks were $2,410,000 and $5,503,000, respectively. On a quarter-over-quarter basis, second quarter Trinidad funds flow net back decreased $3.02 or 15% from the first quarter of 2015. The decrease was primarily driven by a second quarter operating netback decrease of $2.59 per barrel or 9%. A quarterly increase in current taxes of $2.16 per barrel based on increased SPT expenses was partially offset by G&A reductions of $0.81 per barrel and net cash finance cost reductions of $0.92 per barrel.

Canadian operations had negative funds flow from operations of $1,648,000 and $4,316,000 during the three and six months ended June 30, 2015, respectively. Decreased operating costs and G&A expenses in the quarter contributed to a $1,020,000 reduction in losses compared to the first quarter of 2015.

Capital Expenditures

Exploration asset cash expenditures

($000's)	Three months ended June 30 **2015**	2014	% change	Six months ended June 30 **2015**	2014	% change
Trinidad						
Land acquisitions	**-**	-		**20**	-	
Geological and geophysical	**203**	-		**203**	-	
Drilling and completions	**-**	764		**-**	764	
	203	764	(73)	**223**	764	(71)
Canada						
Land acquisitions	**18**	-		**70**	88	
Drilling and completions	**-**	144		**-**	894	
Production equipment and facilities	**(11)**	1,777		**(16)**	3,283	
Capitalized G&A	**-**	117		**-**	246	
Capitalized losses	**81**	387		**202**	3,725	
	88	2,425	(96)	**256**	8,236	(97)
Company total	**291**	3,189	(91)	**479**	9,000	(95)

During the three months ended June 30, 2015, the Company incurred initial seismic costs relating to the Ortoire exploration block in Trinidad. The seismic program is anticipated to commence in early 2016. Prior year costs of $764,000 were incurred in the Cory Moruga block, as the Company participated in drilling a well. Based on poor testing results, these costs were impaired during the three months ended June 30, 2015.

Second quarter and year to date 2015 Canadian exploration additions primarily relate to Dawson capitalized losses. Prior year costs were incurred for the Dawson cyclical steam project that was ultimately terminated in October 2014.

Property and equipment cash expenditures

($000's)	Three months ended June 30 **2015**	2014	% change	Six months ended June 30 **2015**	2014	% change
Trinidad						
Drilling and completions	**694**	5,203		**1,230**	5,203	
Production equipment and facilities	**49**	29		**398**	29	
Capitalized G&A	**127**	230		**255**	230	
Rig equipment and other	**89**	2,331		**38**	2,331	
	959	7,793	(88)	**1,921**	7,793	(75)
Canada						
Capitalized G&A	**176**	-		**378**	-	
Other	**9**	4		**16**	23	
	185	4	100	**394**	23	100
Company total	**1,144**	7,797	(85)	**2,315**	7,816	(70)

Trinidad operations incurred $694,000 of drilling and completions capital expenditures during the three months ended June 30, 2015, as five recompletions were performed in the quarter. Year to date 2015 capital expenditures primarily include well equipping costs for a late 2014 well drilled and a total of 12 recompletions performed as of June 30, 2015. Touchstone has reduced its capital expenditures in 2015 to be in line with its funds flows from operations.

Liquidity and Capital Resources

($000's)	**June 30, 2015**	March 31, 2015	December 31, 2014
Net debt[1]	**5,755**	6,172	6,927
Shareholders' equity	**59,675**	69,999	65,758

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

As at June 30, 2015 the Company had a working capital surplus of $1,730,000, including $4,363,000 in cash and $973,000 in financial derivatives. A net total of $2,998,000 is included in working capital as assets held for sale. The balances are the net book values of Canadian exploration dispositions that occurred subsequent to June 30, 2015 for total proceeds of $6,300,000. Working capital has increased from December 31, 2014 as the Company drew an additional US$1,000,000 on its bank loan and received $2,200,000 in proceeds from its Luseland asset divestiture during the first quarter of 2015. Furthermore, the net assets held for sale balance as of June 30, 2015 has offset a decrease in financial derivatives of $2,160,000 from December 31, 2014. The Company has funded its combined $2,794,000 of year to date capital expenditures from its proceeds from dispositions and the bank loan advance.

The Company's primary capital management objective is to maintain a strong statement of financial position affording the Company financial flexibility to achieve goals of continued growth and access to capital. The basis for the Company's capital structure is dependent on the Company's expected business growth and any changes in the business environment. To manage its capital structure, the Company may adjust capital spending, issue new equity or debt or repay existing debt. The Company will continue to assess new sources of financing available and to manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability.

Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil prices, royalty expenses, operating expenses, general and administrative expenses and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that in the Company's view would impact cash flow.

Bank loan

On December 4, 2014, the Company entered into a US$50 million secured term facility with a major Canadian bank maturing on December 4, 2017. Total borrowings permitted under the facility cannot exceed the borrowing base, which is currently US$15 million. The borrowing base is determined by the lender semi-annually on April 1 and October 1 and is determined based on, among other things, the Company's Trinidad proved oil and gas reserves and the lenders view of the current and forecasted commodity prices. The facility is principally secured by a pledge of the Company's equity interest in its material subsidiaries, together with their respective assets. At June 30, 2015, $7,485,000 (US$6,000,000) was drawn against the bank loan (December 31, 2014 - $5,800,000 or US$5,000,000).

Advances on the facility bear interest at the LIBOR rate plus an applicable margin. The margin ranges from 4.05% to 4.80% per annum, depending on utilization. Undrawn amounts under the facility bear a commitment fee of 0.85%. For the three and six months ended June 30, 2015, the effective interest rate, including the commitment fee, was 6.14% and 6.03% (Month ended December 31, 2014 – 5.92%).

Repayments of principal are not required provided that the borrowings under the loan do not exceed the authorized borrowing amount and that the Company is in compliance with all covenants, representations and warranties. As at June 30, 2015 the Company was in compliance with all covenants, obligations and conditions of the facility, which include covenants related to debt to earnings before interest, taxes and all non-cash items, a minimum interest coverage ratio and minimum monthly production levels.

Uncertain tax position

The Company also has an uncertain tax position as disclosed in the *"Income taxes"* section above that could impact future liquidity. At this time, management does not believe that the Company will be required to make any future principal payments or interest payments that are otherwise accrued relating to the issue.

Share Information

The Company is authorized to issue an unlimited number of voting common shares without nominal or par value. The following table summarizes the outstanding common shares, share options, incentive share options and share purchase warrants as at June 30, 2015 and December 31, 2014.

	June 30, 2015	December 31, 2014
Common shares outstanding - end of period	**83,079,643**	83,059,643
Share options outstanding - end of period	**5,400,385**	4,814,085
Incentive share options outstanding - end of period	**307,500**	336,750
Warrants outstanding - end of period	**2,260,800**	2,260,800

Share and option amounts have been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination.

As at the date of this MD&A, there were 83.1 million common shares outstanding, 5.7 million share options and incentive share options outstanding and 2.3 million share purchase warrants outstanding.

Risk Management

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

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

Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due.

The Company had the following commodity financial contracts in place as at June 30, 2015:

Contract	Volume	Pricing
ICE Brent crude oil swap		
July 1, 2015 – November 30, 2015	800 barrels per day	US$70.60 per barrel
December 1, 2015 – April 30, 2016	800 barrels per day	US$66.50 per barrel
May 1, 2016 – May 31, 2016	800 barrels per day	US$68.00 per barrel
ICE Brent crude oil call		
July 1, 2015 – May 31, 2016	800 barrels per day	US$90.00 per barrel

As at June 30, 2015, the Company recorded a financial derivative asset of $973,000 (December 31, 2014 - $3,133,000) related to commodity management contracts. During the three and six months ended June 30, 2015, the Company recorded realized gains of $628,000 and $2,007,000 (2014 - $nil and $nil) related to these contracts. As a result of the increase in Brent oil prices in the second quarter, the Company also recorded unrealized losses on financial derivatives of $2,206,000 and $2,387,000 during the three and six months ended June 30, 2015, respectively (2014 - $nil and $nil).

Foreign currency risk

The Company is exposed to currency risk on both of its working capital and bank loan which are denominated in Trinidad and Tobago dollars and United States dollars. The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the six months ended June 30, 2015.

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its bank loan. Currently the Company has not entered into any agreements to manage this risk.

Contractual Obligations, Commitments and Guarantees

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

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under various license agreements with the Trinidad and Tobago Ministry of Energy and Energy Affairs ("MEEA") and has various lease commitments for office space, field equipment and light-duty vehicles as follows:

($000's)	2015	2016	2017	2018	2019	Thereafte r
Minimum work obligations	3,056	-	-	-	-	-
Exploration commitments	1,669	3,426	2,528	5,778	2,306	2,327
Office leases	436	1,053	792	285	169	-
Equipment leases	84	38	-	-	-	-
Total minimum payments	**5,245**	**4,517**	**3,320**	**6,063**	**2,475**	**2,327**

The Company has provided a US$6,000,000 letter of credit in favour of the MEEA related to East Brighton block exploration commitments included above. Subsequent to June 30, 2015, the Company issued a US$3,313,000 letter of credit in favour of the MEEA related to Ortoire block commitments included above. Export Development Canada provided a performance security guarantee to support this additional letter of credit.

Summary of Quarterly Results

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

Three months ended	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Operating				
Average daily production (bbls/day)	1,786	2,036	2,283[3]	2,269[3]
Average oil prices before derivatives ($/bbl)	65.12	55.25	75.50[3]	92.82[3]
Operating netback[1] ($/bbl)				
Petroleum revenue	65.12	55.25	75.50	91.36
Royalties	(19.24)	(16.41)	(22.36)	(25.31)
Net revenue	45.88	38.84	53.14	66.05
Realized gain on derivatives	3.86	7.53	1.07	-
Operating costs	(27.17)	(23.43)	(28.62)	(26.80)
Operating netback	22.57	22.94	25.59	39.25
Operating netback[1] ($000's)				
Petroleum revenue	10,583	10,122	15,762	18,947
Royalties	(3,127)	(3,007)	(4,668)	(5,166)
Net revenue	7,456	7,115	11,094	13,781
Realized gain on derivatives	628	1,379	223	-
Operating costs	(4,415)	(4,293)	(5,975)	(5,768)
Operating netback	3,669	4,201	5,342	8,013
Financial *($000's except share and per share amounts)*				
Funds flow from operations[1]	762	425	2,247	4,264
Per share – basic and diluted[1,2]	0.01	0.01	0.03	0.05
Net loss	8,505	1,128	49,356[4]	6,690
Per share – basic and diluted[2]	0.10	0.01	0.59	0.08
Capital expenditures				
Exploration assets	291	188	504	1,826
Property and equipment	1,144	1,171	9,960	5,859
Company total	1,435	1,359	10,464	7,685
Total assets - end of period	125,788	141,486[4]	140,333[4]	192,637[4]
Net debt (surplus)[1] - end of period	5,755	6,172[4]	6,927[4]	(1,570)[4]
Weighted average shares outstanding[2]				
Basic and diluted	83,079,643	83,073,865	83,059,643	82,844,988
Outstanding shares[2] - end of period	83,079,643	83,079,643	83,059,643	83,059,643

[1]See "Non-GAAP" Measures."
[2]All current and comparative share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014.
[3]Average daily production and average realized prices include exploration property results.
[4]Adjusted based on final Old Touchstone purchase price allocation.

Three months ended	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Operating				
Average daily production (bbls/day)	1,220[3]	390[3]	254[3]	191[3]
Average oil prices before derivatives ($/bbl)	97.09[3]	75.54[3]	61.82[3]	80.90[3]
Financial *($000's except share and per share amounts)*				
Funds flow loss from operations[1]	4,007	2,114	645	1,012
Per share – basic and diluted[1,2]	0.06	0.04	0.01	0.02
Net earnings (loss)	2,751	(3,967)	(44,255)	(1,460)
Per share – basic and diluted[2]	0.04	(0.08)	(0.91)	(0.03)
Capital expenditures				
Exploration assets	3,189	5,811	4,266	9,394
Property and equipment	7,797	19	22	26
Acquisitions	33,448	-	-	-
Company total	44,434	5,830	4,288	9,420
Total assets - end of period	183,461[4]	92,952	96,839	147,883
Net surplus[1] - end of period	8,754[4]	41,478	50,201	59,267
Weighted average shares outstanding[2]				
Basic	65,813,486	48,748,337	48,718,939	48,718,912
Diluted	66,069,228	48,748,337	48,718,939	48,718,912
Outstanding shares[2] - end of period	81,738,643	48,787,412	48,721,412	48,718,912

[1]See "*Non-GAAP Measures.*"
[2]All current and comparative share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014.
[3]Average daily production and average realized prices include exploration property results.
[4]Adjusted based on final Old Touchstone purchase price allocation.

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

Effective May 13, 2014, the Company completed the acquisition of Old Touchstone. As a result, the Company focused its capital expenditures on the development of the acquired Trinidad onshore oil assets. In addition, working capital diminished as the Company repaid debt acquired with the transaction.

On July 1, 2014, the Company determined that the Kerrobert and Luseland producing properties met the criteria for technical feasibility and commercial viability. As of July 1, 2014 all associated revenues, royalties and operating expenses of the two Canadian properties were recognized in the consolidated financial statements. The results of operations relating to these assets were formerly capitalized to exploration assets.

Material impairment charges were recognized in the fourth quarters of 2013 and 2014 due to uneconomic Canadian operating results and Trinidad based impairments related to a decrease in forward commodity prices.

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's Annual Information Form dated March 30, 2015.

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

The Company is exposed to normal financial risks inherent in the oil and natural gas industry including commodity price risk, exchange rate risk, interest rate risk and credit risk. The Company continuously monitors opportunities to use financial instruments to manage exposure to fluctuations in commodity prices. The Company operates the majority of its properties and, therefore, has significant control over the timing, direction and costs related to exploration commitments and development opportunities.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Revisions to these accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgements made by management in the preparation of these consolidated financial statements include the following:

- the assessment of the Company's functional currencies;
- income taxes;
- amounts recorded for the valuation of property and equipment in business combinations;
- depletion and depreciation of property and equipment;
- the provision for decommissioning obligations and related accretion expense;
- amounts recorded for the valuation of exploration assets upon transfer to property and equipment;
- the fair value of financial derivatives; and
- the calculation of share-based payment expense.

Adoption of new accounting policies

There were no new or amended accounting standards or interpretations adopted during the six months ended June 30, 2015.

Future changes in accounting policies

The Company will be required to adopt IFRS 9 *Financial Instruments* on January 1, 2018, IFRS 11, *Joint Arrangements* on January 1, 2016 and IFRS 15, *Revenue from Contracts with Customers* on January 1, 2018. The Company continues to assess the impact of adopting theses pronouncements.

Control Environment

The Company has implemented changes in internal controls over financial reporting since December 31, 2014 related to the previous scope limitation on the acquisition of Old Touchstone. The Company has ensured that its processes and controls now cover all aspects of the acquired business and no limitation is required or reported at June 30, 2015. This change was made during the three month period ended June 30, 2015.

Except as disclosed above, there was no change in the Company's internal controls over financial reporting ("ICFR") that occurred during the most recently completed quarter that has materially affected, or is reasonable likely to materially effect, the Company's ICFR.

Advisory on Forward-looking Statements

The information herein contains forward-looking statements and assumptions. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. Statements relating to "reserves" and "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future. Such statements represent the Company's internal projections, estimates or beliefs concerning future growth, results of operations based on information currently available to the Company based on assumptions that are subject to change and are beyond the Company's control, such as: production rates and production decline rates, the magnitude of and ability to recover oil and gas reserves, plans for and results of drilling activity, well abandonment costs and salvage value, the ability to secure necessary personnel, equipment and services, environmental matters, future commodity prices, changes to prevailing regulatory, royalty, tax and environmental laws and regulations, the impact of competition, future capital and other expenditures (including the amount, nature and sources of funding thereof), future financing sources, business prospects and opportunities, among other things. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties that could significantly affect anticipated results in the future and accordingly, actual results may differ materially from those predicted. Although the Company's management believes that the expectations and assumptions reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations and assumptions are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies.

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. 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 and seasonality. The Company is subject to significant drilling risks and uncertainties including the ability to find oil reserves on an economic basis and the potential for technical problems that could lead to well blowouts and environmental damage. The Company is exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operation risks. The Company is exposed to risks related to recent acquisitions including unforeseen difficulties in integrating acquired companies, properties, personnel and infrastructure into the Company's operations; the outcome of litigation brought against the Company or acquired companies or other disputes involving the Company or any acquired companies; or the failure generally to realize the anticipated benefits of such acquisitions. The Company is subject to industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced. There are uncertainties in estimating the Company's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada and the Republic of Trinidad and Tobago, the ability to access sufficient capital from internal and external sources, changes in income tax laws or changes in tax laws, royalties and incentive programs relating to the oil and gas industry, fluctuations in natural gas and crude oil prices, interest rates, the United States dollar to Canadian dollar exchange rate and the Canadian dollar to Trinidad and Tobago dollar exchange rate. The Company is subject to regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, lease operating or farm-in rights related to the Company's oil and gas interests in Trinidad.

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

Non-GAAP Measures

The MD&A contains terms commonly used in the oil and natural gas industry, such as funds flow from operations, funds flow from operations per share, operating netback, funds flow netback and net debt. These terms do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other companies.

The following table reconciles funds flow from operations to cash flows from operating activities, which is the most direct comparable measure calculated in accordance with IFRS:

	Three months ended June 30		Six months ended June 30	
($000's)	**2015**	2014	**2015**	2014
Cash flows from operating activities	**2,562**	(3,978)	**41**	(6,351
Add (deduct):				
Changes in non-cash working capital	**(1,800)**	(29)	**1,146**	230
Funds flow from operations	**762**	(4,007)	**1,187**	(6,121

Management believes that in addition to net earnings and cash flows from operating activities, funds flow from operations is a useful financial measurement which assists in demonstrating the Company's ability to fund capital expenditures necessary for future growth or to repay debt. The Company's determination of funds flow from operations may not be comparable to that reported by other companies. All references to funds flow from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital. The Company calculates funds flow from operations per share by dividing funds flow from operations by the weighted average number of common shares outstanding during the applicable period.

The Company uses funds flow netbacks as a key performance indicator of results. Funds flow netbacks do not have a standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Funds flow netbacks are presented on a per barrel basis and are calculated by deducting royalties, operating expenses, general and administrative expenses, transaction costs, net cash finance expenses and current income tax expenses from petroleum revenue. Funds flow netbacks are a useful measure to compare the Company's operations with those of its peers.

The Company also uses operating netbacks as a key performance indicator of field results. Operating netbacks do not have a standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are presented on a per barrel basis and are calculated by deducting royalties and operating expenses from petroleum revenue. Operating netbacks are a useful measure to compare the Company's operations with those of its peers.

The following table summarizes net debt:

($000's)	**June 30, 2015**	December 31, 2014
Working capital (surplus) deficiency	**(1,730)**	1,021
Finance lease obligations and other	**396**	571
Bank loan	**7,485**	5,800
Less other non-interest bearing items	**(396)**	(465)
Net debt	**5,755**	6,927

Net debt is calculated by summing the Company's working capital and non-current interest bearing instruments. Working capital is defined as current assets less current liabilities. The Company uses this information to assess its true debt position and manage capital risk. This measure does not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures reported by other companies.

Currency and References to Touchstone

All information included in this MD&A are shown on a Canadian dollar basis unless otherwise stated. Tabular amounts herein are in thousands of Canadian dollars and amounts in text are rounded to thousands of Canadian dollars.

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

Additional Information

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

Touchstone Exploration Inc.

(formerly Petrobank Energy and Resources Ltd.)

Unaudited Interim Consolidated Financial Statements

June 30, 2015

Interim Consolidated Statements of Financial Position
(Unaudited, thousands of Canadian dollars)

	Note	**June 30, 2015**	December 31, 2014
			(note 4)
Assets	9		
Current			
Cash and cash equivalents		**4,363**	7,441
Investment in marketable securities	5	**-**	290
Accounts receivable	15	**6,778**	14,947
Crude oil inventory		**332**	415
Prepaid expenses		**2,084**	1,822
Financial derivatives	15	**973**	3,133
Assets held for sale	17	**4,189**	-
		18,719	28,048
Exploration assets	6	**1,833**	9,489
Property and equipment	7	**103,509**	101,586
Other assets		**1,727**	1,210
		125,788	140,333
Liabilities			
Current			
Accounts payable and accrued liabilities		**10,242**	22,250
Income taxes payable		**5,556**	6,577
Liabilities associated with assets held for sale	17	**1,191**	-
Current portion of finance lease obligations and other		**-**	242
		16,989	29,069
Finance lease obligations and other		**396**	571
Bank loan	9	**7,485**	5,800
Decommissioning obligations	10	**21,626**	19,075
Deferred income taxes		**19,617**	20,060
		66,113	74,575
Shareholders' equity			
Shareholders' capital	11	**169,934**	169,893
Warrants		**33**	33
Contributed surplus		**1,693**	1,513
Accumulated other comprehensive income		**7,784**	4,455
Deficit		**(119,769)**	(110,136)
		59,675	65,758
		125,788	140,333

Subsequent events (note 17)

See accompanying notes to these interim consolidated financial statements.

Interim Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)
(Unaudited, thousands of Canadian dollars, except per share amounts)

	Note	Three months ended June 30		Six months ended June 30	
		2015	2014	**2015**	2014
Revenues					
Petroleum revenue		**10,583**	7,861	**20,705**	7,861
Royalties		**(3,127)**	(2,761)	**(6,134)**	(2,761)
		7,456	5,100	**14,571**	5,100
Realized gain on financial derivatives	15	**628**	-	**2,007**	-
Unrealized loss on financial derivatives	15	**(2,206)**	-	**(2,387)**	-
		5,878	5,100	**14,191**	5,100
Expenses					
Operating		**4,415**	3,315	**8,708**	3,315
General and administrative		**2,276**	2,077	**5,638**	4,466
Acquisition-related expenses	4	**-**	2,975	**-**	2,975
Loss (gain) on asset disposition	7	**6**	-	**(124)**	-
(Gain) loss on marketable securities	5	**-**	(8,105)	**51**	(7,606)
Net finance expense	12	**283**	244	**561**	151
Foreign exchange loss (gain)		**230**	110	**(858)**	102
Share-based compensation	11	**159**	(160)	**147**	(26)
Depletion and depreciation		**2,124**	1,271	**3,935**	1,381
Impairment	8	**6,738**	459	**6,738**	1,357
Accretion		**153**	111	**312**	149
		16,384	2,297	**25,108**	6,264
(Loss) earnings before income taxes		**(10,506)**	2,803	**(10,917)**	(1,164)
Income taxes					
Current tax expense		**451**	566	**591**	566
Deferred tax (recovery) expense		**(2,452)**	(514)	**(1,875)**	(514)
		(2,001)	52	**(1,284)**	52
Net (loss) income		**(8,505)**	2,751	**(9,633)**	(1,216)
Foreign currency translation adjustment		**(1,061)**	(846)	**3,329**	(846)
Net (loss) income and comprehensive (loss) income		**(9,566)**	1,905	**(6,304)**	(2,062)
Net (loss) earnings per common share					
Basic and diluted	13	**(0.10)**	0.04	**(0.12)**	(0.02)

See accompanying notes to these interim consolidated financial statements.

Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited, thousands of Canadian dollars)

	Note	**Shareholders' capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income**	**Deficit**	**Total**
Balance as at January 1, 2014		**134,709**	**-**	**1,557**	**-**	**(52,874)**	**83,392**
Net loss		-	-	-	-	(57,262)	(57,262)
Other comprehensive income		-	-	-	4,455	-	4,455
Issued on acquisition	4	33,415	33	-	-	-	33,448
Share-based compensation expense		-	-	385	-	-	385
Share-based compensation capitalized		-	-	129	-	-	129
Share-based settlements		586	-	(558)	-	-	28
Issued pursuant to land acquisition		1,183	-	-	-	-	1,183
Balance as at December 31, 2014	4	**169,893**	**33**	**1,513**	**4,455**	**(110,136)**	**65,758**
Net loss		-	-	-	-	(9,633)	(9,633)
Other comprehensive income		-	-	-	3,329	-	3,329
Share-based compensation expense	11	-	-	147	-	-	147
Share-based compensation capitalized	7	-	-	73	-	-	73
Share-based settlements	11	41	-	(40)	-	-	1
Balance as at June 30, 2015		**169,934**	**33**	**1,693**	**7,784**	**(119,769)**	**59,675**

See accompanying notes to these interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows
(Unaudited, thousands of Canadian dollars)

	Note	Three months ended June 30 **2015**	2014	Six months ended June 30 **2015**	2014
Cash provided by (used in):					
Operating activities					
Net (loss) income		**(8,505)**	2,751	**(9,633)**	(1,216)
Items not involving cash from operations:					
Loss (gain) on asset disposition	7	**6**	-	**(124)**	-
Unrealized loss on financial derivatives	15	**2,206**	-	**2,387**	-
Non-cash (gain) loss on marketable securities	5	**-**	(7,861)	**41**	(7,141)
Share-based compensation	11	**159**	(160)	**147**	(26)
Depletion and depreciation		**2,124**	1,271	**3,935**	1,381
Impairment	8	**6,738**	459	**6,738**	1,357
Accretion		**153**	111	**312**	149
Non-cash other		**268**	(64)	**243**	(111)
Unrealized foreign exchange loss (gain)		**65**	-	**(984)**	-
Deferred income tax (recovery) expense		**(2,452)**	(514)	**(1,875)**	(514)
		762	(4,007)	**1,187**	(6,121)
Change in non-cash working capital		1,800	29	(1,146)	(230)
		2,562	(3,978)	**41**	(6,351)
Investing activities					
Disposition of marketable securities	5	**-**	15,200	**249**	15,200
Exploration asset expenditures		**(291)**	(3,189)	**(479)**	(9,000)
Property and equipment expenditures		**(1,144)**	(7,797)	**(2,315)**	(7,816)
Other asset expenditures		**-**	(2)	**-**	(68)
Proceeds from dispositions	7	**-**	-	**2,200**	-
Cash acquired on acquisition	4	**-**	2,780	**-**	2,780
Change in non-cash working capital		**(849)**	2,567	**(3,696)**	1,843
		(2,284)	9,559	**(4,041)**	2,939
Financing activities					
Advances of bank loan	9	**-**	-	**1,251**	-
Repayment of acquired debt	4	**-**	(23,863)	**-**	(23,863)
Finance lease obligations		**(234)**	(127)	**(297)**	(251)
Issuance of common shares	11	**-**	19	**1**	26
		(234)	(23,971)	**955**	(24,088)
Change in cash		**44**	(18,390)	**(3,045)**	(27,500)
Cash, beginning of period		**4,322**	26,010	**7,441**	35,120
Impact of foreign exchange in foreign denominated cash balances		**(3)**	(57)	**(33)**	(57)
Cash, end of period		**4,363**	7,563	**4,363**	7,563
Supplemental information:					
Cash interest paid		**90**	413	**158**	413
Cash income taxes paid		**1,065**	4,287	**2,097**	4,287

See accompanying notes to these interim consolidated financial statements.

Unless otherwise stated, amounts presented in these notes are rounded to thousands of Canadian dollars and tabular amounts are in thousands of Canadian dollars.

1. Reporting Entity

Touchstone Exploration Inc. (the “Company”), formerly Petrobank Energy and Resources Ltd., 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 western Canada and the Republic of Trinidad and Tobago (“Trinidad”).

The principal address of the Company is located at 1100, 332 6th Avenue S.W., Calgary, Alberta, T2P 0B2. The Company’s common shares are traded on the Toronto Stock Exchange under the symbol “TXP”.

2. Basis of Presentation

(a) Statement of compliance

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. The unaudited interim consolidated financial statements do not include all of the information required for full annual financial statements. Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014.

The unaudited interim consolidated financial statements follow the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2014 and were authorized for issue by the Board of Directors on August 12, 2015.

Certain reclassification adjustments have been made to the unaudited interim consolidated financial statements to conform to the current presentation.

(b) Basis of measurement

The interim consolidated financial statements have been prepared on the historical cost basis except for investments of marketable securities and financial derivatives, which are measured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent company. The functional currency of the Company’s Barbados subsidiary is the United States dollar (“US$”) and the functional currency of the Company’s Trinidad subsidiaries is the Trinidad and Tobago dollar.

(d) Use of estimates, judgements and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Revisions to these accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Changes in Accounting Policies

(a) Accounting standards adopted

There were no new or amended accounting standards or interpretations adopted during the six months ended June 30, 2015.

(b) Standards issued but not yet adopted

On July 22, 2015, the International Accounting Standards Board announced an amendment to IFRS 15 "*Revenue from Contracts with Customers"*, deferring the effective date of the standard by one year to annual periods beginning on or after January 1, 2018. Early adoption is still permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

A description of additional accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2014.

4. Business Combination

On May 13, 2014, Petrobank Energy and Resources Ltd. completed a court-approved statutory plan of arrangement (the "Arrangement") of the acquisition of Touchstone Exploration Inc. ("Old Touchstone"). Pursuant to the Arrangement, the Company acquired all of the outstanding common shares of Old Touchstone in exchange for the issuance of 65,519,212 (pre-consolidation) Company common shares. Following the arrangement, the Company consolidated its shares on a two for one basis, Petrobank Energy and Resources Ltd. changed its name to Touchstone Exploration Inc. and Old Touchstone changed its name to Touchstone Energy Inc.

Old Touchstone was engaged in the exploration, development and production of crude oil in Trinidad. The transaction reflects the Company's strategy to acquire proven on-shore oil reserves with positive cash flows.

This acquisition was accounted for using the acquisition method as at the May 13, 2014 date of closing. Fair values of the identifiable assets acquired and liabilities assumed by the Company are as follows:

Identifiable assets acquired and liabilities assumed:		
Cash	$	2,780
Other working capital items		(4,132)
Property and equipment (note 7)		105,821
Convertible debentures		(2,000)
Long-term debt		(21,863)
Decommissioning obligations (note 10)		(13,994)
Deferred income tax liability		(33,164)
Net identifiable assets acquired	**$**	**33,448**
Consideration for the acquisition:		
Share consideration (note 11)		33,415
Warrants acquired		33
Total consideration paid	**$**	**33,448**

The Company's common shares issued were valued using the $0.51 closing price (pre-consolidation) on May 13, 2014. The consolidated financial statements incorporate the operations of Old Touchstone commencing May 14, 2014.
As at May 13, 2014, Touchstone had $2,000,000 aggregate principle amount of 9.5% convertible senior unsecured debentures due June 30, 2016 and a 9.25% senior secured long-term debt facility of $21,863,000. The Company purchased and discharged the remaining principle amount of the convertible debentures on May 22, 2014 and repaid the remaining long-term debt principal plus accrued interest on June 30, 2014.

During the three months ended June 30, 2015, the Company received new information which revised the original accrued liabilities estimate in the preliminary purchase price allocation. This resulted in an increase in accounts payable and accrued liabilities of $477,000 and a corresponding increase to property and equipment. The purchase price allocation has been revised to reflect this amount. As the one year measurement period has elapsed, the purchase price allocation is now final. The related Trinidad cash generating unit property and equipment balances were impaired on December 31, 2014. Accordingly, an impairment charge of $477,000 was recognized in the 2014 statement of earnings.

5. Investment in Marketable Securities

The Company's investment in marketable securities consisted of common shares in the capital of Lightstream Resources Ltd. ("Lightstream"). This investment is recorded at fair value as follows:

		Total
Balance, January 1, 2014	**$**	**20,591**
Additions[1]		203
Fair value adjustment and gain on disposal		1,134
Dispositions		(21,638)
Balance, December 31, 2014	**$**	**290**
Fair value adjustment		(41)
Dispositions		(249)
Balance, June 30, 2015	**$**	**-**

[1]Consists of dividends received in common shares.

At June 30, 2015, the Company held nil Lightstream common shares (December 31, 2014 – 243,613). The loss on marketable securities included in the consolidated statements of earnings is comprised of the following:

	Three months ended June 30		**Six months ended June 30**	
	2015	2014	**2015**	2014
Gain (loss) in fair value of Lightstream shares	**$ -**	$ 7,861	**$ (41)**	$ 6,938
Dividend income received in shares	**-**	-	**-**	203
Non-cash gain (loss) on marketable securities	**$ -**	$ 7,861	**$ (41)**	$ 7,141
Dividend income received in cash	**-**	244	**-**	465
Sales commissions	**-**	-	**(10)**	-
Total gain (loss) on marketable securities	**$ -**	**$ 8,105**	**$ (51)**	$ 7,606

6. Exploration Assets

Exploration assets consist of the Company's projects in the exploration and evaluation stage which are pending determination of technical and commercial feasibility. The following is a continuity schedule of the Company's exploration assets for the six months ended June 30, 2015 and year ended December 31, 2014:

	Trinidad	Canada	Total
Balance, January 1, 2014	**$ -**	**$ 37,518**	**$ 37,518**
Additions	1,728	11,056	12,784
Transfer to property and equipment	-	(3,695)	(3,695)
Impairment	(429)	(36,696)	(37,125)
Effect of change in foreign exchange rates	7	-	7
Balance, December 31, 2014	**$ 1,306**	**$ 8,183**	**$ 9,489**
Additions	229	273	502
Impairments (note 8)	(887)	(2,562)	(3,449)
Dispositions	-	(552)	(552)
Effect of change in foreign exchange rates	32	-	32
Classified as held for sale (note 17)	-	(4,189)	(4,189)
Balance, June 30, 2015	**$ 680**	**$ 1,153**	**$ 1,833**

7. Property and Equipment

	Trinidad	Canada	Total
Cost:			
Balance, January 1, 2014	**$ -**	**$ 2,910**	**$ 2,910**
Additions from business acquisition (note 4)	105,821	-	105,821
Additions	23,208	1,497	24,705
Transfer from exploration assets	-	3,695	3,695
Effect of change in foreign exchange rates	9,515	-	9,515
Balance, December 31, 2014	**$ 138,544**	**$ 8,102**	**$ 146,646**
Additions	2,180	526	2,706
Dispositions	(1,492)	(413)	(1,905)
Effect of change in foreign exchange rates	9,910	-	9,910
Balance, June 30, 2015	**$ 149,142**	**$ 8,215**	**$ 157,357**
Accumulated depletion, depreciation and impairments:			
Balance, January 1, 2014	**$ -**	**$ 1,634**	**$ 1,634**
Depletion and depreciation	6,098	1,686	7,784
Impairment	36,241	(1,501)	34,740
Effect of change in foreign exchange rates	902	-	902
Balance, December 31, 2014	**$ 43,241**	**$ 1,819**	**$ 45,060**
Depletion and depreciation	4,166	403	4,569
Dispositions	(370)	1,539	1,169
Effect of change in foreign exchange rates	3,050	-	3,050
Balance, June 30, 2015	**$ 50,087**	**$ 3,761**	**$ 53,848**
Net book values:			
Balance, December 31, 2014	$ 95,303	$ 6,283	$ 101,586
Balance, June 30, 2015	**99,055**	**4,454**	**103,509**

As at June 30, 2015, $70,769,000 and $1,019,000 in future development costs have been added to the respective Trinidad and Canada cost bases for depletion calculation purposes (December 31, 2014 - $67,857,000 and $3,060,000). During the three and six months ended June 30, 2015, $303,000 and $633,000 (2014 - $347,000 and $476,000) of general and administrative expenses and $37,000 and $73,000 (2014 - $25,000 and $39,000) of share-based compensation were capitalized, respectively.

Effective March 1, 2015, the Company disposed of its non-core Luseland cash generating unit for net proceeds of $2,200,000. The cash generating unit consisted of one producing well and various decommissioning obligations. Approximately 4,000 acres of undeveloped land and ancillary production equipment were also included in the sale. A gain of $130,000 was recognized in the statement of earnings as a result of the transaction.

Effective May 1, 2015, the Company leased rig equipment to a third party. The capital lease receivable is included in other assets and a loss of $6,000 was recognized on the transaction.

The Company is operating under a number of Trinidad freehold lease agreements which have expired and are currently being renegotiated. Based on legal opinions received, the Company is continuing to recognize revenue as the Company is the operator, no title to the impacted lands has been disputed and the Company is paying all associated royalties and taxes. In determining its reserve quantities which are used in the impairment, depletion and decommissioning liability calculations, the Company has assumed that the expired leases will be renewed until the end of the economic life of the reserves.

8. Impairment

On June 30, 2015, an impairment charge of $887,000 was recorded with respect to the Company's interest in the Trinidad Cory Moruga block based on uneconomic well performance. During the quarter ended June 30, 2015, the Company acquired an additional 35% working interest in the offshore Trinidad East Brighton block for nominal cash consideration. As a result of this transaction, an additional $786,000 in decommissioning obligations were recorded. The corresponding decommissioning assets were valued at $nil, resulting in a $786,000 impairment charge.

At June 30, 2015, the Company's Trinidad decommissioning obligations were revalued using the adjusted long-term Trinidad inflation rate of 4%, which represented a 1% increase from the previous estimate. The corresponding $2,503,000 increase to the decommissioning obligation asset balance was valued at $nil and charged to impairment, as the restated cash generating units were impaired as at December 31, 2014 and thus no headroom remained.

A further impairment charge of $2,562,000 was recorded to write down the Dawson cash generating unit to the lesser of carrying value and the estimated recoverable amount based on the subsequent transaction proceeds (note 17). On July 14, 2015, the Company closed the sale of the property with no gain or loss recorded on the transaction.

9. Bank Loan

On December 4, 2014, the Company entered into a US$50 million secured term facility with a major Canadian bank maturing on December 4, 2017. Total borrowings permitted under the facility cannot exceed the borrowing base, which is currently US$15 million. The borrowing base is determined by the lender semi-annually on April 1 and October 1 and is determined based on, among other things, the Company's Trinidad proved oil and gas reserves and the lenders view of the current and forecasted commodity prices. The facility is principally secured by a pledge of the Company's equity interest in its material subsidiaries, together with their respective assets. At June 30, 2015, $7,485,000 (US$6,000,000) was drawn against the bank loan (December 31, 2014 - $5,800,000 or US$5,000,000).

Advances on the facility bear interest at the LIBOR rate plus an applicable margin. The margin ranges from 4.05% to 4.80% per annum, depending on utilization. Undrawn amounts under the facility bear a commitment fee of 0.85%. For the three and six months ended June 30, 2015, the effective interest rate, including the commitment fee, was 6.14% and 6.03% (Month ended December 31, 2014 – 5.92%).

Repayments of principal are not required provided that the borrowings under the loan do not exceed the authorized borrowing amount and that the Company is in compliance with all covenants, representations and warranties. As at June 30, 2015 the Company was in compliance with all covenants, obligations and conditions of the facility, which include covenants related to debt to earnings before interest, taxes and all non-cash items, a minimum interest coverage ratio and minimum monthly production levels.

10. Decommissioning Obligations

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal based on current regulations and economic circumstances. The total decommissioning obligation is estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The accounts payable balance of the decommissioning obligation represents accrued amounts relating to a Trinidad based abandonment fund that is short-term in nature.

	Trinidad	Canada	Total
Balance, January 1, 2014	**$ -**	**$ 5,213**	**$ 5,213**
Additions from business acquisition (note 4)	13,994	-	13,994
Liabilities incurred	823	-	823
Accretion expense	313	139	452
Change in estimates	(2,280)	89	(2,191)
Effect of change in foreign exchange rates	1,129	-	1,129
Balance, December 31, 2014	**$ 13,979**	**$ 5,441**	**$ 19,420**
Dispositions (note 7)	-	(434)	(434)
Liabilities incurred	482	-	482
Accretion expense (recovery)	322	(10)	312
Change in estimates	2,364	75	2,439
Effect of change in foreign exchange rates	1,036	-	1,036
Balance, June 30, 2015	**$ 18,183**	**$ 5,072**	**$ 23,255**
Non-current	17,745	3,881	21,626
Current (included in accounts payable)	438	-	438
Held for sale (note 17)	-	1,191	1,191
Total	**$ 18,183**	**$ 5,072**	**$ 23,255**

As at June 30, 2015, the Company estimates the total undiscounted cash flows required to settle its decommissioning obligations is approximately $33,906,000 for Trinidad and $4,868,000 for Canada (December 31, 2014 - $29,757,000 and $5,357,000). The majority of these obligations are anticipated to be incurred in 2025 and expected to be funded from the Company's internal resources available at the time of settlement. Decommissioning liabilities have been discounted using a weighted average risk-free rate of 7.5% and 1.7% for Trinidadian and Canadian based liabilities, respectively (December 31, 2014 – 7.5% and 1.8%). The liabilities have been calculated using an inflation rate of 4% and 2% per annum for Trinidadian and Canadian based liabilities, respectively (December 31, 2014 – 3% and 2%).

11. Shareholders' Capital

(a) Issued and outstanding common shares

	Number of shares		Amount
Balance, January 1, 2014	**48,721,412**	**$**	**134,709**
Issued pursuant to business combination (note 4)	32,759,606		33,415
Exercise of incentive shares	278,625		28
Issued pursuant to land acquisition	1,300,000		1,183
Share-based settlements	-		558
Balance, December 31, 2014	**83,059,643**	**$**	**169,893**
Exercise of incentive shares	20,000		41
Balance, June 30, 2015	**83,079,643**	**$**	**169,934**

The Company has authorized an unlimited number of voting common shares without nominal or par value. Share amounts for all periods have been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination (see note 4).

(b) Share options

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the five day weighted average trading price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company. The options expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding options at any time is limited to 10% of the issued and outstanding Company common shares. Share option amounts have been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination (see note 4).

	Number of options		Weighted average exercise price
Outstanding, January 1, 2014	**1,360,625**	**$**	**2.10**
Granted	4,685,090		0.88
Forfeited	(1,231,630)		1.59
Outstanding, December 31, 2014	**4,814,085**	**$**	**1.04**
Granted	1,826,800		0.33
Forfeited	(1,240,500)		1.22
Outstanding, June 30, 2015	**5,400,385**	**$**	**0.76**
Exercisable, June 30, 2015	**1,247,502**		**1.05**

(c) Incentive share options

The Company has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a $0.05 exercise price. A maximum of two million incentive shares have been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant. The incentive share options expire five years from the date of the grant. Incentive share option amounts have been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination (see note 4).

	Number of incentive shares		Weighted average exercise price
Outstanding, January 1, 2014	**365,375**	**$**	**0.10**
Granted	250,000		0.05
Exercised	(278,625)		0.10
Outstanding, December 31, 2014	**336,750**	**$**	**0.06**
Exercised	(20,000)		0.10
Forfeited	(9,250)		0.10
Outstanding, June 30, 2015	**307,500**	**$**	**0.06**
Exercisable, June 30, 2015	**107,500**		**0.08**

12. Net Finance Expenses

	Three months ended June 30				Six months ended June 30			
		2015		2014		**2015**		2014
Interest income	**$**	**(7)**	$	(40)	**$**	**(10)**	$	(135)
Interest expense		**115**		283		**213**		285
Finance fees and other		**175**		1		**358**		1
Net finance expense	**$**	**283**	$	244	**$**	**561**	$	151

13. Earnings per Common Share

	Three months ended June 30				Six months ended June 30			
		2015		2014		**2015**		2014
Net (loss) earnings	**$**	**(8,505)**	$	2,751	**$**	**(9,633)**	$	(1,216)
Weighted number of average common shares outstanding:								
Basic		**83,079,643**		65,813,486		**83,076,770**		57,328,053
Diluted		**83,079,643**		66,069,228		**83,076,770**		57,328,053
Basic and diluted (loss) earnings per share		**(0.10)**		0.04[1]		**(0.12)**		(0.02)

[1]Previoulsy reported as $0.05 per share. Revised to $0.04 per share based on revision of weighted average share calculation.

Share amounts for all periods have been restated to reflect the impact of the two for one common share consolidation completed on May 13, 2014 as part of the Old Touchstone business combination (see note 4). For the three and six month periods ended June 30, 2015, 250,470 and 252,273 incentive share options (2014 – nil and 176,572) were not included in the diluted share calculation because they were anti-dilutive.

14. Capital Management

The Company's primary capital management objective is to maintain a strong statement of financial position affording the Company financial flexibility to achieve goals of continued growth and access to capital. The basis for the Company's capital structure is dependent on the Company's expected business growth and any changes in the business environment. To manage its capital structure, the Company may adjust capital spending, issue new equity or debt or repay existing debt. The Company will continue to assess new sources of financing available and manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability.

Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil prices, royalty expenses, operating expenses, general and administrative expenses and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that in the Company's view would impact cash flow.

The Company monitors its capital management through the net debt to net debt plus equity ratio. Net debt is a non-IFRS measure calculated as working capital less long-term portions of interest bearing financial liabilities. Working capital is calculated as current assets less current liabilities. The Company's strategy is to utilize more equity than debt, thereby targeting net debt to net debt plus shareholders' equity at a ratio of less than 0.4 to 1.

	Target measure		**June 30, 2015**		December 31, 2014
Net debt					
Working capital (surplus) deficiency		**$**	**(1,730)**	$	1,021
Finance lease obligations and other			**396**		571
Bank loan			**7,485**		5,800
Less other non-interest bearing items			**(396)**		(465)
		$	**5,755**	$	6,927
Net debt plus equity					
Net debt		**$**	**5,755**	$	6,927
Shareholders' equity			**59,675**		65,758
		$	**65,430**	$	72,685
Net debt to net debt plus equity	< 0.4 times		**0.09**		0.09

The Company has a secured bank loan (note 9) which at June 30, 2015 had a borrowing base of US$15 million. The facility is intended to serve as means to increase liquidity and fund short-term cash flow needs as they arise. As at June 30, 2015, $7,485,000 (US$6,000,000) was drawn on the facility (December 31, 2014 - $5,800,000 or US$5,000,000).

The Company has a performance security guaranty with Export Development Canada that support a letter of credit provided to the Trinidad and Tobago Minister of Energy and Energy Affairs ("MEEA") related to work commitments on its Trinidad concessions (note 17).

15. Risk Management

(a) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. All of the Company's Trinidad crude oil production is sold, as determined by market based prices adjusted for quality differentials, to the Petroleum Company of Trinidad and Tobago Limited. Canadian crude oil production is sold to several oil and natural gas marketers. The Company's maximum credit exposure is revenue from one month's sales and the Company has historically not experienced any collection issues. The Company's accounts receivable balance represents the Company's maximum credit exposure. The aging of accounts receivable as at June 30, 2015 and December 31, 2014 is as follows:

		June 30, 2015		December 31, 2014
Not past due	**$**	**4,254**	$	9,923
Past due greater than 90 days		**2,524**		5,024
Total accounts receivable	**$**	**6,778**	$	14,947

No provision has been made for past due receivables as the Company has assessed that there are no impaired receivables. The Company believes that the accounts receivable balances that are past due are still collectible as they are due from government agencies. The counterparty to the Company's financial derivative contracts is a major Canadian bank that has an investment grade credit rating.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall 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. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company believes that it has access to sufficient capital through internally generated cash flows, undrawn committed credit facilities and external equity sources to meet current spending forecasts. At June 30, 2015, US$9,000,000 of borrowing capacity was available on the Company's bank loan.

(c) Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due.

The Company had the following commodity financial contracts in place as at June 30, 2015:

Contract	Volume	Pricing
ICE Brent crude oil swap		
July 1, 2015 – November 30, 2015	800 barrels per day	US$70.60 per barrel
December 1, 2015 – April 30, 2016	800 barrels per day	US$66.50 per barrel
May 1, 2016 – May 31, 2016	800 barrels per day	US$68.00 per barrel
ICE Brent crude oil call		
July 1, 2015 – May 31, 2016	800 barrels per day	US$90.00 per barrel

As at June 30, 2015, the Company recorded a financial derivative asset of $973,000 (December 31, 2014 - $3,133,000) related to commodity management contracts. During the three and six months ended June 30, 2015, the Company recorded realized gains of $628,000 and $2,007,000 (2014 - $nil and $nil) related to these contracts. As a result of the decrease in the fair value of the commodity contracts at June 30, 2015, the Company recorded unrealized losses on financial derivatives of $2,206,000 and $2,387,000 during the three and six months ended June 30, 2015, respectively (2014 - $nil and $nil).

(d) Foreign currency risk

The Company is exposed to currency risk on both its working capital and debt which are denominated in Trinidad and Tobago dollars and United States dollars. The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the six months ended June 30, 2015.

(e) Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its bank loan. Currently the Company has not entered into any agreements to manage this risk.

16. Segmented Information

The Company is comprised of Trinidad and Canada operating segments. The Trinidad segment incorporates the operations of Old Touchstone commencing May 14, 2014.

	Trinidad	Canada	Total
As at June 30, 2015			
Assets held for sale	$ -	$ 4,189	$ 4,189
Exploration assets	680	1,153	1,833
Property and equipment, net	99,055	4,454	103,509
Total assets	104,483	21,305	125,788
Liabilities associated with assets held for sale	-	1,191	1,191
Decommissioning obligations	17,745	3,881	21,626
Deferred tax liabilities	19,617	-	19,617
Total liabilities	57,487	8,626	66,113
Six months ended June 30, 2015			
Petroleum sales	19,071	1,634	20,705
Total expenses	16,332	8,776	25,108
Loss before income taxes	(3,576)	(7,341)	(10,917)
Income tax recovery	(1,875)	-	(1,875)
Net loss	(2,292)	(7,341)	(9,633)
Exploration asset expenditures	223	256	479
Property and equipment expenditures	1,921	394	2,315
As at June 30, 2014			
Exploration assets	$ 764	$ 45,494	$ 46,258
Property and equipment, net	103,658	949	104,607
Total assets	120,712	62,749	183,461
Decommissioning obligations	6,410	5,916	12,326
Deferred tax liabilities	31,924	-	31,924
Total liabilities	55,735	12,909	68,644
Six months ended June 30, 2014			
Petroleum sales	7,861	-	7,861
Total expenses	5,733	531	6,264
Loss before income taxes	(633)	(531)	(1,164)
Income tax expense	52	-	52
Net loss	(685)	(531)	(1,216)
Exploration asset expenditures	764	8,236	9,000
Property and equipment expenditures	7,793	23	7,816

17. Subsequent Events

On July 14, 2015, the Company disposed of its non-core Dawson exploration asset cash generating unit for net proceeds of $2,100,000 before customary closing adjustments. Accordingly, the exploration asset net book value of $3,325,000 and the associated decommissioning obligation of $1,191,000 were classified as held for sale as at June 30, 2015.

On July 30, 2015, the Company disposed of undeveloped land in its Beadle exploration asset cash generating unit for net proceeds of $4,200,000 prior to closing adjustments. As at June 30, 2015, the associated net book value of $864,000 was classified as held for sale.

On August 10, 2015, the Company issued a US$3,313,000 letter of credit in favour of the MEEA related to its Ortoire exploration block commitments. Export Development Canada provided a performance security guarantee to support this additional letter of credit.

CORPORATE INFORMATION

DIRECTORS

John Wright
Chairman of the Board

Paul R. Baay

Kenneth McKinnon[1,2]

Trevor Mitzel[1]

Corey Ruttan[1,3]

Thomas Valentine[2,4]

Harrie Vredenburg[2,3]

Member of:
[1] Audit Committee
[2] Compensation Committee
[3] Reserve Committee
[4] Corporate Secretary

OFFICERS AND KEY PERSONNEL

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

Michael Loewen
Trinidad Country Manager

Andrea Hatzinikolas
Assistant Corporate Secretary

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RESERVE EVALUATORS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
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LEX Caribbean
Port of Spain, Trinidad

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

ABBREVIATIONS

Oil

bbls	barrels
mbbls	thousand barrels
bbls/d	barrels per day
boe	barrels of oil equivalent
mboe	thousand barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Brent	The reference price paid for crude oil fob North Sea
WCS	Western Canada Select heavy oil
WTI	Western Texas Intermediate, the reference price paid for crude oil and standard grade in U.S. dollars at Cushing Oklahoma

Natural Gas

MMcf	million cubic feet

Other

C$	Canadian dollar
US$	United States dollar
TT$	Trinidad and Tobago dollar
TSX	Toronto Stock Exchange