



Touchstone Exploration Inc.
(formerly Petrobank Energy and Resources Ltd.)

**Management's Discussion and Analysis
and
Consolidated Financial Statements**

December 31, 2015

Management's Discussion and Analysis For the year ended December 31, 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 year ended December 31, 2015, with comparisons to the year ended December 31, 2014 is dated March 24, 2016 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2015 and 2014. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results will be included in the Company's Annual Information Form, which will be filed on or before March 30, 2016, and may be accessed through the SEDAR website at www.sedar.com.

Tabular amounts herein are in thousands of Canadian dollars, and the 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 the document. Refer to end of this document for the Advisory on Reserves Information, Advisory on Forward-Looking Statements, and for Non-GAAP Measures and abbreviations 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 were 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 final purchase price allocation was revised to reflect this amount. As the related Trinidad cash generating unit property and equipment balances were impaired on December 31, 2014, an impairment charge of \$477,000 was recognized in the 2014 consolidated statement of earnings. All comparative amounts were 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 cash generating units have been recognized in the consolidated statement of earnings (prior to July 1, 2014, all revenues and costs were capitalized to exploration assets). Prior to its July 2015 disposition, Dawson operating results were capitalized to exploration assets as the property was 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.

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 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.

2015 Annual Highlights

- Achieved average oil sales of 1,756 bbls/d, 1,600 bbls/d produced in Trinidad and 156 bbls/d produced in Canada. Trinidad production increased 40% from the prior year while Canadian production decreased 61% from 2014.
- Realized Trinidad operating netbacks of \$16,272,000 (\$27.88 per barrel) which offset Canadian operating netback losses of \$1,475,000 (\$25.88 per barrel). Company operating netbacks were \$14,797,000 or \$23.09 per barrel, which represented a decrease of 2% from the prior year.
- Reduced annual per barrel operating expenses by 16% or \$4.85 per barrel from 2014. Trinidad operating costs reduced by approximately US\$4.97 per barrel or 22% from the previous year.
- Generated positive corporate funds flow from operations of \$2,908,000 (\$0.04 per basic share) compared to \$390,000 (\$0.01 per basic share) in 2014. Trinidad operations generated funds flow from operations of \$7,157,000, offsetting Canadian funds flow losses of \$4,249,000 recognized in 2015.
- Recorded a net loss of \$22,147,000 (\$0.27 per basic share), which was primarily driven by non-cash property and equipment impairment charges mainly associated with the decrease in forward commodity prices.
- Disposed of various non-core Canadian assets for combined cash proceeds of \$8,500,000.
- Reduced net debt by \$7,913,000 from the prior year, as the Company exited 2015 with a net surplus of \$987,000.
- Entered into various ICE Brent referenced financial swaps for 800 bbls/d at an average price of US\$63.25 for the 2016 year.
- Released an updated independently evaluated reserves assessment prepared by GLJ Petroleum Consultants Ltd. with proved plus probable reserves growth of 5% over 2014, increasing to 15,465 Mbbls and achieving a 219% reserve replacement ratio with total 2015 gross reserve additions of 679 Mbbls.
- Achieved Trinidad based proved plus probable reserves finding and development costs of \$5.83 per barrel including future development capital.
- On February 1, 2016, disposed of the Kerrobert property and various undeveloped land rights for cash proceeds of \$650,000. Through the disposition, the Company immediately eliminated operating losses and transferred its estimated Canadian discounted decommissioning liability balance of \$4,028,000 to the purchaser effective December 31, 2015.

Annual Financial and Operating Results

	Year ended December 31,	
	2015	2014 ¹
Operating		
Average daily oil production (<i>bbls/day</i>)		
Trinidad	1,600	1,146
Canada	156	404 ²
Company total	1,756	1,550 ²
Average realized oil prices before derivatives (<i>\$/bbl</i>)		
Trinidad	58.45	89.93
Canada	38.80	73.75 ²
Company total	56.70	85.71 ²
Trinidad operating netback ³ (<i>\$/bbl</i>)		
Reference price – Brent	66.62	109.04
Petroleum revenue	58.45	89.93
Royalties	(18.35)	(29.15)
Net revenue	40.10	60.78
Realized gain on derivatives	10.59	0.53
Operating costs	(22.81)	(27.57)
Operating netback	27.88	33.74
Canada operating netback ³ (<i>\$/bbl</i>)		
Reference price – WTI	61.95	102.71
Petroleum revenue	38.80	69.64
Royalties	(6.93)	(5.60)
Net revenue	31.87	64.04
Operating costs	(57.75)	(49.59)
Operating netback	(25.88)	14.45
Financial (<i>\$000's except share and per share amounts</i>)		
Funds flow from operations ³		
Trinidad	7,157	8,901
Canada	(4,249)	(8,511)
Company total	2,908	390
Per share – basic and diluted ^{3,4}	0.04	0.01
Net loss	(22,147)	(57,262)
Per share – basic and diluted ⁴	(0.27)	(0.82)
Capital expenditures		
Exploration assets	1,245	11,355
Property and equipment	3,572	23,610
Company total	4,817	34,965
Total assets – end of period	100,619	140,333
Net (surplus) debt ³ – end of period	(987)	6,926
Weighted average shares outstanding ⁴		
Basic and diluted	83,080,417	70,245,489
Outstanding shares ⁴ - end of period	83,087,143	83,059,643

¹Canadian 2014 results only include results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

²Average daily production and average realized prices include Canadian exploration property results.

³See "Non-GAAP Measures."

⁴All 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 through all commodity cycles. As a result, production volumes in Trinidad declined based on reduced operating and capital investment. Touchstone remains focused on developing our core Trinidad resources, as we completed or recompleted 28 wells in 2015. Despite a decrease in realized oil prices and production, we exited 2015 with a year-end net surplus position of \$987,000. The decrease in net debt from the prior year was primarily based on three Canadian asset dispositions that closed in 2015 for total cash proceeds of \$8,500,000.

Production volumes averaged 1,756 bbls/d during the year December 31, 2015 (100% oil). Trinidad and Canadian petroleum sales averaged 1,600 bbls/d and 156 bbls/d, respectively, representing a combined increase of 13% from 2014. Touchstone responded to the continued weakness in oil prices by decreasing capital spending to \$4,817,000 in 2015 from \$34,965,000 in 2014. The 2015 expenditures were mainly on Trinidad based recompletions and exploration costs and represented a decrease of 86% from prior year capital spending.

Funds flow from operations for the year ended December 31, 2015 was \$2,908,000 (\$0.04 per basic share) versus funds flow from operations of \$390,000 (\$0.01 per basic share) recognized in the prior year. Funds flow increased from 2014 due to a full year of Trinidad operations and decreased Canadian based operating losses. Due to \$38,142,000 in non-cash impairments, we recorded a net loss of \$22,147,000 (\$0.27 per basic share) during the year ended December 31, 2015. The impairment charges, mainly attributed to all Trinidad producing properties, was the result of sustained declines in forecasted short and long-term crude oil pricing.

As of the date of this MD&A, Touchstone's bank loan borrowing base is US\$9,000,000, of which US\$6,000,000 is dedicated to a letter of credit, US\$2,000,000 is drawn and US\$1,000,000 is currently available. The interim reductions to the borrowing base subsequent to December 31, 2015 are subject to a semi-annual borrowing base redetermination scheduled on April 1, 2016, which will incorporate the Company's December 31, 2015 independent reserves evaluation. There can be no certainty as to the ability of the Company to successfully restructure its credit facility or obtain new financing should low crude oil prices persist. 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.

2016 Outlook

Touchstone will continue to apply a prudent approach to capital expenditures, as we remain focused on cash flow preservation and balance sheet flexibility. Touchstone will not proceed with capital expenditures that have no immediate economic value at current price levels. We continue to have significant future growth potential with shut-in production and a large inventory of low risk development locations, but a majority of that potential will continue to be deferred until oil prices rebound. Touchstone's 2016 work obligations include the drilling of five development wells on our Trinidad concessions. We have restricted discretion over the timing of these commitments, and will schedule these operations as permitted by the terms of our Trinidad operating agreements.

Building on operating and general and administrative cost reductions achieved in 2015, we are continuing to actively pursue cost reductions to our fixed cost base. Subsequent to December 31, 2015, we closed the sale of our Kerrobert facility, which immediately eliminated operating losses and will allow for future general and administrative cost reductions.

Terminated Trinidad Asset Acquisition

On March 14, 2016, Touchstone and the seller terminated an October 16, 2015 agreement to purchase certain Trinidad onshore producing assets for cash consideration of US\$20,800,000. The agreement was terminated as the seller was unable to satisfy the required conditions precedent prior to the backstop

date. Accordingly, the \$2,847,000 (US\$2,080,000) deposit included in current assets as at December 31, 2015 was refunded to the Company and applied to its bank loan balance in March 2016.

Reserves

The Company engaged GLJ Petroleum Consultants Ltd. (“GLJ”) to provide an evaluation of the Company’s proved and probable reserves as at December 31, 2015. The reserves estimates set forth below were based upon GLJ’s reserve report dated March 8, 2016. The reserves estimates were prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (“NI – 51-101”).

The reserve estimates represent Touchstone’s gross working interest reserves, which are the Company’s interest before the deduction of royalties. Reserve estimates are based on forecast prices and costs at December 31, 2015. The recovery and reserve estimations of the Company’s crude oil reserves provided herein are estimates only, and there is no guarantee that the estimated reserves will be recovered. Actual crude oil reserves may be greater than or less than the estimates provided herein. Full disclosure with respect to the Company’s reserves as at December 31, 2015 will be included in the Company’s Annual Information Form, which will be filed on or before March 30, 2016 and may be accessed through SEDAR.

At the effective date of the reserves evaluation, Touchstone has divested all non-core Canadian developed and undeveloped assets with associated reserves as reported in the December 31, 2014 reserves evaluation. As a result, total proved plus probable reserves decreased by 2,989 Mboe, total proved reserves decreased by 1,479 Mboe, total proved plus probable undiscounted future development costs decreased \$42.4 million and total proved undiscounted future development costs decreased \$24.8 million. The reserves tables below provide a summary of the Company’s Trinidad crude oil reserves at December 31, 2015.

December 31, 2015 Reserves

	Light and Medium Oil (Mbbbls)	Heavy Oil (Mbbbls)	Total Oil Equivalent (Mboe)
Proved			
Proved producing	4,188	702	4,890
Proved non-producing	413	90	503
Proved undeveloped	2,889	533	3,422
Total proved¹	7,490	1,325	8,815
Probable	5,705	946	6,650
Total proved plus probable¹	13,195	2,271	15,465

¹Amounts may not add due to rounding.

Reserves Reconciliation

	Trinidad		Canada	
	Proved (Mboe)	Proved Plus Probable (Mboe)	Proved (Mboe)	Proved Plus Probable (Mboe)
December 31, 2014	8,962	14,786	1,536	3,046
Extensions and improved recovery	396	1,593	-	-
Technical revisions	215	(104)	-	-
Dispositions	-	-	(1,479)	(2,989)
Economic factors	(184)	(237)	-	-
Production	(573)	(573)	(57)	(57)
December 31, 2015¹	8,815	15,465	-	-
Reserves replacement ratio² (%)	75	219	n/a	n/a

¹Amounts may not add due to rounding.

²See “Advisory on Reserves Information.”

Principal Properties

Effective December 31, 2015, the Company's principal land holdings were as follows:

Property	Working interest	Lease type	Gross acres	Working interest acres
Trinidad				
<i>Producing</i>				
Coora 1	100%	Lease Operatorship	1,230	1,230
Coora 2	100%	Lease Operatorship	469	469
WD-4	100%	Lease Operatorship	700	700
WD-8	100%	Lease Operatorship	650	650
New Dome	100%	Farmout Agreement	69	69
South Palo Seco	100%	Farmout Agreement	2,019	2,019
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
<i>Exploratory</i>				
Bovallius	100%	Freehold	976	976
Cory Moruga	16%	Freehold	11,969	1,939
Moruga	100%	Freehold	3,300	3,300
New Grant	100%	Freehold	687	687
Ortoire	80%	Crown	44,731	35,785
Otaheite	100%	Freehold	935	935
Piparo	100%	Freehold	72	72
Rousillac	100%	Freehold	570	570
Siparia	50%	Freehold	160	80
St. John	100%	Freehold	408	408
	73%		74,993	54,957
Canada				
Beadle	100%	Freehold	4,798	4,798
Druid	100%	Crown	8,641	8,641
Luseland	100%	Crown & Freehold	6,849	6,849
Winter	100%	Crown	11,323	11,323
	100%		31,611	31,611
Company total	81%		106,604	86,568

The Company's core producing properties are located onshore within Trinidad. All properties are operated by Touchstone with the exception of the Cory Moruga exploration block.

The Company's East Brighton offshore property is excluded in the table above as it was held for sale as of December 31, 2015.

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert facility and associated mineral rights, as well as undeveloped acreages in Edam, Luseland and Unity. The transaction was effective December 31, 2015 and therefore excluded from the table above.

In Trinidad the Company operates under lease operatorship agreements (“LOAs”) and farmout agreements with the Petroleum Company of Trinidad and Tobago (“Petrotrin”), state exploration and production licenses with the Trinidad and Tobago Minister of Energy and Energy Industries (“MEEI”), and private exploration and production agreements with individual landowners.

The Company’s LOAs initially expire on December 31, 2020, with Touchstone holding a five year renewal option. Under these agreements, the Company is subject to five year minimum work commitments (see the “*Contractual Obligations, Commitments and Guarantees*” section for further details) and annual minimum production covenants. The Company did not achieve its 2015 minimum production level covenant specified in the WD-8 LOA. However, a breach of the minimum production level covenant does not constitute a default provided the minimum work obligations have been completed. There were no additional repercussions, restrictions or other financial or operating impacts resulting from the WD-8 production covenant breach as all work commitments were met for the 2011 to 2015 period. As at December 31, 2015 and as of the date of this MD&A, the Company is in compliance with all other covenants associated with its LOAs.

The Company’s farmout agreements initially expire on December 31, 2021. The Company holds a five year renewal option, and the agreements are subject to five year minimum work commitments. As at December 31, 2015 and as of the date of this MD&A, the Company is compliance with all covenants associated with its farmout agreements.

The Company’s Fyzabad and Palo Seco agreements with the MEEI contain no major covenants but expired on August 19, 2013. The Company is currently negotiating license renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licenses will not be renewed. During the year ended December 31, 2015, the production volumes produced under expired MEEI production licenses represented 5.9% of total Trinidad segment production (2014 – 6.7%).

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. The Company currently has no indication that any of the producing expired leases will not be renewed. During the year ended December 31, 2015, the production volumes produced under expired Trinidad freehold lease agreements represented 2.2% of total Trinidad segment production (2014 – 4.9%).

Summary of Financial and Operating Results

The Company's operations are conducted in Trinidad and Canada, which are the Company's reportable segments.

Prior to its July 2015 disposition, the Company's Dawson property was in the exploration phase and accordingly, all directly attributable expenses net of revenues were capitalized as exploration assets. Prior to July 1, 2014, the Company's Kerrobert and Luseland properties were also in the exploration phase.

Production volumes

	2015	2014	% change
Trinidad			
Total oil production (bbls)	583,929	418,368	40
Average daily oil production (bbls/day)	1,600	1,146	40
Canada			
Total oil production (bbls)	57,007	147,477	(61)
Average daily oil production (bbls/d)	156	404	(61)
Company total			
Total oil production (bbls)	640,936	565,845	13
Average daily oil production (bbls/day)	1,756	1,550	13

Production volumes by property

(bbls)	2015	2014	% change
Trinidad			
Coora 1	72,261	59,733	21
Coora 2	42,970	29,580	45
WD-4	205,243	124,336	65
WD-8	125,590	106,421	18
New Dome	5,603	4,147	35
South Palo Seco	2,867	1,748	64
Barrackpore	24,627	12,783	93
Fyzabad	71,013	51,471	38
Icacos	4,579	3,005	52
Palo Seco	6,718	7,633	(12)
San Francique	22,458	17,511	28
	583,929	418,368	40
Canada			
Kerrobert	53,967	124,547	(57)
Luseland	3,040	17,143	(82)
Dawson	-	5,787	(100)
	57,007	147,477	(61)
Company total			
	640,936	565,845	13

Trinidad production increased 40% from the prior year as the Company acquired its Trinidad operations effective May 13, 2014. Subsequent to the acquisition, Trinidad production decreased 11% annually from 1,803 bbls/d in 2014 to 1,600 bbls/d in 2015. This decrease was a result of minimal capital investment in 2015, as no wells were drilled and twenty-eight recompletions were performed in Trinidad.

Canadian production decreased 61% from 2014 as Kerrobert production declined 57% based on the Company's concerted effort to reduce operating costs and invest minimal capital throughout 2015. In addition, Luseland operations were sold effective March 1, 2015, and the Dawson cyclical steam pilot project was terminated in October 2014 and disposed of in July 2015.

Average reference and realized prices

	Year ended December 31,		%
	2015	2014	change
Reference prices			
Brent average (US\$/bbl)	52.29	98.97	(47)
Brent average (C\$/bbl) ²	66.62	109.04	(39)
WTI average (US\$/bbl)	48.63	93.22	(48)
WTI average (C\$/bbl) ²	61.95	102.71	(40)
WCS average (US\$/bbl)	35.28	73.60	(52)
WCS average (C\$/bbl) ²	44.81	81.10	(45)
Average realized selling prices, excluding derivatives (\$/bbl)			
Trinidad	58.45	89.93	(35)
Canada	38.80	73.75 ¹	(47)
Company total	56.70	85.71¹	(34)
Trinidad			
Realized price discount as a % of Brent	12	18	(30)
Realized price discount as a % of WTI	6	12	(55)
Canada			
Realized price discount as a % of WTI	37	28	33
Realized price discount as a % of WCS	13	9	48

¹Average realized prices include Canadian exploration property petroleum revenue.

²Canadian reference prices are calculated using the Bank of Canada C\$/US\$ noon day average on a daily basis.

Petroleum revenue

(\$000's)	Year ended December 31,		%
	2015	2014 ¹	change
Trinidad			
Crude oil	34,128	37,624	(9)
Canada			
Crude oil	2,212	4,946	(55)
Company total	36,340	42,570	(15)

¹Canadian 2014 results only include results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad petroleum revenue was \$34,128,000 during the year ended December 31, 2015, representing an average realized price of \$58.45 per barrel. The average realized price represented a 12% discount to average Brent prices and a 6% discount to average WTI prices. This represented a decrease of 9% from May 14, 2014 to December 31, 2014 revenue, as the 40% production increase did not offset the 35% decline in average realized prices.

Over the past three years, realized Trinidad crude oil prices have consistently averaged a 12% discount to Brent average pricing. The Company sells all of its crude oil to Petrotrin, whom establishes a monthly net price for Trinidad oil. This price is adjusted for actual API by using a fixed API differential. A nominal transportation charge is also deducted from the monthly net price.

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 year ended December 31, 2015, the Company realized a gain on financial derivatives of \$6,181,000 or \$10.59 per barrel. The Company began using derivative contracts in December 2014, which resulted in a realized gain of \$223,000 recorded during the year ended December 31, 2014. For further information, refer to the “*Risk Management*” section of this MD&A.

Canadian petroleum revenue for the year ended December 31, 2015 was \$2,212,000, representing an average realized price of \$38.80 per barrel. The decrease in Canadian petroleum revenues from the prior year was a result of the 61% decline in production combined with a 47% decrease in average realized prices.

As at December 31, 2015, Trinidad crude oil inventory totaled 8,019 barrels versus 10,608 barrels at December 31, 2014. The Company’s crude oil is typically sold from its various sales batteries to Petrotrin three days per week. Crude oil sales are sold FOB shipping point, as the Company’s sales batteries are directly tied into Petrotrin pipelines.

Royalties

(\$000's)	Year ended December 31,		%
	2015	2014 ¹	change
Trinidad			
Crown royalties	3,748	4,282	
Private royalties	739	637	
Overriding royalties	5,086	6,543	
User fees	1,142	735	
	10,715	12,197	(12)
Percentage of petroleum revenue	31.4%	32.4%	(3)
Canada			
Crown royalties	163	21	
Overriding royalties	232	377	
	395	398	(1)
Percentage of petroleum revenue	17.9%	8.0%	100
Company total			
	11,110	12,595	(12)
Percentage of petroleum revenue	30.6%	29.6%	3

¹Canadian 2014 results only include results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. 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 between 10% and 12.5% of gross revenue. On the WD-8, Coora and WD-4 blocks, the Company operates under LOAs, 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 LOAs allow for NORR and enhanced NORR incentives for the drilling or sidetracking of a replacement well as follows:

- Year 1 of production from the 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%. There are no incentives for drilling under the farmout agreements. 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 Petrotrin associated with the management of the applicable lease operatorship programs.

Trinidad royalties were \$10,715,000 for the year ended December 31, 2015, representing 31.4% of petroleum revenue. These royalty rates were in line with past results, as approximately 77.8% of Trinidad segment production was from the higher royalty LOA and farmout agreement properties.

Canadian royalties were \$395,000 or 17.9% of petroleum sales in 2015 versus 8.0% realized in 2014. Royalty expenses increased as a result of a one-time Saskatchewan resource charge incurred in the year.

Operating expenses

(\$000's)	Year ended December 31,		%
	2015	2014 ¹	change
Trinidad			
Operating expenses	13,322	11,536	15
Canada			
Operating expenses	3,292	3,522	(7)
Company total	16,614	15,058	10

¹Canadian 2014 results only include results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad operating costs for the 2015 fiscal year were \$22.81 per barrel, representing a decrease of 17% from \$27.57 per barrel incurred in 2014. The Company focused on operating cost reductions throughout 2015, targeting fixed costs which represented approximately 55% of current year operating costs. On a US\$ basis, 2015 Trinidad operating costs decreased 22% from US\$23.09 per barrel incurred in 2014 to US\$18.12 per barrel.

Canadian operating expenses for the year ended December 31, 2015 were \$3,292,000 and were mainly driven from the Kerrobert property. Main cost drivers include electricity costs and gas costs for the facility incinerators. The facility was sold in February 2016 with an effective date of December 31, 2015.

Operating netbacks

(\$/bbl)	Year ended December 31,		%
	2015	2014 ²	change
Trinidad			
Reference price - Brent	66.62	109.04	(39)
Petroleum revenue	58.45	89.93	(35)
Royalties	(18.35)	(29.15)	(37)
Net revenue	40.10	60.78	(34)
Realized gain on derivatives	10.59	0.53	100
Operating expenses	(22.81)	(27.57)	(17)
Operating netback ¹	27.88	33.74	(17)
Canada			
Reference price - WTI	61.95	102.71	(40)
Petroleum revenue	38.80	69.64	(44)
Royalties	(6.93)	(5.60)	24
Net revenue	31.87	64.04	(50)
Operating expenses	(57.75)	(49.59)	16
Operating netback ¹	(25.88)	14.45	(100)
Company operating netback¹	23.09	30.94	(25)

¹See "Non-GAAP Measures."

²Canadian 2014 results only include results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad operating netbacks for the year ended December 31, 2015 were \$16,272,000 or \$27.88 per barrel versus \$14,114,000 or \$33.74 per barrel realized in 2014. Per barrel petroleum revenue decreased

35% based on the annual decrease in realized prices. Per barrel royalty expenses decreased on a commensurate basis with realized pricing. Realized 2015 hedging gains increased 2015 operating netbacks by \$6,181,000 or \$10.59 per barrel. 2014 hedging gains were \$223,000 or \$0.53 per barrel as the Company's ICE Brent based hedge contract commenced in December 2014. Per barrel operating expenses decreased 17% from 2014 based on the Company's measured approach to cost reductions.

Canadian operating losses for the year ended December 31, 2015 were \$1,475,000 or \$25.88 per barrel versus operating gains of \$1,026,000 or \$14.45 per barrel realized in 2014. With the 44% decrease in realized heavy oil pricing in 2015, the Company focused on economics versus production growth. The Company reduced capital costs by 90%, which coupled with asset dispositions reduced year-over-year production and revenue by 61% and 55%, respectively. Total operating costs were significantly cut as 2015 expenses of \$3,292,000 were less than the \$3,522,000 incurred in six months of 2014.

General and administrative ("G&A") expenses

<i>(\$000's)</i>	Year ended December 31,		%
	2015	2014 ¹	change
Trinidad			
Gross G&A	4,640	3,062	
Capitalized G&A	(532)	(515)	
Net G&A	4,108	2,547	61
Canada			
Gross G&A	7,157	8,392	
Capitalized G&A	(749)	(984)	
Net G&A	6,408	7,408	(13)
Company total	10,516	9,955	6

¹Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

G&A expenses primarily consist of management and administrative salaries and benefits, legal and professional fees, office rent, insurance, travel and other administrative expenses. In Trinidad, a total of 135 full-time-equivalents were working for Touchstone as at December 31, 2015 compared to 194 as at December 31, 2014. At Touchstone's Canadian head office, a total of 21 full-time-equivalents were employed as at December 31, 2015 versus 28 as at December 31, 2014.

For the year ended December 31, 2015, general and administrative costs were \$10,516,000 compared to \$9,955,000 in the comparative year. During the year ended December 31, 2015, the Company recognized non-recurring severance charges of \$1,210,000 (2014 - \$nil). After deducting these charges, general and administrative expenses were \$9,306,000 or \$14.52 per barrel. The Company continues to decrease G&A expenses, as fourth quarter expenses decreased 13% from the prior year comparative quarter.

Acquisition-related costs

The Company incurred \$2,975,000 in legal, advisory, and severance charges related to the Old Touchstone acquisition during the year ended December 31, 2014.

Asset dispositions

The Company disposed of the following non-core Canadian assets in 2015:

- Effective March 1, 2015, the Company disposed of its producing Luseland cash-generating unit (“CGU”) for net proceeds of \$2,200,000. The CGU 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.
- On July 14, 2015, the Company disposed of its non-core Dawson exploration CGU for net proceeds of \$2,100,000 with no gain or loss recognized on the transaction.
- On July 30, 2015, the Company disposed of undeveloped land in its Beadle exploration asset CGU for net proceeds of \$4,200,000. A gain of \$3,351,000 was recognized in the statement of earnings as a result of the transaction.

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs, all of which were included in the Company’s Canadian operations segment. Through the disposition, the Company transferred its total Canadian segment discounted decommissioning liability balance of \$4,028,000 to the purchaser.

The Company entered into an agreement on October 1, 2015 to dispose of its 70% working interest in the East Brighton offshore block for a 3.5%, non-convertible, no deductions gross overriding royalty on future production. At December 31, 2015, the CGU had a carrying value of \$1,413,000 and associated decommissioning obligations of \$1,413,000. As at December 31, 2015 the transaction had yet to close and the corresponding exploration asset and decommissioning obligation balances were classified as held for sale.

Loss/gain 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 was 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 year ended December 31, 2015 was \$51,000 (2014 – gain of \$1,922,000). Since the Old Touchstone acquisition, the Company sold all of its Lightstream common share holdings for net proceeds of \$21,728,000 or \$6.15 per share.

Net finance expenses

(\$000’s)	Year ended December 31,		% change
	2015	2014	
Interest income	(99)	(161)	
Interest expense on bank loan	412	291	
Finance fees and other	3,180	339	
Net finance expenses	3,493	469	100
Less: amortized credit facility expense	(2,168)	(52)	
Cash finance expenses¹	1,325	417	100

¹See “Non-GAAP Measures.”

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

Fiscal year 2015 interest expenses were primarily bank loan interest and commitment fees. In 2014, interest expenses were mainly incurred on acquired Old Touchstone debt prior to its June 30, 2014 repayment.

Financing and other fees recognized in 2015 were comprised primarily of the amortization of fees associated with the Company's bank loan established in December 2014. This balance was amortized to net finance expenses during the year ended December 31, 2015 based on reductions of the bank loan borrowing base. Interest on Trinidad tax balances were included in other finance expenses. In 2014, finance fees mainly consisted of fees associated with the extinguishment of the acquired Old Touchstone long-term debt.

Foreign exchange and foreign currency translation

The Company's presentation currency is the Canadian dollar ("C\$"). 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 holding 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:

	December 31, 2015	December 31, 2014	%
			change
Closing foreign exchange rates			
C\$/US\$ ¹	0.7225	0.8620	(16)
C\$/TT\$	4.6404	5.4900	(15)

¹Source: Bank of Canada nominal noon exchange rates.

The Company's main exposure to foreign currency risk relates to its working capital balances denominated in TT\$ and debt balances denominated in US\$. The TT\$ and US\$ have appreciated relative to the Canadian dollar throughout the year ended December 31, 2015. This resulted in the Company recognizing total foreign exchange gains of \$1,814,000 during the year ended December 31, 2015 (2014 – gain of \$1,034,000). 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 year to date appreciation of the TT\$ vis a vis the Canadian dollar, foreign currency translation adjustment gains of \$8,563,000 were recorded during the year ended December 31, 2015 (2014 – \$4,455,000).

Share-based compensation

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the closing price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company. 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 also 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 year ended December 31, 2015, share-based compensation expense of \$363,000 was recorded compared to \$385,000 recognized in 2014. Share-based compensation expense decreased from the prior year 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 2015 fiscal year, the Board of Directors approved and granted 1,891,800 share options and nil incentive share options, respectively (2014 – 4,685,090 and 250,000). At December 31, 2015, share options and incentive share options outstanding represented 6.7% of the common shares outstanding (2014 – 6.2%).

Depletion and depreciation expense

(\$000's)	Year ended December 31,		%
	2015	2014 ¹	change
Trinidad			
Depletion and depreciation expense	7,762	3,516	100
Canada			
Depletion and depreciation expense	618	1,686	(63)
Company total	8,380	5,202	61

¹Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Depreciation expense 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 expense. 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. As at December 31, 2015, \$70,764,000 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 year ended December 31, 2015, \$1,281,000 and \$118,000 in general and administrative expenses and share-based compensation was capitalized, respectively (2014 – \$1,228,000 and \$129,000, respectively).

Trinidad depletion and depreciation expense was \$7,762,000 or \$13.29 per barrel during the year ended December 31, 2015. Trinidad depletion expense increased from the prior year due to a full year of results and related production in 2015. Canadian depletion and depreciation costs decreased from 2014 as a result of the Luseland producing asset sale effective March 1, 2015 and decreased Kerrobert CGU production in 2015.

Impairment

The Company assesses exploration asset and property and equipment indicators of impairment on a quarterly basis. Impairment consisted of the following non-cash charges:

(\$000's)	Year ended December 31,		%
	2015	2014	
Trinidad CGU			
Exploration assets – Cory Moruga	948	-	
Exploration assets – East Brighton	(317)	426	
Property and equipment – Coora	12,549	16,665	
Property and equipment – WD-4	8,840	-	
Property and equipment – WD-8	9,768	10,050	
Property and equipment – New Dome	303	-	
Property and equipment – South Palo Seco	60	-	
Property and equipment – Barrackpore	1,766	1,500	
Property and equipment – Fyzabad	1,491	6,128	
Property and equipment – San Francique	1,720	2,400	
	37,128	37,169	-
Canada CGU			
Exploration assets – Dawson	2,562	31,286	
Exploration assets – Kerrobert	-	898	
Exploration assets – Luseland	122	4,512	
Exploration assets – Various	553	-	
Property and equipment – Kerrobert	(2,223)	-	
Property and equipment – Luseland	-	(1,663)	
Other	-	458	
	1,014	35,491	(97)
Company total	38,142	72,660	(48)

During the year ended December 31, 2015, the following exploration asset impairment charges were recognized:

- Impairment charges of \$948,000 were recorded with respect to the Company's interest in the Trinidad Cory Moruga block based on uneconomic well performance. The fair value of the CGU was assessed at \$nil.
- An impairment reversal of \$317,000 was recorded related to the East Brighton block CGU during the year ended December 31, 2015. The exploration asset was written up to its \$1,413,000 decommissioning obligation value based on a sales agreement executed on October 1, 2015. The fair value of the CGU was determined to be \$nil, as the value of the 3.5% gross overriding royalty was not reliably determinable.
- An impairment charge of \$2,562,000 was recorded during the year ended December 31, 2015 to write down the Dawson CGU to the lesser of carrying value and the estimated recoverable amount based on \$2,100,000 transaction proceeds received in July 2015.
- Impairment charges of \$675,000 were recorded relating to the Company's Canadian undeveloped land in Luseland and other, which was written down to \$491,000 representing the estimated fair value less costs to sell as at December 31, 2015.

Property and equipment impairment charges of \$36,497,000 were recorded during the year ended December 31, 2015 on crude oil assets located in the Trinidad operating segment. The impairment charges, attributed to all Trinidad CGUs, were the result of sustained declines in forecasted short and long-term crude oil pricing. The recoverable amount of the impaired CGUs was determined to be \$59,280,000 as at December 31, 2015. 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 CGUs were initially impaired on December 31, 2014 and no headroom remained.

The Company recognized an impairment reversal of \$2,223,000 relating to the Kerrobert CGU based on transaction proceeds received subsequent to December 31, 2015. The transaction closed on February 1, 2016 based on a sales agreement executed in January 2016. Accordingly, the property and equipment and corresponding decommissioning obligation balances were not classified as held for sale as at December 31, 2015.

Further information regarding the impairment charges for the years ended December 31, 2015 and 2014 is included in Note 9 in the Company's consolidated financial statements.

Accretion and decommissioning obligations

During the year ended December 31, 2015, the Company recorded \$624,000 (2014 - \$452,000) in accretion related to its decommissioning obligations. The increase was 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 are short-term in nature. Decommissioning obligation details as at December 31, 2015 were as follows:

	# of well/facility locations	Undiscounted balance (\$000's)	Inflation adjusted balance (\$000's)	Discounted balance (\$000's)
Trinidad	804	26,809	65,749	12,959
Canada	47	3,708	4,925	4,028
Company total	851	30,517	70,674	16,987

As at December 31, 2015, the Company estimated the total undiscounted cash flows required to settle its decommissioning obligations was approximately \$26,809,000 for Trinidad and \$3,708,000 for Canada (December 31, 2014 - \$29,757,000 and \$5,357,000). The majority of these obligations are anticipated to be incurred in 2026 and are expected to be funded from the Trinidad abandonment fund and 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 1.4% for Trinidad and Canada 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 Trinidad and Canada based liabilities, respectively (December 31, 2014 – 3% and 2%).

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 included as a change in estimate. At December 31, 2015, the Company revised its estimated costs to settle Trinidad well decommissioning obligations to US\$35,000 per well (2014 – US\$50,000 per well), which resulted in a decrease to the estimated liability of \$8,170,000. This decrease was slightly offset by the increase in Petrotrin decommissioning obligations that was driven by 2015 production, which increases the Company's proportionate interest in future well abandonments. The changes in Canadian segment decommissioning obligation estimates were a result of the decrease in the estimated Canadian weighted average risk-free rate from 2014.

As previously disclosed herein, on February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and various undeveloped land. Through the disposition, the Company transferred its total Canadian segment discounted decommissioning liability balance of \$4,028,000 to the purchaser.

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 is subject to the following petroleum 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
- Green Fund Levy 0.1% of gross revenue

Effective January 1, 2016, the Green Fund Levy increased to 0.3% of gross revenue. The Company also has a Trinidad based service company that is subject to the greater of a 25% corporate tax calculated on net income or a 0.2% business levy calculated on gross sales. The service company is also subject to the green fund levy noted above. Trinidad also charges withholding taxes of 10% of interest paid to Canadian sources.

SPT is 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 US\$50.00 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, UL taxes and corporate 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 Trinidad entities pay interest on head office intercompany loans. Interest charges are deductible for PPT and UL purposes when paid.

(\$000's)	Year ended December 31,		%
	2015	2014 ¹	change
Trinidad			
SPT	551	1,693	
PPT	255	235	
UL	25	23	
Business levy	8	24	
Green fund levy	52	59	
Withholding taxes	-	30	
	891	2,064	(57)
Canada			
Current income tax recovery	(447)	-	-
Company total	444	2,064	(78)

¹Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad income taxes for the year ended December 31, 2015 were \$1.53 per barrel. The decrease in current tax expense from the prior period was a result of decreased Trinidad cash flows, which was driven by decreases in realized oil prices and production. Furthermore, only one of the Company's operating subsidiaries paid two fiscal quarters of SPT during 2015, as realized prices received were below US\$50.00 for the second half of the year. During the year ended December 31, 2015, the Company filed its 2014 Trinidad tax returns resulting in an additional \$280,000 owing in PPT and UL taxes.

The Company's Canadian operations continue to remain in a loss position and are not taxable. The Company received 2013 and 2014 Canadian tax refunds totaling \$447,000 during the year ended December 31, 2015.

Old Touchstone previously acquired a Trinidad subsidiary that had overdue tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the subsidiary specified that upon confirmation from the BIR, the subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of December 31, 2015, \$3,314,000 in related interest was accrued in income taxes payable.

The subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. 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 income tax payments nor any payments for the seller's portion of any interest.

The December 31, 2015 income tax payable balance was comprised of the following:

(\$000's)	Principal	Interest	Total
Prior year taxes (2014 and prior)	(72)	4,709	4,637
Current year tax accruals less instalments (2015)	-	-	-
Income taxes payable	(72)	4,709	4,637

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 mainly relates to the discrepancy of the fair values over the carrying values of the assets acquired in the Old Touchstone business combination. During the year ended December 31, 2015, the Company recorded deferred tax recoveries of \$17,143,000 (2014 - \$15,681,000). The 2015 deferred tax recoveries were mainly a result of the 2015 Trinidad property and equipment impairment charges.

At December 31, 2015, the Company had approximately \$24,997,000 (2014 - \$13,409,000) in Trinidadian non-capital losses which could be carried forward indefinitely to reduce petroleum profit tax and corporate tax in future years. The benefit of \$10,251,000 of Trinidad non-capital losses were not recognized as at December 31, 2015. The Company had approximately \$51,416,000 (2014 - \$43,251,000) in Canadian non-capital losses which begin to expire in 2026. The benefit of Canadian tax loss carry forwards were not recognized as at December 31, 2015 and 2014.

Funds flow netbacks

(\$/bbl)	Year ended December 31,		% change
	2015	2014 ²	
Trinidad			
Operating netback ¹	27.88	33.74	(17)
G&A	(7.04)	(6.09)	16
Cash finance expense ¹	(3.96)	-	(100)
Current income taxes	(1.53)	(4.93)	(69)
Funds flow netback ¹	15.35	22.72	(32)
Canada			
Operating netback ¹	(25.88)	14.45	(100)
G&A	(112.41)	(50.23)	100
Cash finance expense ¹	17.33	(2.83)	(100)
Current income taxes	7.84	-	100
Funds flow netback ¹	(113.12)	(38.61)	100
Company funds flow netback¹	3.92	8.96	(56)

¹See "Non-GAAP Measures."

²Canadian 2014 results only include operating netback results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

For the year ended December 31, 2015, Trinidad funds flow netbacks were \$7,157,000 or \$15.35 per barrel versus \$8,901,000 or \$22.72 per barrel realized during the comparative 2014 year. Funds flow per barrel in 2015 decreased from the prior year as a result of significantly lower commodity prices, partially offset by realized hedging gains and lower taxes. Canadian operations incurred a \$4,249,000 funds flow netback loss, which decreased from the \$8,511,000 loss incurred in 2014. Per barrel netback losses increased from the prior year based on the decreased Canadian production base and operating losses incurred in 2015.

Capital Expenditures

Exploration asset cash expenditures

(\$000's)	Year ended December 31,		% change
	2015	2014 ¹	
Trinidad			
Lease payments	310	-	
Geological	268	417	
Drilling and completions	-	764	
Other	360	117	
	938	1,298	(28)
Canada			
Land acquisitions	20	495	
Drilling and completions	-	763	
Production equipment and facilities	(16)	3,810	
Capitalized G&A	-	271	
Capitalized losses	241	4,656	
Other	62	62	
	307	10,057	(97)
Company total	1,245	11,355	(89)

¹Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

During the year ended December 31, 2015, the Company incurred annual lease payments, geological study costs and initial seismic costs relating to the Trinidad Ortoire exploration block in Trinidad. The Company also incurred various finance fees to support letters of credits for its East Brighton and Ortoire blocks. Prior year costs were predominately incurred in the Cory Moruga block, as the Company

participated in the drilling of one gross well (0.16 net). Based on poor 2015 testing results, these costs were impaired during the year ended December 31, 2015.

Canadian exploration additions in 2015 primarily related to Dawson capitalized losses. In 2014, costs were incurred for the Dawson cyclical steam project and the first two fiscal quarters of capitalized losses and gains at Kerrobert and Luseland, respectively. On July 1, 2014 the Kerrobert and Luseland properties were evaluated as being commercially viable and transferred to property and equipment. Consequently, any additions related to Kerrobert and Luseland subsequent to July 1, 2014 were captured in property and equipment additions. The Dawson cyclical steam project was terminated in October 2014, and the Company disposed of the Dawson property in July 2015.

Property and equipment cash expenditures

(\$000's)	Year ended December 31,		%
	2015	2014 ¹	
Trinidad			
Drilling and completions	1,778	17,462	
Production equipment and facilities	478	1,352	
Capitalized G&A	1,255	1,144	
Rig equipment and other	-	3,017	
	3,511	22,975	(85)
Canada			
Production equipment and facilities	-	395	
Capitalized G&A	26	84	
Other	35	156	
	61	635	(90)
Company total	3,572	23,610	(85)

¹Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

Trinidad operations incurred \$1,778,000 of drilling and completions capital expenditures during the year ended December 31, 2015, as twenty-eight completions and recompletions were performed in the year. The Company reduced its capital expenditures in 2015 based on the fall in commodity prices. Minimal capital was spent on Canadian operations throughout 2015 as the Company focused on limiting its Kerrobert property operating losses.

Capital efficiency

The efficiency of the Company's Trinidad capital program for the year ended December 31, 2015 is summarized below:

	Proved	Proved Plus Probable
Capital expenditures (\$000's)		
Exploration capital expenditures	938	938
Development capital expenditures	3,511	3,511
	4,449	4,449
Change in future development costs ¹ (\$000's)	2,290	2,852
Total capital	6,739	7,301
Total reserve additions² (Mbbbls)	426	1,252
Finding and development costs² (\$/bbl)	15.81	5.83

¹Calculation includes changes in future development costs.

²See "Advisory on Reserves Information."

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 apply IFRS prescribed "hedge accounting" rules. Accordingly, the fair value of financial derivative contracts is recorded at each period-end. The fair value may change substantially from period to period depending on market conditions. As a result, 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 has the following commodity financial contracts in place as at the date of this MD&A:

Contract	Volume	Pricing
<i>ICE Brent crude oil swap</i>		
January 1, 2016 – 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
June 1, 2016 – October 31, 2016	800 barrels per day	US\$65.00 per barrel
November 1, 2016 – December 31, 2016	800 barrels per day	US\$50.00 per barrel
January 1, 2017 – January 31, 2017	800 barrels per day	US\$40.50 per barrel
<i>ICE Brent crude oil purchased call</i>		
January 1, 2016 – May 31, 2016	800 barrels per day	US\$90.00 per barrel
November 1, 2016 – December 31, 2016	800 barrels per day	US\$50.00 per barrel
<i>ICE Brent crude oil sold put</i>		
November 1, 2016 – December 31, 2016	800 barrels per day	US\$31.00 per barrel

As at December 31, 2015, the Company recorded a financial derivative asset of \$7,650,000 related to commodity management contracts (December 31, 2014 - \$3,133,000). During the year ended December 31, 2015, the Company realized a gain of \$6,181,000 related to commodity management contracts (2014 - \$223,000). As a result of the increase in the fair value of the Company's commodity contracts, unrealized gains on financial derivatives of \$2,654,000 were recognized during the year ended December 31, 2015 (2014 - \$3,123,000).

Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the Trinidad and Tobago dollar can have a significant effect on reported results. The Company's foreign exchange gain or losses primarily include unrealized foreign exchange gains on losses on the translation of the Company's US\$ denominated bank loan and the translation of the Company's TT\$ denominated working capital balances.

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 year ended December 31, 2015. For the year ended December 31, 2015, with all other variables held constant, a 1% change in the Canadian dollar to TT\$ exchange rate would have resulted in an approximate \$153,000 (2014 - \$588,000) increase or decrease in net earnings.

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. The Company is exposed to interest rate risk in relation to interest expense on its variable rate bank loan.

The Company had no contracts in place to manage interest rate risk as at or during the year ended December 31, 2015. For the year ended December 31, 2015, with all other variables held constant, a 1% change in the bank loan interest rate would have resulted in an approximate \$84,000 (2014 - \$4,000) increase or decrease in net earnings.

Liquidity and Capital Resources

(\$000's)	December 31, 2015	December 31, 2014
Net (surplus) debt ¹	(987)	6,926
Shareholders' equity	52,657	65,758

¹See "Non-GAAP Measures."

The Company exited 2015 with a net surplus position of \$987,000, including \$4,710,000 in cash. The Company's bank loan balance was \$8,304,000 (US\$6,000,000), which increased by US\$1,000,000 from December 31, 2014. Net debt decreased based on \$8,531,000 in proceeds from dispositions that closed during the year. The Company funded its combined \$4,817,000 of capital expenditures partly from \$2,908,000 in operating funds flows with the remainder from the aforementioned proceeds from dispositions.

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 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 was US\$12,000,000 at December 31, 2015 (2014 – US\$15,000,000). The borrowing base is redetermined 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 lender's 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 December 31, 2015, \$8,304,000 (US\$6,000,000) was drawn against the bank loan (2014 - \$5,800,000 or US\$5,000,000). In December 2014 the Company issued a US\$6,000,000 letter of credit relating to work commitments on the East Brighton block which restricts the amount available on the credit facility.

This letter of credit is expected to be cancelled upon closing of the East Brighton disposition. As at December 31, 2015, \$nil was available to be drawn on the credit facility (2014 – US\$4,000,000).

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%, and outstanding amounts bear an additional interest rate of 2% during any default periods. For the year ended December 31, 2015, the effective interest rate, including the commitment fee and default interest, was 5.6% (month ended December 31, 2014 – 5.9%).

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. The Company is subject to the following bank loan covenants:

- Total debt to EBITDAX ratio: the Company will not permit the ratio of total debt to EBITDAX for the trailing four fiscal quarters to be greater than 3.00 to 1.00. "EBITDAX" means, for any period, the sum of consolidated net income for such period plus the following expenses or charges to the extent deducted from consolidated net income in such period: interest, income taxes, depreciation, depletion, amortization, exploration expenses and all non-cash charges, minus all non-cash income added to consolidated net income.
- Interest coverage ratio: the Company will not, as of the last day of any fiscal quarter, permit its ratio of EBITDAX for the period of four fiscal quarters then ending to interest expense for such period to be less than 2.50 to 1.00.
- Monthly production: the Company shall not permit the amount equal to the net production volume of oil and gas from its Trinidad properties for each calendar month divided by the total number of days in such calendar month to be less than 1,600 barrels per day.

The Company's monthly average Trinidad oil production and minimum oil production requirements under its credit facility agreement were as follows:

Period	Trinidad production (bbls/d)	Minimum production requirements (bbls/d)
May 2015	1,497	1,600
June 2015	1,616	1,600
July 2015	1,550	1,600
August 2015	1,571	1,600
September 2015	1,533	1,600
October 2015	1,472	1,500
November 2015	1,484	1,500
December 2015	1,510	1,500
January 2016	1,377	1,600
February 2016	1,369	1,350

The Company executed a waiver with its lender on September 23, 2015 relating to the May, July and August production covenant breaches. The Company obtained a waiver from its lender on November 3, 2015 to cure the September production covenant breach. Finally, the Company and its lender executed a waiver to cure the October and November monthly covenant breaches on December 31, 2015. As at December 31, 2015 the Company was in compliance with all covenants, obligations and conditions of the facility.

The Company was in breach of its January 2016 bank loan monthly production volume covenant. Effective March 8, 2016, the Company and its lender executed an Amendment and Limited Waiver to the Credit Agreement ("Waiver") to waive the covenant breach. The Waiver also made certain amendments to the bank loan, including a reduction of the Trinidad minimum production covenant (previously set at 1,600 barrels of oil per day) to 1,350 barrels of oil per day for the months of February and March 2016 and 1,400 barrels of oil per day thereafter.

The Waiver also amends the bank loan to require mandatory prepayments of US\$2,000,000 on March 8, 2016 and US\$1,000,000 on April 8, 2016. These prepayments are also considered a reduction of the bank loan borrowing base. Furthermore, the borrowing base will be reduced by US\$6,000,000 when the Company's letter of credit is cancelled following the expected sale of the East Brighton property. The Waiver also requires that the Company prepay an amount equal to the refund of all or any portion of the US\$2,080,000 deposit paid under the terminated Trinidad asset acquisition. As at December 31, 2015, the \$8,304,000 (US\$6,000,000) bank loan balance was classified as a current liability.

The interim reductions to the credit facility borrowing base are subject to a borrowing base redetermination scheduled on April 1, 2016. This borrowing base redetermination will incorporate the Company's December 31, 2015 independent reserves evaluation. Based on this evaluation, the Company believes the future net revenues of its reserves will allow for adequate borrowing base capacity to fund its 2016 capital commitments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in the business environment. To manage its capital structure in a period of low commodity prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. 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.

The Company is awaiting the redetermination of its bank loan and is also seeking alternative sources of financing. There can be no certainty as to the ability of the Company to successfully restructure its credit facility, or obtain new financing should low crude oil prices persist. There is also no certainty that the revised borrowing base of US\$9,000,000 will be re-affirmed during the April 1, 2016 semi-annual borrowing base redetermination.

Undiscounted cash outflows relating to financial liabilities as at December 31, 2015 was as follows:

<i>(\$000's)</i>	Less than 1 year	1 – 3 years	4 – 5 years	Total
Accounts payable and accrued liabilities	12,219	-	-	12,219
Income taxes payable	4,637	-	-	4,637
Bank loan	8,304	-	-	8,304
Total financial liabilities	25,160	-	-	25,160

Uncertain tax position

The Company 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.

Fourth Quarter Results

	Three months ended December 31,	
	2015	2014 ¹
Operating		
Average daily oil production (bbls/day)		
Trinidad	1,498	1,896
Canada	73	387 ²
Company total	1,571	2,283 ²
Average realized oil prices before derivatives (\$/bbl)		
Trinidad	50.64	78.30
Canada	27.15	61.00 ²
Company total	49.54	75.36 ²
Trinidad operating netback ³ (\$/bbl)		
Reference price – Brent	58.02	86.64
Petroleum revenue	50.64	78.30
Royalties	(15.95)	(25.40)
Net revenue	34.69	52.90
Realized gain on derivatives	17.04	1.28
Operating costs	(23.77)	(25.12)
Operating netback	27.96	29.06
Canada operating netback ³ (\$/bbl)		
Reference price – WTI	55.86	82.98
Petroleum revenue	27.15	61.29
Royalties	(8.46)	(6.92)
Net revenue	18.69	54.37
Operating costs	(88.86)	(46.37)
Operating netback	(70.17)	8.00
Financial (\$000's except share and per share amounts)		
Funds flow from operations ³		
Trinidad	1,201	3,598
Canada	207	(1,351)
Company total	1,408	2,247
Per share – basic and diluted ^{3,4}	0.02	0.03
Net earnings (loss)	152	(49,356) ⁵
Per share – basic and diluted ⁴	0.01	(0.59)
Capital expenditures		
Exploration assets	612	504
Property and equipment	578	9,960
Company total	1,190	10,464
Weighted average shares outstanding ⁴		
Basic	83,087,143	83,059,643
Diluted	83,294,151	83,059,643

¹Canadian 2014 results only include results for the six months ended December 31, 2014 as all properties were in the exploration stage prior to July 1, 2014. Trinidad comparative results are subsequent to the May 13, 2014 acquisition date.

²Average daily production and average realized prices include Canadian exploration property results.

³See "Non-GAAP Measures."

⁴All current and comparative share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014.

⁵Adjusted based on final Old Touchstone purchase price allocation.

Production volumes averaged 1,571 bbls/d during the fourth quarter of 2015, which represented a decline of 31% from the fourth quarter of 2014. Trinidad sales volumes decreased 21% from the prior year comparative quarter based on minimal capital spending incurred in 2015. Canada production declined by 81% from the fourth quarter of 2014 due to 2015 asset dispositions and minimal Kerrobert property operating and capital costs incurred throughout 2015.

Trinidad operating netbacks generated \$3,852,000 (\$27.96 per barrel) during the fourth quarter versus \$5,067,000 (\$29.06 per barrel) recognized in the comparative 2014 period. The 21% production decrease combined with a 35% decrease in realized pricing were slightly offset by an increase of \$2,125,000 in realized derivative gains and a 25% reduction in 2015 operating costs. Canadian operations incurred operating losses of \$473,000 during the three months ended December 31, 2015 versus generating positive operating netbacks of \$275,000 during the final quarter of 2014.

For the three months ended December 31, 2015, funds flow from operations was \$1,408,000 (\$4.97 per barrel) versus \$2,247,000 (\$10.66 per barrel) realized in the comparative 2014 period. Trinidad funds flow from operations of \$1,201,000 and Canadian funds flow from operations of \$207,000 were recognized in the fourth quarter of 2015 (2014 - \$3,598,000 and losses of \$1,351,000, respectively).

The Company incurred net earnings of \$152,000 (\$0.01 per basic share) during the three months ended December 31, 2015 versus a net loss of \$49,356,000 (\$0.59 per basic share) recognized in the comparative 2014 period. Prior year net losses were mainly a result of \$67,714,000 in asset impairment charges, offset by a corresponding deferred tax recovery of \$15,877,000. The majority of the Company's 2015 asset impairments were recorded during the three months ended September 30, 2015.

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, and the Company does not expect that these claims will have a material impact on its financial position.

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under the Ortoire license and production agreement with the MEEI and various lease commitments for office space and light-duty vehicles. The Company's estimated capital requirements over the next five years and thereafter are as follows:

(\$000's)	2016	2017	2018	2019	2020	Thereafter
Minimum work obligations and lease payments						
Coora block	2,799	2,801	173	106	177	-
WD-4 block	2,046	1,979	2,050	115	118	-
WD-8 block	1,450	1,454	1,527	78	152	-
New Dome block	53	5	5	5	5	5
South Palo Seco block	1,778	51	54	57	60	64
Ortoire exploration commitments	2,862	6,538	4,477	2,416	355	-
Office leases	827	615	193	149	-	-
Equipment leases	50	-	-	-	-	-
Total minimum payments	11,865	13,443	8,479	2,926	867	69

Under the terms of its Trinidad concessions, the Company must fulfill the minimum work obligations over the specific license term and thus has restricted discretion over the timing of when capital commitments

are satisfied within a license period. In total, the Company is obligated to drill one well in 2016 and drill ten wells and perform thirteen heavy workovers prior to the end of 2020. The Company has a various letters of credit totaling US\$299,000 related to its work commitments on its Petrotrin concessions.

The Company has provided a US\$3,313,000 letter of credit in favour of the MEEI related to Ortoire block exploration commitments. Export Development Canada has provided a performance security guarantee to support this letter of credit. It is the Company's intention to find a strategic partner to farmout a portion of these exploration commitments. The Company's current estimated costs and timing of its future Ortoire exploration commitments, which includes acquiring and processing 85 line kilometers of 2D seismic and the drilling of four vertical wells, are as follows:

(\$000's)	2016	2017	2018	2019	2020	Thereafter
Lease payments	296	310	325	340	355	-
Geological studies	353	-	-	-	-	-
2D seismic	2,213	4,152	-	-	-	-
Drilling commitments	-	2,076	4,152	2,076	-	-
Total minimum payments	2,862	6,538	4,477	2,416	355	-

The Company has a US\$6,000,000 letter of credit relating to work commitments on the East Brighton block which restricts the amount available on the credit facility. This letter of credit is expected to be cancelled upon closing of the East Brighton disposition. The Company has excluded an estimated US\$4,200,000 in future East Brighton work obligations in its commitments disclosure above.

Related Party Transactions

The Company is a party to transactions with Lightstream and Alvopetro Energy Ltd. ("Alvopetro"), which are related parties to the Company due to common Directors. The transactions include management fees charged by Lightstream, natural gas purchased for the Company's Canadian operating segment from Lightstream and an office sub-lease with Alvopetro. Furthermore, the Company's Corporate Secretary is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP ("Norton Rose").

(\$000's)	Year ended December 31,	
	2015	2014
Management fees charged by Lightstream	-	60
Gas purchased from Lightstream	146	700
Office rent charged to Alvopetro	259	248
Legal fees charged by Norton Rose	194	130

Management fees were charged based on a cost recovery basis while all other transactions were recorded at fair value. As at December 31, 2015, \$38,000 and \$nil in related party amounts were included in accounts payable and accounts receivable, respectively (2014 - \$286,000 and \$2,000).

The Company has determined that the key management personnel of the Company are comprised of its directors and three executive officers. Key management personnel compensation paid or payable was as follows:

(\$000's)	Year ended December 31,	
	2015	2014
Salaries, director fees and short-term benefits included in general and administrative expenses	1,012	1,725
Termination benefits included in general and administrative expenses	523	-
Termination benefits included in transaction costs	-	456
Share-based compensation	297	372
Key management compensation	1,832	2,553

Financial Instruments

The Company's non-derivative financial instruments recognized on the consolidated statements of financial position consist of cash, accounts receivable, accounts payable and accrued liabilities and bank loan. Non-derivative financial instruments are recognized initially at fair value. The fair values of the current financial instruments approximate their carrying value due to their short-term maturity. The carrying value of the bank loan approximates fair value due to the floating interest rate on the facility.

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 December 31, 2015 and 2014.

	December 31, 2015	December 31, 2014
Common shares outstanding – end of period	83,087,143	83,059,643
Share options outstanding – end of period	5,308,445	4,814,085
Incentive share options outstanding – end of period	298,125	336,750
Warrants outstanding – end of period	2,260,800	2,260,800

Common share, share options and warrant balances 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, 5.3 million share options and incentive share options outstanding and 2.3 million share purchase warrants outstanding.

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	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Operating				
Average daily production (bbls/d)	1,571	1,638	1,786	2,036
Average oil prices before derivatives (\$/bbl)	49.54	56.24	65.12	55.25
Operating netback ¹ (\$/bbl)				
Petroleum revenue	49.54	56.24	65.12	55.25
Royalties	(15.60)	(18.06)	(19.24)	(16.41)
Net revenue	33.94	38.18	45.88	38.84
Realized gain on derivatives	16.25	12.12	3.86	7.53
Operating costs	(26.81)	(26.75)	(27.17)	(23.43)
Operating netback	23.38	23.55	22.57	22.94
Operating netback ¹ (\$000's)				
Petroleum revenue	7,159	8,476	10,583	10,122
Royalties	(2,254)	(2,722)	(3,127)	(3,007)
Net revenue	4,905	5,754	7,456	7,115
Realized gain on derivatives	2,348	1,826	628	1,379
Operating costs	(3,874)	(4,032)	(4,415)	(4,293)
Operating netback	3,379	3,548	3,669	4,201
Financial (\$000's except share and per share amounts)				
Funds flow from operations ¹	1,408	313	762	425
Per share – basic and diluted ^{1,2}	0.02	0.01	0.01	0.01
Net loss	152	(12,666)	(8,505)	(1,128)
Per share – basic and diluted ²	0.01	(0.15)	(0.10)	(0.01)
Capital expenditures				
Exploration assets	612	154	291	188
Property and equipment	578	679	1,144	1,171
Company total	1,190	833	1,435	1,359
Total assets - end of period	100,619	101,564	125,788	141,486 ³
Net (surplus) debt ¹ - end of period	(987)	39	5,755	6,172 ³
Weighted average shares outstanding ²				
Basic	83,087,143	83,080,866	83,079,643	83,073,865
Diluted	83,294,151	83,080,866	83,079,643	83,073,865
Outstanding shares ² - end of period	83,087,143	83,087,143	83,079,643	83,079,643

¹See "Non-GAAP Measures."

²All current and comparative share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014.

³Adjusted based on final Old Touchstone purchase price allocation.

Three months ended	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Operating				
Average daily production ¹ (bbls/d)	2,283	2,269	1,220	390
Average oil prices before derivatives ¹ (\$/bbl)	75.36	92.82	97.09	75.54
Financial (\$000's except share and per share amounts)				
Funds flow from operations ²	2,247	4,264	(4,007)	(2,114)
Per share – basic and diluted ^{2,3}	0.03	0.05	(0.06)	(0.04)
Net (loss) earnings	(49,356) ⁴	(6,690)	2,751	(3,967)
Per share – basic and diluted ³	(0.59)	(0.08)	0.04	(0.08)
Capital expenditures				
Exploration assets	504	1,851	3,189	5,811
Property and equipment	9,960	5,834	7,797	19
Acquisitions	-	-	33,448	-
Company total	10,464	7,685	44,434	5,830
Total assets - end of period	140,333 ⁴	192,637 ⁴	183,461 ⁴	92,952
Net surplus ² - end of period	6,926 ⁴	1,570 ⁴	8,754 ⁴	41,478
Weighted average shares outstanding ³				
Basic	83,059,643	82,844,988	65,813,486	48,748,337
Diluted	83,059,643	82,844,988	66,069,228	48,748,337
Outstanding shares ³ - end of period	83,059,643	83,059,643	81,738,643	48,787,412

¹Average daily production and average realized prices include Canadian exploration property results.

²See "Non-GAAP Measures."

³All current and comparative share amounts have been adjusted to reflect the two for one common share consolidation completed on May 13, 2014.

⁴Adjusted based on final Old Touchstone purchase price allocation.

The Company's funds flow from operations are significantly impacted by changes in production volumes and fluctuations in commodity prices. In addition, net earnings are impacted by asset 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. Accordingly, 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 Trinidad based impairment charges were recognized in the third quarter of 2015 and the fourth quarter of 2014 related to the sustained decrease in forward commodity prices. In addition, a material impairment charge relating to Canadian segment exploration assets was recognized in the fourth quarter of 2014 due to uneconomic operating results. In response to the decrease in crude oil prices, the Company decreased 2015 capital spending by \$30,148,000 or 86% from 2014 levels. Finally, net operating losses and net debt decreased throughout 2015 based on Canadian segment asset dispositions that closed during the year.

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, which will be available on SEDAR on or before March 30, 2016.

The Company is exposed to a variety of risks including, but not limited to, operational, financial, competitive, 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 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 and costs related to exploration commitments and development opportunities.

Access to capital

From time to time, the Company may have to raise additional funds to finance business development activities. The Company's ability to raise additional capital will depend on a number of factors such as general economic and market conditions that are beyond the Company's control. Internally generated funds will also fluctuate with changing commodity prices.

The borrowing base of the Company's reserve based lending bank loan has been reduced from US\$15,000,000 to US\$9,000,000 as of the date of this MD&A based on the decline in forward commodity prices. There can be no certainty as to the ability of the Company to successfully restructure its credit facility, or obtain new financing should low crude oil prices persist. There is also no certainty that the revised borrowing base of US\$9,000,000 will be re-affirmed during the April 1, 2016 semi-annual borrowing base redetermination.

The Company is required to comply with covenants under this facility, and in the event it does not comply, access to capital could be restricted or repayment may be required. The Company routinely reviews the covenants based on actual and forecasted results and has the ability to make changes to development and exploration plans to comply with the covenants under the bank loan. The Company is committed to having an adaptable capital expenditure program that can be adjusted to capitalize on acquisition opportunities and, if necessary, a tightening of liquidity sources.

Foreign jurisdictions

The Company is currently focused on international oil and gas exploration and production activities in Trinidad. As such, the Company is subject to political risks such as: changes in policies and regulation related to changes in government, price controls, renegotiation of lease operatorship and production license agreements, nationalization, changes in tax and royalty regulations, amendments or changes to legal systems, and complex regulatory regimes. The Company engages local, Canadian and international advisors and local in-country staff to the largest extent possible. The Company is also exposed to potential delay of its operations due to waiting on drilling permits or obtaining surface access to drilling locations. Furthermore, the Company is exposed to foreign exchange fluctuations as noted in "*Risk Management*".

Reserves estimates

The Company has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves on an annual basis. Reserve values are based on a number of variables and assumptions such as future commodity prices, future production, future operating and capital costs and governmental regulations. Reserve estimates are prepared in accordance with standards and procedures set out in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. The reserves and recovery information contained in the independent reserve report is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserve engineers. The Company's operational results and financial condition depend on the prices received for petroleum production as noted in "*Risk Management*".

Volatility of commodity prices and foreign exchange rates

The Company's operational results and financial condition depend on the prices received for petroleum production. Commodity prices are determined by economic and, in some circumstances, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, also influence prices. The Company is exposed to commodity price risk whereby the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Petroleum commodity prices are affected by the global economic events that dictate the levels of supply and demand. As at the date of this MD&A, the Company has active crude oil hedges in place (see "*Risk Management – Commodity price risk*").

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as various portions of its cash balances, debt balances and future expenses and revenues are denominated in TT\$ and US\$ (see "*Risk Management - Foreign currency risk*").

Counterparty risk

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

Operational matters

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

Exploration

The Company is exposed to a high level of exploration risk. The Company's current and future (to the extent discovered or acquired) proved reserves will decline as reserves are produced from its properties unless the Company is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. There can be no assurance that the Company's future exploration, development and acquisition activities will result in material additions of proved reserves. To manage this risk, to the extent possible, the Company employs highly experienced geologists, uses

technology such as 3D seismic as a primary exploration tool and focuses exploration efforts in known hydrocarbon-producing basins. The Company may also choose to mitigate exploration risk through acquisitions that may require raising funds.

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 are outlined below.

Going concern

Management has made judgments relating to future projected cash flows in order to assess the Company's ability to continue as a going concern. These estimates are based upon management's best estimates of future production volumes, forward pricing, future operating and capital costs, exchange rates, interest rates and income taxes, all of which are subject to measurement uncertainty.

As discussed in this MD&A, the Company is awaiting the redetermination of its bank loan and is also seeking alternative sources of financing. There can be no certainty as to the ability of the Company to successfully restructure its credit facility, or obtain new financing should low crude oil prices persist. There is also no certainty that the revised borrowing base of US\$9,000,000 will be re-affirmed during the April 1, 2016 semi-annual borrowing base redetermination and accordingly, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Oil and natural gas reserves

The Company retains qualified independent reserves evaluators to evaluate the Company's proved and probable oil and natural gas reserves. As at December 31, 2015, the Company's reserves were evaluated by GLJ, who is a firm of qualified independent reserves evaluators. The evaluation was conducted in accordance with NI 51-101. The Reserves Committee of the Company's Board of Directors is comprised of independent directors whose mandate is to steward the reserves evaluation process.

The amounts recorded for exploration assets, property and equipment, depletion and depreciation and impairment testing are based on the reserves estimates, which include estimates of future production rates, oil prices, foreign exchange rates, operating costs, capital costs and other relevant assumptions. Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves. Changes in the economic environment could result in significant changes to the discount rate used to calculate net present values. Changes in reserves impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property and equipment for impairment calculations.

As well, the cash-generating unit to which an asset belongs is subject to the judgement of management, and the transfer of exploration assets to property and equipment is based on management's judgement of technical feasibility and commercial viability.

Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of acquisition. In determining the fair value of the assets and liabilities, management must make assumptions and estimates, such as reserves, future commodity prices, fair value of

undeveloped land, discount rates, decommissioning liabilities and possible outcomes of any assumed contingencies.

Decommissioning obligations

The provision for decommissioning obligations is based on numerous assumptions and judgements including the ultimate settlement amounts, inflation factors, risk free discount rates, timing of settlement and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing decommissioning obligation, a corresponding adjustment is made to the property and equipment balance.

Equity-settled transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share option awards is measured by reference to the five day weighted average trading prices of the common shares prior to the date of the grant. The fair value of share options is measured using a Black-Scholes option pricing model. Measurement inputs include weighted average share prices prior to the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government of Canada bonds).

Fair value of financial derivatives

The fair value of financial derivatives is based on fair values provided by counterparties with whom the transactions are completed. By their nature, these estimates and assumptions are subject to measurement uncertainty.

Income tax accounting

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and net earnings.

Legal and other contingent matters

In respect of these matters, the Company is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and if such a loss can reasonably be estimated. When any such loss is determined, it is charged to net earnings. Management continually monitors known and potential contingent matters and makes appropriate provisions by charges to net earnings when warranted by circumstances.

Adoption of new accounting policies

There were no new or amended accounting standards or interpretations adopted by the Company during the year ended December 31, 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, IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018

and IFRS 16 *Leases* on January 1, 2019. The Company continues to assess the impact of adopting these pronouncements.

Control Environment

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, has assessed the design and effectiveness of internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at December 31, 2015. In making its assessment, Management used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Control – Integrated Framework (2013) to evaluate the design and effectiveness of internal control over financial reporting. Based on the Company's evaluation, Management has concluded that both ICFR and DC&P were effective as at December 31, 2015.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Advisory on Reserves Information

The reserves information summarized in this MD&A is from reports prepared by Touchstone's independent reserves evaluator, GLJ, dated March 8, 2016 with an effective date of December 31, 2015 and dated March 11, 2015 with an effective date of December 31, 2014. Each of these reports were prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. All December 31, 2015 reserves presented are based on GLJ's forecast pricing and estimated costs effective January 1, 2016, and December 31, 2014 reserves presented are based on GLJ's forecast prices and estimates of future costs as at January 1, 2015. Additional reserves information as required under NI 51-101 will be included in the Company's Annual Information Form which will be filed on SEDAR on or before March 30, 2016.

This MD&A contains certain oil and gas metrics, including finding and development costs, reserves replacement ratio and reserves additions, which do not have standardized meanings or standardized methods of calculation and therefore such measures may not be comparable to similar measures presented by other companies. Such metrics have been included herein to provide readers with additional metrics to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance of the Company, and future performance may not compare to the performance in prior periods and therefore such metrics should not be unduly relied upon.

Trinidad based finding and development costs are the sum of total Trinidad segment capital expenditures incurred in the period and the change in future development costs required to develop those reserves. Finding and development costs per barrel is determined by dividing current period net reserve additions to the corresponding period's finding and development cost. Reserve additions are calculated as the change in reserves from the beginning to the end of the applicable period excluding period production. Reserves replacement ratio is calculated as reserve additions divided by period production. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. The Company uses finding and development costs as a measure of the efficiency of its overall capital program. Management uses finding and development cost metrics for its own performance measurements and to provide shareholders with measures to compare the Company's operations over time.

Advisory on Forward-Looking Statements

Certain information regarding Touchstone set forth in this MD&A, including assessments by the Company's management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "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. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to:

- the Company's operational strategy, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's ability to continue to operate as a going concern;
- activities to be undertaken in various areas including the fulfillment of minimum work obligations and exploration commitments;
- terms of exploration and production contracts and the expected renewal of certain contracts;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the use of commodity derivatives to manage movements in the price of crude oil;
- the Company's position related to its Trinidad uncertain tax positions;
- the Company's expected completion of the sale of its East Brighton exploration property;
- the Company's expected future credit facility borrowing base and future sources of liquidity;
- terms of the Company's contractual commitments and their timing of settlement;
- estimated amounts, timing and the anticipated sources of funding for the Company's decommissioning obligations;
- effect of business and environmental risks on the Company; and
- the statements under "*Significant Accounting Judgments, Estimates and Assumptions.*"

The Company is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results. The Company is exposed to risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities. Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain qualified employees on a cost-effective basis, commodity and marketing risk. The

Company is subject to significant drilling risks and uncertainties including the ability to find 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 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 Company is subject to the risk that it will not be able to fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its properties. The financial risks the Company is exposed to include, but are not limited to, the impact of general economic conditions in Canada and Trinidad, continued volatility in market prices for oil, the impact of significant declines in market prices for oil, the ability to access sufficient capital from internal and external sources, changes in income tax laws or changes in tax laws, royalties and incentive programs relating to the oil and gas industry, fluctuations in interest rates, the Canadian dollar to United States dollar exchange rate and the Canadian dollar to Trinidad and Tobago dollar exchange rate. The Company is subject to local regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions or the termination of licence, 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, including 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:

(\$000's)	Year ended December 31,	
	2015	2014
Cash flows from operating activities	(3,245)	4,039
Changes in non-cash working capital	6,153	(3,649)
Funds flow from operations	2,908	390

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 MD&A 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, net cash finance expenses and current income tax expenses from petroleum revenue and realized gains/losses on derivative contracts. Funds flow netbacks are a useful measure to compare the Company's operations with those of its peers. Net cash finance expenses include all cash finance expenses incurred during a period and exclude the amortization of prepaid bank loan fees.

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 and realized gains/losses on derivative contracts. The Company considers operating netbacks to be a key measure as they demonstrate Touchstone's profitability relative to current commodity prices.

The following table summarizes net (surplus) debt:

(\$000's)	As at December 31,	
	2015	2014
Working capital (surplus) deficiency	(987)	1,289
Add current portion of finance lease obligations and other	-	(510)
Long-term portion of bank loan	-	5,800
Less finance lease obligations	-	347
Net (surplus) debt	(987)	6,926

Net (surplus) debt is calculated by summing the Company's working capital and non-current interest bearing liabilities. Working capital is defined as current assets less current liabilities. The Company uses this information to assess its true debt and liquidity position and to 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 the 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.

MANAGEMENT'S REPORT

The accompanying financial statements and all information in this report are the responsibility of management. Management has prepared the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and, when necessary, management has made informed judgments and estimates in accounting for transactions that were not complete at the statement of financial position date. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the financial statements. Financial information contained elsewhere in this report has been prepared and reviewed by management to ensure it is consistent with the financial statements.

Management has established systems of internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through its Audit Committee. The Audit Committee meets regularly with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the financial statements and the external auditors' report. The Audit Committee has reported its findings to the Board of Directors, who have in turn approved the financial statements for issuance to the shareholders.

(signed)
Paul Baay
President, Chief Executive Officer

(signed)
Scott Budau
Chief Financial Officer

Calgary, Canada
March 23, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Touchstone Exploration Inc.:

We have audited the accompanying consolidated financial statements of Touchstone Exploration Inc. (formerly Petrobank Energy and Resources Ltd.), which comprise the consolidated statement of financial position as at December 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Touchstone Exploration Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(b) in the financial statements which the Company's consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has breached the production volume covenant several times in 2015 and again in January 2016 and the borrowing base has been reduced. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Ernst + Young LLP

Chartered Professional Accountants
Calgary, Canada
March 23, 2016

Consolidated Statements of Financial Position
(thousands of Canadian dollars)

	Note	December 31, 2015	December 31, 2014 (note 5)
Assets			
Current			
Cash	19	\$ 4,710	\$ 7,441
Investment in marketable securities	6	-	290
Accounts receivable	22	9,846	14,947
Crude oil inventory		261	415
Prepaid expenses		833	1,822
Acquisition deposit	25	2,847	-
Financial derivatives	22	7,650	3,133
Assets held for sale	7	1,413	-
		27,560	28,048
Exploration assets	7	1,654	9,489
Property and equipment	8	70,639	101,586
Other assets	10	766	1,210
		\$ 100,619	\$ 140,333
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 12,219	\$ 22,250
Income taxes payable	17	4,637	6,577
Bank loan	11	8,304	-
Current portion of finance lease obligations		-	510
Liabilities associated with assets held for sale	7,12	1,413	-
		26,573	29,337
Finance lease obligations and other		830	303
Bank loan	11	-	5,800
Decommissioning obligations	12	15,168	19,075
Deferred income taxes	17	5,391	20,060
		47,962	74,575
Shareholders' equity			
Shareholders' capital	13	169,950	169,893
Warrants	14	33	33
Contributed surplus		1,939	1,513
Accumulated other comprehensive income		13,018	4,455
Deficit		(132,283)	(110,136)
		52,657	65,758
		\$ 100,619	\$ 140,333

Commitments and contingencies (note 24)
Subsequent events (note 25)

See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board of Directors of Touchstone Exploration Inc.:

(signed)
John D. Wright
Chairman

(signed)
Trevor Mitzel
Director

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

	Note	Year ended December 31,	
		2015	2014
			(note 5)
Revenues			
Petroleum revenue		\$ 36,340	\$ 42,570
Royalties		(11,110)	(12,595)
		25,230	29,975
Realized gain on financial derivatives	22	6,181	223
Unrealized gain on financial derivatives	22	2,654	3,123
		34,065	33,321
Expenses			
Operating		16,614	15,058
General and administrative	15	10,516	9,955
Acquisition-related expenses	5	-	2,975
Gain on asset dispositions	7,8	(3,458)	-
Loss (gain) on marketable securities	6	51	(1,922)
Net finance expenses	16	3,493	469
Foreign exchange gain	22	(1,814)	(1,034)
Share-based compensation	13	363	385
Depletion and depreciation	8	8,380	5,202
Impairments	9	38,142	72,660
Accretion	12	624	452
		72,911	104,200
Loss before income taxes		(38,846)	(70,879)
Income taxes			
Current tax expense	17	444	2,064
Deferred tax recovery	17	(17,143)	(15,681)
		(16,699)	(13,617)
Net loss		(22,147)	(57,262)
Foreign currency translation adjustment		8,563	4,455
Comprehensive loss		\$ (13,584)	\$ (52,807)
Net loss per common share			
Basic and diluted	18	\$ (0.27)	\$ (0.82)

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(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	5	33,415	33	-	-	-	33,448
Share-based compensation expense	13	-	-	385	-	-	385
Share-based compensation capitalized	8	-	-	129	-	-	129
Share-based settlements	13	586	-	(558)	-	-	28
Issued pursuant to land acquisition	13	1,183	-	-	-	-	1,183
Balance as at December 31, 2014		\$ 169,893	\$ 33	\$ 1,513	\$ 4,455	\$ (110,136)	\$ 65,758
Net loss		-	-	-	-	(22,147)	(22,147)
Other comprehensive income		-	-	-	8,563	-	8,563
Share-based compensation expense	13	-	-	363	-	-	363
Share-based compensation capitalized	8	-	-	118	-	-	118
Share-based settlements	13	57	-	(55)	-	-	2
Balance as at December 31, 2015		\$ 169,950	\$ 33	\$ 1,939	\$ 13,018	\$ (132,283)	\$ 52,657

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows
(thousands of Canadian dollars)

	Note	Year ended December 31,	
		2015	2014
			(note 5)
Cash provided by (used in):			
Operating activities			
Net loss for the year		\$ (22,147)	\$ (57,262)
Items not involving cash from operations:			
Gain on asset dispositions	7,8	(3,458)	-
Unrealized gain on financial derivatives	22	(2,654)	(3,123)
Non-cash loss (gain) on marketable securities	6	41	(1,337)
Share-based compensation	13	363	385
Depletion and depreciation	8	8,380	5,202
Impairments	9	38,142	72,660
Accretion	12	624	452
Non-cash other		2,467	(117)
Unrealized foreign exchange gain	22	(1,707)	(789)
Deferred income tax recovery	17	(17,143)	(15,681)
		2,908	390
Change in non-cash working capital	19	(6,153)	3,649
		(3,245)	4,039
Investing activities			
Disposition of marketable securities	6	249	21,638
Exploration asset expenditures	7	(1,245)	(11,355)
Property and equipment expenditures	8	(3,572)	(23,610)
Other asset expenditures	10	-	(41)
Proceeds from dispositions	7,8	8,531	-
Cash acquired on acquisition	5	-	2,780
Change in non-cash working capital	19	(4,424)	(650)
		(461)	(11,238)
Financing activities			
Net advances of bank loan	11	1,153	4,002
Repayment of acquired debt	5	-	(23,863)
Finance lease payments	10	(125)	(689)
Issuance of common shares	13	2	28
		1,030	(20,522)
Change in cash		(2,676)	(27,721)
Cash, beginning of year		7,441	35,120
Impact of foreign exchange in foreign denominated cash balances		(55)	42
Cash, end of year		\$ 4,710	\$ 7,441
Supplemental information:			
Cash interest paid		366	265
Cash income taxes paid		3,454	6,535

See accompanying notes to these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

Unless otherwise stated, amounts presented in these notes are rounded to thousands of Canadian dollars and tabular amounts are stated in thousands of Canadian dollars. Certain reclassification adjustments have been made to the consolidated financial statements to conform to the current presentation.

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 the Republic of Trinidad and Tobago ("Trinidad").

The principal address of the Company is located at 1100, 332 6th Avenue SW, Calgary, Alberta, T2P 0B2. The Company's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol "TXP".

2. Basis of Presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2016.

(b) Going concern assumption

These consolidated financial statements were prepared on a going concern basis that contemplated the realization of assets and the settlement of liabilities in the normal course of business as they become due.

For the year ended December 31, 2015, the Company incurred a net loss of \$22,147,000 and cash flow used by operations of \$3,245,000. The Company had a working capital position of \$987,000 and a deficit of \$132,283,000 as of December 31, 2015.

Since early 2015, the Company has implemented a number of initiatives in response to the prevailing low crude oil prices, including:

- sale of Canadian non-core assets for cash proceeds of \$8,500,000 in 2015;
- sale of the non-core Kerrobert Canadian property in 2016 for cash proceeds of \$650,000 which will reduce future Canadian operating losses;
- finalization of an agreement to dispose of the Trinidad offshore East Brighton block;
- entered into various Brent referenced financial swaps for 800 bbls/d at an average price of US\$63.25 for the 2016 year;
- significant reductions to planned capital spending; and
- reduction in staffing levels which will reduce future operating and general and administrative expenses.

The Company's credit facility agreement specifies two financial covenants as well as a production covenant (see note 11). The Company was in compliance with all covenants as at December 31, 2015. However, the Company was in breach of the production covenant and received waivers from the lender for several months during 2015.

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In addition, the Company was in breach of the January 2016 monthly production volume covenant. Effective March 8, 2016, the Company and its lender executed an Amendment and Limited Waiver to the Credit Agreement (the "Waiver") to waive the covenant breach. The Waiver also makes certain amendments to the bank loan, including a reduction of the Trinidad minimum production covenant (previously set at 1,600 barrels of oil per day) to 1,350 barrels of oil per day for the months of February and March 2016 and 1,400 barrels of oil per day thereafter. No assurance can be given that future ongoing breaches of the production covenant will not result in a material adverse impact to the Company's liquidity position.

The Waiver also amends the bank loan to require mandatory prepayments of US\$2,000,000 on March 8, 2016 and US\$1,000,000 on April 8, 2016. These prepayments are also considered a reduction of the bank loan borrowing base. Furthermore, the borrowing base will be reduced by US\$6,000,000 when the Company's letter of credit is cancelled following the expected sale of the East Brighton property. The interim reductions to the credit facility borrowing base are subject to a borrowing base redetermination scheduled on April 1, 2016. The Waiver also requires that the Company prepay an amount equal to the refund of all or any portion of the US\$2,080,000 deposit paid under the Trinidad asset acquisition (see note 25(b)) which was terminated on March 14, 2016. This repayment was made on March 18, 2016.

As at December 31, 2015 and March 23, 2016 there is \$nil and US\$1,000,000 available to be drawn on the bank loan, respectively. Management's current forecast using 2016 strip prices of Brent US\$35.00 does not currently forecast a breach of the financial covenants within the next twelve months, however the forecast does show that if current pricing continues management will need to identify additional sources of financing to be able to meet its existing commitments.

There can be no certainty as to the ability of the Company to successfully restructure its credit facility, obtain new financing or restructure commitments should low crude oil prices persist. There is also no certainty that the revised borrowing base of US\$3,000,000 will be re-affirmed during the April 1, 2016 semi-annual borrowing base redetermination and accordingly, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where noted in the accounting policies.

(d) 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 ("TT\$").

Notes to the Consolidated Financial Statements

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(e) 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. Significant estimates and judgements made by management in the preparation of these consolidated financial statements are outlined below.

The amounts recorded for exploration assets, property and equipment, depletion and depreciation and impairment testing are based on estimates of proven and probable reserves, production rates, future oil prices, future costs, future foreign exchange rates and other relevant assumptions. All of the Company's petroleum reserves are evaluated and reported by independent engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101. Assumptions that are valid at the time of reserves estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves. Changes in the economic environment could result in significant changes to the discount rate used to calculate net present values. Changes in reserves impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs of disposal of property and equipment for impairment calculations.

As well, the cash-generating unit ("CGU") to which an asset belongs is subject to the judgement of management and the transfer of exploration assets to property and equipment is based on management's judgement of technical feasibility and commercial viability.

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of acquisition. In determining the fair values of the assets and liabilities, management must make assumptions and estimates, such as reserves, future commodity prices, fair values of undeveloped land, discount rates, decommissioning liabilities and possible outcomes of any assumed contingencies.

The provision for decommissioning obligations is based on numerous assumptions and judgements including the ultimate settlement amounts, Trinidad historical production volumes, inflation factors, risk free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing decommissioning obligation, a corresponding adjustment is made to the property and equipment balance.

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share option awards is measured by reference to the five day weighted average trading price of the common shares prior to the date of grant. The fair value of share options is measured using a Black-Scholes option pricing model. Measurement inputs include weighted average share prices prior to the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government of Canada bonds).

Notes to the Consolidated Financial Statements

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The fair value of financial derivatives is based on fair values provided by counterparties with whom the transactions were completed. By their nature, these estimates and assumptions are subject to measurement uncertainty.

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and net earnings.

Management has made judgments relating to future projected cash flows in order to assess the Company's ability to continue as a going concern. These estimates are based upon management's best estimates of future production volumes, forward pricing, future operating costs, future capital costs, future general and administrative expenses, exchange rates, interest rates and income taxes, all of which are subject to measurement uncertainty.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2015. The Company's principal subsidiaries are:

Entity	Country of incorporation	Ownership %
Archon Technologies Ltd.	Canada	100%
Touchstone Energy Inc.	Canada	100%
Touchstone Exploration (Barbados) Ltd.	Barbados	100%
Touchstone Exploration (Trinidad) Ltd.	Trinidad	100%
Primera Oil and Gas Limited	Trinidad	100%
Territorial Oilfield Management Services Limited	Trinidad	100%

Intercompany balances and transactions are eliminated in preparing consolidated financial statements. Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement. A nominal amount of the Company's operating cash flows is derived through joint operations which are involved in the development and production of crude oil in Trinidad. The consolidated financial statements reflect only the Company's proportionate interest in such activities.

(b) Foreign currency

Foreign currency transactions are translated into the respective functional currency of the Company and its subsidiaries using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

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The results and financial position of all the Company's consolidated subsidiaries that have a functional currency different from the presentation currency are translated into the Canadian dollar presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the reporting date closing rate;
- (ii) revenue and expenses for each period are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case revenue and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in accumulated other comprehensive income, a separate component of equity.

(c) Cash and cash equivalents

Cash and cash equivalents may include highly liquid short-term investments with initial maturities of three months or less. These are recorded at cost which approximates fair value.

(d) Investment in marketable securities

Investment in marketable securities is reported at fair value through profit or loss as the securities are held for trading. Corresponding changes in fair value and associated dividends are recognized in net earnings in the periods in which they arise.

(e) Financial instruments

All financial assets excluding financial derivatives and investments in marketable securities are classified as loans and receivables and are accounted for on an amortized cost basis. All financial liabilities excluding financial derivatives are classified as other financial liabilities and are accounted for on an amortized cost basis. Investment in marketable securities are held for trading and designated as fair value through profit and loss. Financial instruments recognized on the Company's consolidated statement of financial position are deemed to approximate their estimated fair values.

Derivatives may be used by the Company to manage exposure to market risk relating to commodity prices, foreign exchange rates and interest rates. The Company does not designate its financial derivatives contracts as hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded and carried on the consolidated statement of financial position at fair value with actual amounts received or paid on the settlement of the financial derivative instrument recorded in earnings.

At each reporting date, the Company determines whether transfers have occurred between levels in the fair value hierarchy by reassessing the level of classification for each financial asset and financial liability measured or disclosed at fair value in the consolidated financial statements. Assessments of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy.

(f) Exploration assets

Expenditures incurred before the Company has obtained legal rights to explore an area are recognized in the consolidated statement of earnings as exploration expenses.

Exploration assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including land acquisition, geological and geophysical, drilling and completion costs and directly attributable employee salaries and benefits

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are capitalized and accumulated pending determination of technical feasibility and commercial viability. Exploration assets are not depleted. When assets are determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment within the CGU and the recoverable amount is transferred to property and equipment. Management considers technical feasibility and commercial viability to exist when a project is expected to be free cash flow positive for the remaining life of the project, as demonstrated by the assignment of proved reserves, combined with management's judgement of other factors impacting current project status and forecasted operating and financial results.

Exploration assets are also assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Indications of impairment are assessed by the Company on a quarterly basis.

(g) Property and equipment

All costs directly associated with the acquisition and development of oil and natural gas properties are capitalized and measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include transfers of exploration assets, property acquisitions, facilities, directly attributable overhead and share-based compensation expenses, as well as land acquisition, decommissioning obligations, geological and geophysical, and drilling and completion costs. Routine repairs and maintenance costs are charged to earnings during the period in which they are incurred.

Oil and natural gas assets are accumulated in cost centres based on CGUs. CGUs are depleted using the unit-of-production method based upon estimated gross proved plus probable reserves, determined annually by independent professional engineers. Estimated future development costs necessary to bring the reserves into production are included in the depletion calculation.

The Company operates under a number of Trinidad leases with varying expiry dates. Under its leases with the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"), the Company does not have ownership of the reserves but is entitled to all associated cash flows therefrom. For impairment testing and depletion purposes, the Company assumes that all relevant agreements will be renewed under similar terms based on the Company's previous experience with the renewal process in Trinidad.

Other property and equipment assets are depreciated over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis. Depreciation methods, useful lives and residual values are reviewed at least annually.

Gains or losses on the disposition of an item in property and equipment, including oil properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in net earnings.

Property and equipment is tested for impairment when indications of impairment exist. Indications of impairment are assessed by the Company on a quarterly basis.

(h) Impairments

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If the recoverable amount is less than the carrying value, the asset is considered to be impaired. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the CGU to which the asset

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belongs. The Company assesses exploration asset and property and equipment indicators of impairment on a quarterly basis.

In assessing value in use, estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from proven plus probable reserves. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. Available fair value indicators, such as recent market information and appropriately discounted cash flow valuation models, are typically used in determining fair value less costs to sell.

Impairment losses are recognized in earnings. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in facts and circumstances used to determine the asset's recoverable amount since the last impairment was recognized, such that the impairment no longer exists or has decreased. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment has been recognized.

(i) Other assets

The long-term portion of prepaid finance fees are recorded as other assets and are amortized to net finance expenses over the applicable bank loan term. Other assets also include the long-term component of finance lease receivable balances as disclosed in note 3(k).

(j) Business combinations

Transactions for the purchase of assets, where the assets acquired are deemed to constitute a business, are accounted for as business combinations. Using the acquisition method, identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. Directly attributable transaction costs incurred are expensed in the period the transaction closes.

Goodwill is recorded as the excess of the aggregate of the consideration transferred over the fair value of the net assets acquired and liabilities assumed. When the excess is negative, it is recognized immediately in earnings.

(k) Leases

The Company's leases are classified as either financing or operating. Financing leases are those which will transfer substantially all the benefits and risks of ownership to the lessee. Assets acquired under financing leases are depleted and depreciated with property and equipment. Obligations recorded under financing leases are reduced by the principal as incurred and the imputed interest portion of financing lease payments is charged to interest expense. Payments under operating leases are expensed as incurred.

Where the Company has leased equipment to a third party and classified the arrangement as a finance lease, the Company records the short-term portion of the finance lease in accounts receivable, and the long-term portion in other assets. Finance income related to the lease is recognized using an approach that process a constant rate of return on the net investment of the lease. The net investment of the lease is the aggregate of the net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net earnings over the lease term.

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(l) Crude oil inventory

Crude oil is valued at the lower of cost using the weighted average cost method and net realizable value. Costs of crude oil inventory includes expenditures incurred in bringing the crude oil to its existing location and condition and net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present, legal or constructive obligation that can be estimated reliably, and is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are measured using the best estimate of the expenditure required to settle the obligation.

(n) Decommissioning obligations

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property and equipment incurred upon the acquisition, construction, development and use of the asset. The initial liability is measured at the discounted value of the estimated costs to reclaim and abandon using a risk free rate, subsequently adjusted for the accretion of discount and changes in expected costs. The decommissioning cost is capitalized in the relevant asset category. Costs capitalized to property and equipment are depleted into earnings based upon the unit-of-production method consistent with the underlying assets. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

With respect to decommissioning obligations for the Company's Trinidad leases with Petrotrin, the Company is obligated to pay its proportional cost of all abandonments defined as its percentage of crude oil sold in a particular well site in comparison to the well's cumulative historical production. To fund these obligations, the Company is required to remit into a well abandonment fund based on production. This is recognized as a current liability and a reduction of the decommissioning obligation. Both parties must agree on the budget and particular site to reclaim prior to using proceeds in the abandonment fund.

(o) Revenue recognition

Revenue from the sale of crude oil is recognized when delivery of the product has been completed and when legal title passes to an external party.

(p) Share-based compensation

The Company grants share options and incentive share options to certain employees, officers and directors. The grant date fair values, as measured using the Black-Scholes option-pricing model, are recognized over the vesting periods of the awards, with a corresponding increase in contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of options that vest. When share options are exercised, the consideration received and the associated amounts previously recorded as contributed surplus are reclassified to shareholder's capital.

(q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case the related income tax is also recognized in equity.

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Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the financial position date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Company intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is neither a business combination nor an event resulting in income or expense. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

(r) Per share information

Basic earnings per share amounts are calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings and the weighted average number of common shares outstanding using the treasury stock method for the effects of dilutive instruments including outstanding share options, incentive share options and common share purchase warrants.

(s) Segment reporting

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing operational performance by the Company's chief operating decision makers. The Company's operating segments are Trinidad and Canada. The Company evaluates the financial performance of its operating segments primarily on operating cash flow.

4. Changes in Accounting Policies

(a) Accounting standards adopted

There were no new or amended accounting standards or interpretations adopted by the Company during the year ended December 31, 2015.

(b) Standards issued but not yet adopted

A number of accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2016 have not been applied in preparing the consolidated financial statements for the year ended December 31, 2015. The Company continues to assess the impact of adopting the pronouncements from the International Accounting Standards Board as described below:

IFRS 9 *Financial Instruments*, clarifies guidance on the classification and measurement of financial assets, including impairment, and supplements the hedge accounting principles

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published in 2013. This standard is required for annual periods beginning on or after January 1, 2018.

IFRS 11 *Joint Arrangements*, was amended regarding the accounting for the acquisition of an interest in a joint operation that constitutes a business. This amendment must be adopted for annual periods beginning on or after January 1, 2016.

IFRS 15 *Revenue from Contracts with Customers*, clarifies the principles for recognizing revenue from contracts with customers, and provides a model for the recognition and measurement of sales of certain non-financial assets. This standard is required for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*, requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, the standard removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded. This standard is required for annual periods beginning on or after January 1, 2019.

5. 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 were as follows:

Identifiable assets acquired and liabilities assumed:	
Cash	\$ 2,780
Other working capital items (note 19)	(4,132)
Property and equipment (note 8)	105,821
Convertible debentures	(2,000)
Long-term debt	(21,863)
Decommissioning obligations (note 12)	(13,994)
Deferred income tax liability (note 17)	(33,164)
Net identifiable assets acquired	\$ 33,448
Consideration for the acquisition:	
Share consideration (note 13)	33,415
Warrants acquired (note 14)	33
Total consideration paid	\$ 33,448

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The Company's common shares issued were valued using the \$0.51 per share closing price (pre-consolidation) on May 13, 2014. The consolidated financial statements incorporate the operations of Old Touchstone commencing May 14, 2014. Acquisition-related expenses of \$2,975,000 are included as a separate expense line item in the consolidated statement of earnings.

As at May 13, 2014, Old 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 final purchase price allocation was revised to reflect this amount. As the related Trinidad segment CGU property and equipment balances were impaired on December 31, 2014, an impairment charge of \$477,000 was recognized in the 2014 consolidated statement of earnings.

6. Investment in Marketable Securities

During 2015, the Company disposed of its investment in the common shares of Lightstream Resources Ltd. ("Lightstream"). This investment was 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, December 31, 2015	\$	-

¹Consists of dividends received in common shares.

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

	Year ended December 31,	
	2015	2014
Loss (gain) on fair value of Lightstream shares	\$ 41	\$ (1,134)
Dividend income received in shares	-	(203)
Non-cash loss (gain) on marketable securities	\$ 41	\$ (1,337)
Dividend income received in cash	-	(731)
Sales commissions	10	146
Total loss (gain) on marketable securities	\$ 51	\$ (1,922)

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7. 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 years ended December 31, 2015 and 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	1,792	273	2,065
Impairments (note 9)	(631)	(3,237)	(3,868)
Dispositions	-	(4,728)	(4,728)
Included as held for sale	(1,413)	-	(1,413)
Effect of change in foreign exchange rates	109	-	109
Balance, December 31, 2015	\$ 1,163	\$ 491	\$ 1,654

The Company entered into an agreement on October 1, 2015 to dispose of its 70% working interest in the East Brighton offshore block for a 3.5%, non-convertible, no deductions gross overriding royalty on future production. At December 31, 2015 the CGU had a carrying value of \$1,413,000 and associated decommissioning obligations of \$1,413,000 which have been classified as held for sale.

On July 14, 2015, the Company disposed of its Dawson exploration asset CGU for net proceeds of \$2,100,000 with no gain or loss recognized on the transaction. On July 30, 2015, the Company disposed of undeveloped land in its Beadle exploration asset CGU for net proceeds of \$4,200,000. A gain of \$3,351,000 was recognized in the statement of earnings as a result of the Beadle transaction.

8. Property and Equipment

	Trinidad	Canada	Total
Cost:			
Balance, January 1, 2014	\$ -	\$ 2,910	\$ 2,910
Additions from business acquisition (note 5)	105,821	-	105,821
Additions	23,920	785	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	\$ 139,256	\$ 7,390	\$ 146,646
Additions	4,093	278	4,371
Dispositions	(1,626)	(414)	(2,040)
Effect of change in foreign exchange rates	25,473	-	25,473
Balance, December 31, 2015	\$ 167,196	\$ 7,254	\$ 174,450

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	Trinidad	Canada	Total
Accumulated depletion, depreciation and impairments:			
Balance, January 1, 2014	\$ -	\$ 1,634	\$ 1,634
Depletion and depreciation	6,098	1,686	7,784
Impairments	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	7,762	618	8,380
Impairments (note 9)	33,996	(2,223)	31,773
Dispositions	(442)	1,539	1,097
Decommissioning obligation change in estimate (note 12)	8,170	-	8,170
Effect of change in foreign exchange rates	9,331	-	9,331
Balance, December 31, 2015	\$ 102,058	\$ 1,753	\$ 103,811
Net book values:			
Balance, December 31, 2014	\$ 96,015	\$ 5,571	\$ 101,586
Balance, December 31, 2015	65,138	5,501	70,639

As at December 31, 2015, \$70,764,000 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 year ended December 31, 2015, \$1,281,000 and \$118,000 in general and administrative expenses and share-based compensation was capitalized, respectively (2014 - \$1,228,000 and \$129,000, respectively).

The Company disposed of its Luseland CGU for net proceeds of \$2,200,000 effective March 1, 2015. The CGU 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.

The Company's Fyzabad and Palo Seco agreements with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") expired on August 19, 2013. The Company is currently negotiating license renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licenses will not be renewed. During the year ended December 31, 2015, the production volumes produced under expired MEEI production licenses represented 5.9% of total Trinidad segment production (2014 - 6.7%).

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. The Company currently has no indication that any of the producing expired leases will not be renewed. During the year ended December 31, 2015, the production volumes produced under expired Trinidad freehold lease agreements represented 2.2% of total Trinidad segment production, respectively (2014 - 4.9%).

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

9. Impairments

Impairments consisted of the following non-cash charges:

	Year ended December 31,	
	2015	2014
Trinidad CGU		
Exploration assets – Cory Moruga	\$ 948	\$ -
Exploration assets – East Brighton	(317)	426
Property and equipment – Coora	12,549	16,665
Property and equipment – WD-4	8,840	-
Property and equipment – WD-8	9,768	10,050
Property and equipment – New Dome	303	-
Property and equipment – South Palo Seco	60	-
Property and equipment – Barrackpore	1,766	1,500
Property and equipment – Fyzabad	1,491	6,128
Property and equipment – San Francique	1,720	2,400
	\$ 37,128	\$ 37,169
Canada CGU		
Exploration assets – Dawson	\$ 2,562	\$ 31,286
Exploration assets – Kerrobert	-	898
Exploration assets – Luseland	122	4,512
Exploration assets – Various	553	-
Property and equipment – Kerrobert	(2,223)	-
Property and equipment – Luseland	-	(1,663)
Property and equipment – other	-	162
Other assets (note 10)	-	296
	\$ 1,014	\$ 35,491
Company total	\$ 38,142	\$ 72,660

(a) Exploration asset impairments

During the year ended December 31, 2015, the following exploration asset impairment charges were recognized:

- Impairment charges of \$948,000 were recorded with respect to the Company's interest in the Trinidad Cory Moruga block based on uneconomic well performance. The fair value of the CGU was assessed at \$nil.
- An impairment reversal of \$317,000 was recorded related to the East Brighton block CGU during the year ended December 31, 2015. The exploration asset was written up to its \$1,413,000 decommissioning obligation value based on a sales agreement executed on October 1, 2015 (see note 7). The fair value of the CGU was determined to be \$nil, as the value of the 3.5% gross overriding royalty was not reliably determinable.
- An impairment charge of \$2,562,000 was recorded during the year ended December 31, 2015 to write down the Dawson CGU to the lesser of carrying value and the estimated recoverable amount based on \$2,100,000 transaction proceeds received in July 2015 as disclosed in note 7.
- Impairment charges of \$675,000 were recorded relating to the Company's Canadian undeveloped land in Luseland and other, which was written down to a combined value of \$491,000 representing the estimated fair value less costs to sell as at December 31, 2015.

Notes to the Consolidated Financial Statements

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The following exploration asset impairment charges were recognized during the year ended December 31, 2014:

- On December 31, 2014, the Company recorded an exploration asset impairment of \$426,000 related to its Trinidad East Brighton property. At the signing of the license agreement in December 2014, the fair value of the exploration asset was assessed at \$nil. Accordingly, the impairment was recorded to offset the Company's working interest of the decommissioning liability recognized.
- The Company recorded exploration asset impairments of \$31,286,000 relating to the Dawson property which was written down to its estimated fair value of \$5,685,000. This resulted from uneconomic operating results of the steam injection pilot program that was terminated in October 2014.
- On July 1, 2014, the Company determined that the Luseland and Kerrobert properties met the criteria for technical feasibility and commercial viability. Accordingly, the Company conducted impairment tests of the carrying values at the transfer date and recorded an impairment charge of \$4,512,000 relating to the Luseland property which had an estimated fair value of \$491,000.
- On March 31, 2014, the Company recorded an impairment charge of \$898,000 relating to the Kerrobert property, which resulted primarily from first quarter 2014 operating costs exceeding generated revenues.

The Company's net book value and recoverable amounts for each exploration asset CGU as at December 31, 2015 was as follows:

	Net book value	Recoverable value
Trinidad CGU		
Cory Moruga	\$ -	\$ -
East Brighton	1,413	1,413
Ortoire	1,163	1,163
	\$ 2,576	\$ 2,576
Canada CGU		
Luseland	\$ 290	\$ 290
Various	201	1,843
	\$ 491	\$ 2,133
Company total	\$ 3,067	\$ 4,709

(b) Property and equipment impairments

Impairment charges of \$36,497,000 were recorded during the year ended December 31, 2015 on crude oil assets located in the Trinidad operating segment. The impairment charges, attributed to all Trinidad CGUs, were the result of sustained declines in forecasted crude oil pricing. The recoverable amount of the impaired CGUs was determined to be \$59,280,000 as at December 31, 2015. 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 CGUs were initially impaired on December 31, 2014 and no headroom remained.

The Company recognized an impairment reversal of \$2,223,000 relating to the Kerrobert CGU based on transaction proceeds received subsequent to December 31, 2015 (note 25(a)). The transaction closed on February 1, 2016 and therefore the property and equipment and corresponding decommissioning obligation balances were not classified as held for sale as at December 31, 2015.

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

During the year ended December 31, 2014, the Company recorded total Trinidad property and equipment impairments of \$36,743,000. These impairments were a result of the deterioration in forward commodity prices and the Canadian dollar since the May 13, 2014 acquisition date. Impairments of \$162,000 were also recorded to write the value of equipment held at the Company's research lab to the lesser of carrying value and the estimated recoverable amount, based on sales transactions. Subsequent to December 31, 2014, the Company accepted an offer to sell the Luseland producing property (see note 8). Accordingly, an impairment reversal of \$1,663,000 was recorded to write up the book value to the fair value implied by the transaction.

The Company's net book value and recoverable amounts for each property and equipment CGU as at December 31, 2015 was as follows:

	Net book value	Recoverable value
Trinidad CGU		
Coora	\$ 12,919	\$ 12,919
WD-4	15,447	15,447
WD-8	14,429	14,429
New Dome	384	384
South Palo Seco	-	-
Barrackpore	1,369	1,369
Fyzabad	11,675	11,675
San Francique	3,057	3,057
	\$ 59,280	\$ 59,280
Canada CGU		
Kerrobert	\$ 4,867	\$ 4,867
Company total	\$ 64,147	\$ 64,147

(c) Impairment assumptions

The recoverable amounts of the Company's CGUs were estimated based on fair value less costs to sell using discounted after-tax cash flows derived from the Company's proved plus probable oil reserves. The recoverable amount is sensitive to the following key assumptions which have been based on a long-term view of global oil and gas supply and demand as well as extensive industry experience: production volumes, reserve quantities, commodity prices, foreign exchange rates, operating costs, royalty rates, future development capital cost estimates, income taxes and discount rates. Within the fair value hierarchy, these inputs would be considered Level 3.

Production and reserve volumes form the basis of the production profiles within the discounted cash flow models. Management engages external reserve evaluators to review the Company's internal estimates of volume and the value of proved and probable reserves in each CGU based upon production history, geological data and analysis. The data generated for each CGU takes into consideration the development plans approved by senior management and reasonable assumptions that a market participant would apply in valuing the assets.

Notes to the Consolidated Financial Statements

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Crude oil prices and foreign exchange rates used in the impairment analysis were based on forecasts by the Company's independent reserve evaluator as at December 31, 2015 as outlined below:

Year	ICE Brent US\$/bbl	C\$/US\$ Exchange rate
2016	45.00	0.73
2017	54.00	0.75
2018	61.00	0.78
2019	67.00	0.80
2020	73.00	0.83
2021	78.00	0.85
2022	83.00	0.85
2023	88.00	0.85
2024	91.39	0.85
2025	93.22	0.85
Thereafter % change per year	2.0%	Nil

Operating costs, royalty rates and future development capital assumptions are based on historical results and management views regarding inflation over the forecast periods. Income tax rates are based on the published statutory tax rates for the appropriate revenue streams and current subsidiary tax losses and pool balances.

The discount rate is derived from a market participant view of the weighted average cost of capital ("WACC") for similar entities (i.e. junior oil and gas entities with international assets) as this is viewed to be the best proxy for a market participant rate. The risks specific to each CGU are incorporated directly into the cash flows. The WACC factors in debt and equity weightings of comparable entities. The cost of equity and cost of debt are derived from rates applicable to comparable entities and equity risk premium, size and forecasting risks are incorporated by applying individual beta factors. Each of the factors is evaluated annually based on publicly available market data. Changes in the general economic environment could result in significant changes to this estimate. As at December 31, 2015, the net present value of forecasted cash flows from oil reserves were calculated using an after tax discount rate of 19% for Trinidad segment assets (2014 – 18%).

A 1% change to the assumed discount rate and a \$1.00 change to forward price estimates over the life of the reserves would have an impact of \$2,615,000 and \$1,538,000 on the total Trinidad property and equipment impairment charge, respectively.

10. Other Assets

As at December 31, 2013, the other asset balance consisted of proprietary technology patents. In 2014, the Company performed an impairment assessment on the value of the patents where it was determined that the value in use was \$nil. As a result, \$296,000 was recorded as an impairment expense during the year ended December 31, 2014.

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

Other assets were recorded relating to finance fees associated with the Company's bank loan (note 11). This balance was amortized to net finance expenses during the year ended December 31, 2015 based on subsequent reductions to the bank loan borrowing base. Of the \$1,842,000 balance as of December 31, 2014, \$632,000 was classified in prepaid expenses and deposits and the remaining long-term portion of \$1,210,000 was included in other assets.

	Trinidad		Canada		Total
Balance, January 1, 2014	\$	-	\$	-	\$ -
Finance fees related to bank loan		1,792		97	1,889
Amortized to net finance expenses		(50)		(3)	(53)
Effect of change in foreign exchange rates		6		-	6
Balance, December 31, 2014	\$	1,748	\$	94	\$ 1,842
Additional bank loan finance fees		48		-	48
Effect of change in foreign exchange rates		278		-	278
Amortized to net finance expenses		(2,074)		(94)	(2,168)
Balance, December 31, 2015	\$	-	\$	-	\$ -

Effective May 1, 2015, the Company entered into a Trinidad based fixed term contractual agreement to lease rig equipment to a third party. The arrangement is accounted for as a finance lease. The Company's net investment in the finance lease receivable is as follows:

	Year ended December 31,	
	2015	2014
Net investment in finance lease:		
Finance lease – gross investment	\$ 1,224	\$ -
Unearned finance income	(191)	-
Total	\$ 1,033	\$ -
Current portion (included in accounts receivable)	267	-
Non-current (included in other assets)	766	-
Total	\$ 1,033	\$ -

	Gross investment in finance lease receivable		Future finance income		Present value of minimum lease payments	
	Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2015	2014	2015	2014	2015	2014
Less than one year	\$ 358	\$ -	\$ (91)	\$ -	\$ 267	\$ -
Between one and five years	866	-	(100)	-	766	-
Total	\$ 1,224	\$ -	\$ (191)	\$ -	\$ 1,033	\$ -

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

11. Bank Loan

On December 4, 2014, the Company entered into a 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 was US\$12,000,000 at December 31, 2015 (2014 – US\$15,000,000). The borrowing base is redetermined 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 lender's 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 December 31, 2015, \$8,304,000 (US\$6,000,000) was drawn against the bank loan (2014 - \$5,800,000 or US\$5,000,000). In December 2014 the Company issued a US\$6,000,000 letter of credit relating to work commitments on the East Brighton block which restricts the amount available on the credit facility. This letter of credit is expected to be cancelled upon closing of the East Brighton disposition disclosed in note 7. As at December 31, 2015, \$nil was available to be drawn on the credit facility (2014 – US\$4,000,000).

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%, and outstanding amounts bear an additional interest rate of 2% during any default periods. For the year ended December 31, 2015, the effective interest rate, including the commitment fee and default interest, was 5.6% (month ended December 31, 2014 – 5.9%).

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 December 31, 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. In 2015, the Company breached the Trinidad segment production volume covenant for the months of May, July, August, September, October and November. The Company executed a waiver with its lender on September 23, 2015 relating to the May, July and August production covenant breaches. The Company obtained a waiver from its lender on November 3, 2015 to cure the September production covenant breach. Finally, the Company and its lender executed a waiver to cure the October and November monthly covenant breaches on December 31, 2015.

The Company was in breach of its January 2016 bank loan monthly production volume covenant. Effective March 8, 2016, the Company and its lender executed the Waiver to cure the covenant breach. The Waiver also made certain amendments to the bank loan, including a reduction of the Trinidad minimum production covenant (previously set at 1,600 barrels of oil per day) to 1,350 barrels of oil per day for the months of February and March 2016 and 1,400 barrels of oil per day thereafter.

The Waiver also amends the bank loan to require mandatory prepayments of US\$2,000,000 on March 8, 2016 and US\$1,000,000 on April 8, 2016. These prepayments are also considered a reduction of the bank loan borrowing base. Furthermore, the borrowing base will be reduced by US\$6,000,000 when the Company's letter of credit is cancelled following the expected sale of the East Brighton property. The interim reductions to the credit facility borrowing base are subject to a borrowing base redetermination scheduled on April 1, 2016. The Waiver also requires that the Company prepay an amount equal to the refund of all or any portion of the US\$2,080,000 deposit paid under the terminated Trinidad asset acquisition (see note 25(b)). As at December 31, 2015, the \$8,304,000 (US\$6,000,000) bank loan balance was classified as a current liability.

Notes to the Consolidated Financial Statements

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12. Decommissioning Obligations

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal and land reclamation 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 are short-term in nature.

	Trinidad	Canada	Total
Balance, January 1, 2014	\$ -	\$ 5,213	\$ 5,213
Additions from business acquisition (note 5)	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 (notes 7 and 8)	-	(1,625)	(1,625)
Liabilities incurred	517	-	517
Accretion expense (recovery)	643	(19)	624
Change in estimates	(5,098)	231	(4,867)
Effect of change in foreign exchange rates	2,918	-	2,918
Balance, December 31, 2015	\$ 12,959	\$ 4,028	\$ 16,987
Non-current	11,140	4,028	15,168
Current (included in accounts payable)	406	-	406
Current (classified as held for sale)	1,413	-	1,413
Total	\$ 12,959	\$ 4,028	\$ 16,987

As at December 31, 2015, the Company estimated the total undiscounted cash flows required to settle its decommissioning obligations was approximately \$26,809,000 for Trinidad and \$3,708,000 for Canada (December 31, 2014 - \$29,757,000 and \$5,357,000). The majority of these obligations are anticipated to be incurred in 2026 and are expected to be funded from the Trinidad abandonment fund and 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 1.4% for Trinidad and Canada 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 Trinidad and Canada based liabilities, respectively (December 31, 2014 - 3% and 2%).

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 included as a change in estimate. At December 31, 2015, the Company revised its estimated costs to settle Trinidad well decommissioning obligations to US\$35,000 per well (2014 - US\$50,000 per well), which resulted in a decrease to the estimated liability of \$8,170,000. This decrease was slightly offset by the increase in Petrotrin decommissioning obligations that was driven by 2015 production, which increases the Company's proportionate interest in future well abandonments. The changes in Canadian segment decommissioning obligation estimates were a result of the decrease in the estimated Canadian weighted average risk-free rate from 2014.

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As at December 31, 2015 and for the years ended December 31, 2015 and 2014

13. 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 5)	32,759,606	33,415
Exercise of incentive share options	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 share options	27,500	57
Balance, December 31, 2015	83,087,143	\$ 169,950

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 5).

(b) Land acquisition

On July 15, 2014, the Company secured 16 (8 net) sections of land in Saskatchewan for total consideration of \$1,304,000. The Company issued a combination of 1,300,000 common shares and nominal cash consideration for the mineral rights. The share consideration was valued at the July 15, 2014 closing price of \$0.91 per share and is equivalent to the fair value of the land acquired.

(c) 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 closing price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company. 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 (see note 5).

	Number of options	Weighted avg. 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	1,891,800	0.33
Forfeited	(1,397,440)	1.21
Outstanding, December 31, 2015	5,308,445	\$ 0.75
Exercisable, December 31, 2015	1,653,124	1.02

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Share options outstanding and the weighted average remaining life of the share options as at December 31, 2015 are as follows:

Exercise price	Options outstanding	Weighted avg. remaining life	Options exercisable	Weighted avg. remaining life
\$0.33	1,877,000	4.3 years	-	-
\$0.59 to \$0.89	2,999,490	3.5 years	1,376,410	3.5 years
\$0.92 to \$0.97	156,000	3.5 years	78,000	3.5 years
\$2.10	275,955	3.4 years	198,714	3.3 years
\$0.33 to \$2.10	5,308,445	3.8 years	1,653,124	3.4 years

The weighted average fair value of options granted during the year ended December 31, 2015 was \$0.16 per option (2014 – \$0.34 per option) as estimated on the date of each grant using the Black-Scholes option pricing model. The following weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted were as follows:

	Year ended December 31,	
	2015	2014
Risk-free interest rate	0.7%	1.2%
Expected life (years)	3.0	2.7
Expected volatility	78.2%	59.3%
Expected annual dividend yield	0.0%	0.0%
Forfeiture rate	5.0%	5.0%

(d) 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 5).

	Number of incentive shares	Weighted avg. 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	(27,500)	0.10
Forfeited	(11,125)	0.10
Outstanding, December 31, 2015	298,125	\$ 0.06
Exercisable, December 31, 2015	148,125	0.07

Of the 298,125 incentive share options outstanding as at December 31, 2015, 48,125 options have an exercise price of \$0.10 as a result of the May 2014 share consolidation (see note 5) and the remaining 250,000 options have an exercise price of \$0.05. The weighted average fair value of options granted during the year ended December 31, 2014 was \$0.84 per option as estimated on the date of each grant using the Black-Scholes option pricing model. The following weighted

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average assumptions used in the Black-Scholes model to determine the fair value of the 2014 incentive share options granted were as follows:

	Year ended December 31, 2014
Risk-free interest rate	1.1%
Expected life (years)	2.4
Expected volatility	59.4%
Expected annual dividend yield	0.0%
Forfeiture rate	0.0%

14. Warrants

Pursuant to the Old Touchstone acquisition, the Company assumed all of the rights and obligations of Old Touchstone relating to the 1,000,000 share purchase warrants entitling the holders thereof to acquire one Old Touchstone common share per warrant held at an exercise price of \$0.75 expiring June 29, 2014 (the “convertible debenture warrants”) and the 9,600,000 share purchase warrants associated with Old Touchstone’s long-term debt entitling the holders thereof to acquire one Old Touchstone common share per warrant held at an exercise price of \$0.55 expiring June 29, 2016 (the “long-term debt warrants”).

Based on the plan of arrangement and the subsequent common share consolidation, the number and the exercise price of the convertible debenture warrants were adjusted to 235,500 and \$3.18, respectively. The convertible debenture warrants expired unexercised on June 29, 2014. Given the expiry date and exercise price, the convertible debenture warrants were valued at \$nil as at the May 13, 2014 acquisition date.

The long-term debt warrants and price were also adjusted based on the common share consolidation. As at December 31, 2015, 2,260,800 long-term debt warrants entitling the holders thereof to acquire one Company common share at an exercise price of \$2.34 remain outstanding. The warrants were valued as estimated on the date of the acquisition using the Black-Scholes option-pricing model and classified as equity on the consolidated statement of financial position.

	Number of warrants	Weighted average exercise price	Amount
Outstanding, January 1, 2014	-	\$ -	\$ -
Additions from business acquisition (note 5)	2,496,300	2.42	33
Expired	(235,500)	(3.18)	-
Outstanding and exercisable, December 31, 2014 and 2015	2,260,800	\$ 2.34	\$ 33

15. General and Administrative Expenses

	Year ended December 31,	
	2015	2014
Salary and employee	\$ 5,866	\$ 4,712
Severances	1,210	-
Other	4,717	6,742
Gross expenses	\$ 11,793	\$ 11,454
Capitalized salaries and benefits	(1,277)	(1,499)
General and administrative expenses	\$ 10,516	\$ 9,955

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16. Net Finance Expenses

	Year ended December 31,	
	2015	2014
Interest income	\$ (99)	\$ (161)
Interest expense on bank loan	412	291
Finance fees and other	3,180	339
Net finance expenses	\$ 3,493	\$ 469

Interest income includes interest earned from funds on deposit and interest generated from a Trinidad capital equipment finance lease. 2015 interest expenses were primarily bank loan interest and commitment fees. Financing fees were comprised primarily of the amortization of fees associated with the Company's bank loan established in December 2014 (note 11) and accrued interest on Trinidad income tax balances.

17. Income Taxes

The Trinidad statutory petroleum profit tax and unemployment levy for 2015 and 2014 was a combined rate of 55% of taxable income. The following is a reconciliation of income taxes calculated by applying the applicable statutory rates to net loss before income taxes:

	Year ended December 31,	
	2015	2014
Loss before income taxes	\$ (38,846)	\$ (70,879)
Statutory rate	55.00%	55.00%
Expected income tax recovery	\$ (21,365)	\$ (38,983)
Increase (decrease) in income taxes resulting from:		
Supplemental petroleum tax	570	1,833
Deductible supplemental petroleum tax	(313)	(1,008)
Effect of change in foreign exchange rates	-	29
Benefit of tax assets not recognized	2,388	11,119
Tax rate differential	427	12,482
Other	1,594	911
Income tax recovery	\$ (16,699)	\$ (13,617)

The net deferred income tax liability relates to the Company's Trinidad operations. The components of the liability for the years ended December 31, 2015 and 2014 were as follows:

	December 31, 2014	Change through the balance sheet	Change through the income statement	December 31, 2015
Property and equipment	\$ (29,724)	\$ -	\$ 12,594	\$ (17,130)
Decommissioning obligation	7,434	-	(327)	7,107
Loss carry forwards	3,953	-	4,152	8,105
Financial derivatives	(1,723)	-	(1,750)	(3,473)
Net deferred income tax liability	\$ (20,060)	\$ -	\$ 14,669	\$ (5,391)

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

The components of the Company's unrecognized deductible temporary differences were as follows:

	December 31, 2015	December 31, 2014
Investment in marketable securities	\$ -	\$ 1,870
Property and equipment and exploration assets	1,710	17,816
Loss carry forwards	69,604	78,518
Decommissioning obligation	4,065	5,901
Other	31,192	4,968
Unrecognized deductible temporary differences	\$ 106,571	\$ 109,073

At December 31, 2015, the Company had approximately \$24,997,000 (2014 - \$13,409,000) in Trinidadian non-capital losses which could be carried forward indefinitely to reduce petroleum profit tax and corporate tax in future years. The benefit of \$10,251,000 of Trinidad non-capital losses were not recognized as at December 31, 2015. The Company had approximately \$51,416,000 (2014 - \$43,251,000) in Canadian non-capital losses which begin to expire in 2026. The benefit of Canadian tax loss carry forwards were not recognized as at December 31, 2015 and 2014.

Old Touchstone previously acquired a Trinidad subsidiary that had overdue tax balances owing to the Trinidad and Tobago Board of Inland Revenue ("BIR") which included both principal and interest components. The August 19, 2011 purchase and sales agreement related to the subsidiary specified that upon confirmation from the BIR, the subsidiary was responsible for the principal tax balances, and the seller was responsible for the tax interest balances. At the time of the acquisition, both parties intended to seek a waiver from the BIR for the tax interest, and the seller indemnified the subsidiary with respect to the interest amounts. Subsequent to the acquisition date, the acquired subsidiary was responsible for interest on the principal balance until repaid. On October 9, 2012, the BIR accepted the acquired subsidiary's proposed settlement of the outstanding principal balances upon which the last payment was made in February 2013. As of December 31, 2015, \$3,314,000 in related interest was accrued in income taxes payable.

The subsidiary has subsequently received BIR tax statements showing principal amounts and interest balances outstanding. The Company believes that the principal balance has been fully paid, and the full interest balance is the responsibility of the seller. 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 income tax payments nor any payments for the seller's portion of any interest.

18. Loss per Common Share

	Year ended December 31,	
	2015	2014
Net loss	\$ (22,147)	\$ (57,262)
Weighted number of average common shares outstanding:		
Basic and diluted	83,080,417	70,245,489
Basic and diluted loss per share	(0.27)	(0.82)

There is no dilutive impact to the weighted average number of common shares at December 31, 2015 and 2014, as all share options, incentive share options and warrants were excluded from the weighted average dilutive share calculation because their effect would be anti-dilutive. Share amounts for all periods have been restated to reflect the impact of the two for one common share

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

consolidation completed on May 13, 2014 as part of the Old Touchstone business combination (see note 5).

19. Supplemental Cash Flow Information

	Year ended December 31,	
	2015	2014
Source (use) of cash:		
Accounts receivable	\$ 5,101	\$ (13,602)
Crude oil inventory	154	(415)
Prepaid expenses and deposits	(1,858)	(1,088)
Derivative asset	(1,291)	-
Accounts payable and accrued liabilities	(10,031)	15,221
Transfer from decommissioning obligations	(186)	197
Transfer from other assets	(526)	(236)
Income taxes payable	(1,940)	6,577
Business combination (note 5)	-	(3,655)
Net change in non-cash working capital	\$ (10,577)	\$ 2,999
Related to operating activities	\$ (6,153)	\$ 3,649
Related to investing activities	(4,424)	(650)
Net change in non-cash working capital	\$ (10,577)	\$ 2,999

20. 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. 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	December 31, 2015	December 31, 2014
Working capital (surplus) deficiency	\$	(987)	\$ 1,289
Add current portion of finance lease obligations and other		-	(510)
Long-term portion of bank loan		-	5,800
Less finance lease obligations		-	347
Net (surplus) debt	\$	(987)	\$ 6,926
Shareholders' equity		52,657	65,758
Net debt plus equity	\$	51,670	\$ 72,684
Net debt to net debt plus equity	< 0.4 times	(0.02)	0.10

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As at December 31, 2015 and for the years ended December 31, 2015 and 2014

21. Related Party Transactions

The Company is a party to transactions with Lightstream and Alvopetro Energy Ltd. ("Alvopetro"), which are related parties to the Company due to common Directors. The transactions include management fees charged by Lightstream, natural gas purchased for the Company's Canadian operation segment from Lightstream and an office sub-lease with Alvopetro. Furthermore, the Company's Corporate Secretary is a partner of the Company's legal counsel, Norton Rose Fulbright Canada LLP ("Norton Rose").

	Year ended December 31,	
	2015	2014
Management fees charged by Lightstream	\$ -	\$ 60
Gas purchased from Lightstream	146	700
Office rent charged to Alvopetro	259	248
Legal fees charged by Norton Rose	194	130

Management fees were charged based on a cost recovery basis while all other transactions were recorded at fair value. As at December 31, 2015, \$38,000 and \$nil in related party amounts were included in accounts payable and accounts receivable, respectively (2014 - \$286,000 and \$2,000).

The Company has determined that the key management personnel of the Company consist of its officers and directors. Key management personnel compensation paid or payable was as follows:

	Year ended December 31,	
	2015	2014
Salaries, director fees and short-term benefits included in general and administrative expenses	\$ 1,012	\$ 1,725
Termination benefits included in general and administrative expenses	523	-
Termination benefits included in transaction costs (note 5)	-	456
Share-based compensation (note 13)	297	372
Key management compensation	\$ 1,832	\$ 2,553

22. Financial Instruments and Risk Management

The Company's financial instruments recognized in the consolidated statement of financial position consists of accounts receivable, investment in marketable securities, accounts payable and accrued liabilities, bank loan and financial derivatives. The investment in marketable securities balance is carried at fair value. The carrying value of the bank loan approximates fair value due to the floating interest rate on the facility. The Company enters into financial derivative contracts for the purposes of protecting cash flows generated from operations from the volatility of commodity prices. The Company recognizes the fair value of its future financial derivative contracts on the consolidated statement of financial position each reporting period, with the change in fair value recognized as an unrealized gain or loss on the consolidated statements of earnings.

The Company determines fair value using a hierarchy that prioritizes inputs depending upon the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- (i) Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- (ii) Level 2 - inputs other than quoted prices used in Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

which can be observed or corroborated in the market place.

- (iii) Level 3 – inputs that are less observable, unavailable or where observable data does not support the majority of the instrument's fair value.

Forward crude oil derivative contracts are recorded at their estimated fair value based on the difference between the contracted price and the period end forward price, using quoted market prices.

(a) Credit risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. All of the Company's Trinidad crude oil production is sold, as determined by market based prices adjusted for quality differentials, to Petrotrin. Typically, the Company's maximum credit exposure to Petrotrin is revenue for one month's petroleum sales, of which \$2,732,000 was included in accounts receivable as at December 31, 2015 (2014 - \$2,672,000). Canadian crude oil production is sold to several oil and natural gas marketers from which the Company has historically not experienced any collection issues. The counterparty to the Company's financial derivative contracts is a major Canadian bank that has an investment grade credit rating. The aging of accounts receivable as at December 31, 2015 and 2014 was as follows:

	December 31, 2015	December 31, 2014
Not past due	\$ 8,733	\$ 9,923
Past due greater than 90 days	1,113	5,024
Total accounts receivable	\$ 9,846	\$ 14,947

No provision has been made for past due receivables as the Company assessed that there was no impaired receivables. The Company believes that the accounts receivable balances that are past due are still collectible, as approximately 97% are due from government agencies. The Company's carrying values of accounts receivable and financial derivative balances represents the Company's maximum credit exposure.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in the business environment.

To manage its capital structure in a period of low commodity prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. There can be no certainty as to the ability of the Company to successfully restructure its credit facility, or obtain new financing should low crude oil prices persist. There is also no certainty that the borrowing base will be re-affirmed during the April 1, 2016 semi-annual borrowing base redetermination. 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. Refer to notes 2(b) and 11 for further discussion on liquidity risk.

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

Undiscounted cash outflows relating to financial liabilities as at December 31, 2015 was as follows:

	Less than 1 year	1 – 3 years	4 – 5 years	Total
Accounts payable and accrued liabilities	\$ 12,219	\$ -	\$ -	\$ 12,219
Income taxes payable	4,637	-	-	4,637
Bank loan	8,304	-	-	8,304
Total financial liabilities	\$ 25,160	\$ -	\$ -	\$ 25,160

(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 has the following commodity financial contracts in place as at December 31, 2015:

Contract	Volume	Pricing
<i>ICE Brent crude oil swap</i>		
January 1, 2016 – 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
June 1, 2016 – September 30, 2016	800 barrels per day	US\$65.00 per barrel
<i>ICE Brent crude oil purchased call</i>		
January 1, 2016 – May 31, 2016	800 barrels per day	US\$90.00 per barrel

As at December 31, 2015, the Company recorded a financial derivative asset of \$7,650,000 related to commodity management contracts (December 31, 2014 - \$3,133,000). During the year ended December 31, 2015, the Company realized a gain of \$6,181,000 related to commodity management contracts (2014 - \$223,000). As a result of the increase in the fair value of the Company's commodity contracts, unrealized gains on financial derivatives of \$2,654,000 were recognized during the year ended December 31, 2015 (2014 - \$3,123,000). When assessing the potential impact of crude oil price changes on financial derivative contracts at December 31, 2015, it is estimated that a \$1.00 per barrel change in the price of oil would change unrealized gains by approximately \$160,000 (2014 - \$300,000).

(d) Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the Trinidad and Tobago dollar can have a significant effect on reported results. The Company's foreign exchange gain or losses primarily include unrealized foreign exchange gains on losses on the translation of the Company's US\$ denominated bank loan and the translation of the Company's TT\$ denominated working capital balances.

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

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

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 year ended December 31, 2015. For the year ended December 31, 2015, with all other variables held constant, a 1% change in the Canadian dollar to TT\$ exchange rate would have resulted in an approximate \$153,000 (2014 - \$588,000) increase or decrease in net earnings.

(e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. The Company is exposed to interest rate risk in relation to interest expense on its variable rate bank loan.

The Company had no contracts in place to manage interest rate risk as at or during the year ended December 31, 2015. For the year ended December 31, 2015, with all other variables held constant, a 1% change in the bank loan interest rate would have resulted in an approximate \$84,000 (2014 - \$4,000) increase or decrease in net earnings.

23. 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 December 31, 2015			
Exploration assets	\$ 1,163	\$ 491	\$ 1,654
Property and equipment, net	65,138	5,501	70,639
Total assets	71,858	28,761	100,619
Decommissioning obligations	11,140	4,028	15,168
Deferred tax liabilities	5,391	-	5,391
Total liabilities	41,161	6,801	47,962
Year ended December 31, 2015			
Petroleum sales	34,128	2,212	36,340
Total expenses	66,458	6,453	72,911
Loss before income taxes	(34,210)	(4,636)	(38,846)
Income tax recovery	(16,252)	(447)	(16,699)
Net loss	(17,958)	(4,189)	(22,147)
Exploration asset expenditures	938	307	1,245
Property and equipment expenditures	3,511	61	3,572
As at December 31, 2014			
Exploration assets	1,306	8,183	9,489
Property and equipment, net	95,303	6,283	101,586
Total assets	121,396	18,937	140,333
Decommissioning obligations	13,634	5,441	19,075
Deferred tax liabilities	20,060	-	20,060
Total liabilities	62,914	11,661	74,575
Year ended December 31, 2014			
Petroleum sales	37,624	4,946	42,570
Total expenses	55,325	48,875	104,200
Loss before income taxes	(26,552)	(44,327)	(70,879)
Income tax expense	13,617	-	13,617
Net loss	(12,935)	(44,327)	(57,262)
Exploration asset expenditures	1,298	10,057	11,355
Property and equipment expenditures	22,975	635	23,610

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

24. Commitments and Contingencies

(a) Commitments

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under the Ortoire license and production agreement with the MEEI and various commitments for office space, and light-duty vehicles. The Company's estimated capital requirements over the next four years and thereafter are as follows:

	2016	2017	2018	2019	Thereafter
Trinidad operating agreements	\$ 8,126	\$ 6,290	\$ 3,809	\$ 361	\$ 581
Trinidad exploration license	2,862	6,538	4,477	2,416	355
Canada office leases	827	615	193	149	-
Trinidad equipment leases	50	-	-	-	-
Total minimum payments	\$ 11,865	\$ 13,443	\$ 8,479	\$ 2,926	\$ 936

Under the terms of its Trinidad concessions, the Company must fulfill the minimum work obligations and exploration commitments over the specific license term and thus has restricted discretion over the timing of when capital commitments are satisfied within a license period.

The Company has a various letters of credit totaling US\$299,000 related to its work commitments on its Petrotrin concessions. The Company has a security agreement with Export Development Canada in connection with a performance security guarantee that support a US\$3,130,000 letters of credit provided to the MEEI related to work commitments on its Ortoire property. The Company has a US\$6,000,000 letter of credit relating to work commitments on the East Brighton block which restricts the amount available on the credit facility. This letter of credit is expected to be cancelled upon closing of the East Brighton disposition (note 7). The Company has excluded an estimated US\$4,200,000 in future East Brighton work obligations in its commitments disclosure above.

(b) Contingencies

The Company is involved in a limited number of 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 as no provisions for such claims has been recorded as at December 31, 2015.

The Company is responsible for the retirement of long-lived assets at the end of their useful lives. As at December 31, 2015, the Company has recorded a total discounted liability of \$16,987,000 based on current legislation and estimated future costs relating to its cured oil properties and facilities. Actual costs may differ from those estimated due to changes in legislation and changes in costs.

The tax regulations and legislation and interpretations thereof in the various jurisdictions in which the Company operates are continually changing. As a result, there are generally a number of tax matters under review and the Company believes that the provision for income taxes is adequate.

Notes to the Consolidated Financial Statements

As at December 31, 2015 and for the years ended December 31, 2015 and 2014

25. Subsequent Events

(a) Asset sale

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs, all of which were included in the Company's Canadian operations segment. Through the disposition, the Company transferred its total Canadian segment discounted decommissioning liability balance of \$4,028,000 to the purchaser.

(b) Termination of Trinidad asset acquisition

On March 14, 2016, the Company and the seller terminated the October 16, 2015 agreement to purchase certain Trinidad onshore producing assets for cash consideration of US\$20,800,000. The agreement was terminated as the seller was unable to satisfy the required conditions precedent prior to the backstop date. Accordingly, the \$2,847,000 (US\$2,080,000) deposit included in current assets as at December 31, 2015 was refunded to the Company. As per the terms of the credit facility Waiver disclosed in note 11, the Company repaid US\$2,000,000 of its principal bank loan with these proceeds.

(c) Financial derivatives

Subsequent to December 31, 2015, the Company entered into the following derivative contracts:

Contract	Volume	Pricing
<i>ICE Brent crude oil swap</i>		
October 1, 2016 – October 31, 2016	800 barrels per day	US\$65.00 per barrel
November 1, 2016 – December 31, 2016	800 barrels per day	US\$50.00 per barrel
January 1, 2017 – January 31, 2017	800 barrels per day	US\$40.50 per barrel
<i>ICE Brent crude oil purchased call</i>		
January 1, 2016 – May 31, 2016	800 barrels per day	US\$90.00 per barrel
November 1, 2016 – December 31, 2016	800 barrels per day	US\$50.00 per barrel
<i>ICE Brent crude oil sold put</i>		
November 1, 2016 – December 31, 2016	800 barrels per day	US\$31.00 per barrel

CORPORATE INFORMATION

DIRECTORS

John Wright³
Chairman of the Board

Paul R. Baay

Kenneth McKinnon^{1,2}

Trevor Mitzel^{1,2}

Corey Ruttan^{1,3}

Thomas Valentine⁴

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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GLJ Petroleum Consultants Ltd.
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LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Calgary, Alberta

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
LIBOR	London Interbank Offered Rate
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

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