Touchstone Exploration Inc.

Unaudited Interim Consolidated Financial Statements

March 31, 2016

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

	Note		**March 31, 2016**		December 31, 2015
Assets	7				
Current					
Cash		**$**	**1,826**	$	4,710
Accounts receivable	13		**8,640**		9,846
Crude oil inventory			**162**		261
Prepaid expenses			**686**		833
Acquisition deposit			**-**		2,847
Financial derivatives	13		**6,171**		7,650
Assets held for sale	4		**1,288**		1,413
			18,773		27,560
Exploration assets	4		**1,529**		1,654
Property and equipment	5		**59,946**		70,639
Other assets	6		**961**		766
		$	**81,209**	$	100,619
Liabilities					
Current					
Accounts payable and accrued liabilities		**$**	**11,686**	$	12,219
Income taxes payable			**4,369**		4,637
Bank loan	7		**2,594**		8,304
Liabilities associated with assets held for sale	4,8		**1,288**		1,413
			19,937		26,573
Provisions			**750**		830
Decommissioning obligations	8		**10,171**		15,168
Deferred income taxes			**4,341**		5,391
			35,199		47,962
Shareholders' equity					
Shareholders’ capital	9		**169,950**		169,950
Warrants			**33**		33
Contributed surplus			**2,027**		1,939
Accumulated other comprehensive income			**8,727**		13,018
Deficit			**(134,727)**		(132,283)
			46,010		52,657
		$	**81,209**	$	100,619

Commitments (note 15)
Subsequent event (note 16)

See accompanying notes to these interim consolidated financial statements.

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

(signed)
John D. Wright
Chairman

(signed)
Trevor Mitzel
Director

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

	Note		Three months ended March 31, 2016		2015
Revenues					
Petroleum revenue		**$**	**4,787**	$	10,122
Royalties			**(1,435)**		(3,007)
			3,352		7,115
Realized gain on financial derivatives	13		**3,146**		1,379
Unrealized loss on financial derivatives	13		**(2,333)**		(181)
			4,165		8,313
Expenses					
Operating			**3,038**		4,293
General and administrative			**2,060**		3,362
Gain on asset dispositions			**-**		(130)
Loss on marketable securities			**-**		51
Net finance expenses	10		**499**		278
Foreign exchange loss (gain)			**65**		(1,088)
Share-based compensation	9		**68**		(12)
Depletion and depreciation	5		**1,259**		1,811
Impairment	4		**113**		-
Accretion	8		**78**		159
			7,180		8,724
Loss before income taxes			**(3,015)**		(411)
Income taxes					
Current tax expense			**19**		140
Deferred tax (recovery) expense			**(590)**		577
			(571)		717
Net loss			**(2,444)**		(1,128)
Foreign currency translation adjustment			**(4,291)**		4,390
Comprehensive (loss) income		**$**	**(6,735)**	$	3,262
Net loss per common share					
Basic and diluted	11	**$**	**(0.03)**	$	(0.01)

See accompanying notes to these interim consolidated financial statements.

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

	Note	Shareholders' capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance as at January 1, 2015		**$ 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		-	-	363	-	-	363
Share-based compensation capitalized		-	-	118	-	-	118
Share-based settlements		57	-	(55)	-	-	2
Balance as at December 31, 2015		**$ 169,950**	**$ 33**	**$ 1,939**	**$ 13,018**	**$ (132,283)**	**$ 52,657**
Net loss		-	-	-	-	(2,444)	(2,444)
Other comprehensive loss		-	-	-	(4,291)	-	(4,291)
Share-based compensation expense	9	-	-	68	-	-	68
Share-based compensation capitalized	5	-	-	20	-	-	20
Balance as at March 31, 2016		**$ 169,950**	**$ 33**	**$ 2,027**	**$ 8,727**	**$ (134,727)**	**$ 46,010**

See accompanying notes to these interim consolidated financial statements.

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

	Note	Three months ended March 31, 2016	2015
Cash provided by (used in):			
Operating activities			
Net loss		**$ (2,444)**	$ (1,128)
Items not involving cash from operations:			
Gain on asset dispositions		**-**	(130)
Unrealized loss on financial derivatives	13	**2,333**	181
Non-cash loss on marketable securities		**-**	41
Share-based compensation	9	**68**	(12)
Depletion and depreciation	5	**1,259**	1,811
Impairment	4	**113**	-
Accretion	8	**78**	159
Non-cash other		**(104)**	(25)
Unrealized foreign exchange loss (gain)		**206**	(1,049)
Deferred income tax (recovery) expense		**(590)**	577
		919	425
Change in non-cash working capital		**1,893**	(2,946)
		2,812	(2,521)
Investing activities			
Disposition of marketable securities		**-**	249
Exploration asset expenditures	4	**(153)**	(188)
Property and equipment expenditures	5	**(1,046)**	(1,171)
Proceeds from dispositions	5	**900**	2,200
Change in non-cash working capital		**(132)**	(2,847)
		(431)	(1,757)
Financing activities			
Net (payments) advances of bank loan	7	**(5,290)**	1,251
Finance lease receipts (payments)	6	**31**	(63)
Issuance of common shares	9	**-**	1
		(5,259)	1,189
Change in cash		**(2,878)**	(3,089)
Cash, beginning of period		**4,710**	7,441
Impact of foreign exchange in foreign denominated cash balances		**(6)**	(30)
Cash, end of period		**$ 1,826**	$ 4,322
Supplemental information:			
Cash interest paid		**92**	68
Cash income taxes paid		**14**	1,032

See accompanying notes to these interim consolidated financial statements.

Unless otherwise stated, amounts presented in these notes are rounded to thousands of Canadian dollars and tabular amounts are stated in thousands of Canadian dollars. Certain reclassification adjustments were made to the interim 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 unaudited interim consolidated financial statements have been prepared in accordance with International Financial Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. The unaudited interim consolidated financial statements do not include all of the information required for full annual financial statements. Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

The unaudited interim consolidated financial statements follow the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2015.

The unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on May 12, 2016.

(b) Going concern assumption

These unaudited interim 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.

As at and during the three months ended March 31, 2016, the Company incurred a net loss of $2,444,000, a working capital deficit position of $1,164,000, and a deficit of $134,727,000.

In 2016, the Company implemented a number of initiatives in response to the prevailing low crude oil prices, including:

- sale of the non-core Kerrobert Canadian property in 2016 for cash proceeds of $650,000 which immediately reduced Canadian operating losses;
- continued to finalize an agreement to dispose of the Trinidad offshore East Brighton block and cancel the related US$6,000,000 letter of credit;
- entered into various Brent referenced financial swaps for 800 bbls/d at an average price of US$62.00 per barrel for the remainder of the 2016 year;
- repaid US$4,000,000 of the bank loan principal balance;
- significant reductions to planned capital spending; and
- reduction in staffing levels which will reduce future operating and general and administrative expenses.

The Company's bank loan agreement specifies two financial covenants as well as a production covenant (see note 7). The Company was in breach of the January and March 2016 production covenants and received waivers from the lender. The Company was also in breach of the April production covenant. No assurance can be given that future breaches of the production covenant will not result in a material adverse impact to the Company's liquidity position.

As at March 31, 2016 and May 12, 2016 there was $nil available to be drawn on the bank loan. Management's current forecast using 2016 strip prices of Brent US$40.00 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 increase its bank loan borrowing base, obtain new financing or restructure commitments should low crude oil prices persist. Accordingly, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustments to the recoverability and classification of recorded assets 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 interim consolidated financial statements have been prepared on the historical cost basis except for financial derivatives and investments of marketable securities, which are measured at fair value.

(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 interim 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$"), and the functional currency of the Company's Trinidad subsidiaries is the Trinidad and Tobago dollar ("TT$").

(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.

3. Changes in Accounting Policies

(a) Accounting standards adopted

There were no new or amended accounting standards or interpretations adopted by the Company during the three months ended March 31, 2016.

(b) Standards issued but not yet adopted

There were no new or amended accounting standards or interpretations issued during the three months ended March 31, 2016 that are applicable to the Company in future periods. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2015.

4. 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:

		Trinidad		Canada		Total
Balance, January 1, 2015	**$**	**1,306**	**$**	**8,183**	**$**	**9,489**
Additions		1,792		273		2,065
Transfer to property and equipment		(631)		(3,237)		(3,868)
Dispositions		-		(4,728)		(4,728)
Classified as held for sale		(1,413)		-		(1,413)
Effect of change in foreign exchange rates		109		-		109
Balance, December 31, 2015	**$**	**1,163**	**$**	**491**	**$**	**1,654**
Additions		153		-		153
Dispositions (note 5)		-		(60)		(60)
Impairment		(113)		-		(113)
Effect of change in foreign exchange rates		(105)		-		(105)
Balance, March 31, 2016	**$**	**1,098**	**$**	**431**	**$**	**1,529**

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. During the three months ended March 31, 2016, the Company incurred $113,000 in impairment expenses relating to the property for finance charges. At March 31, 2016 the exploration asset carrying value of $1,288,000 and associated decommissioning obligations balance of $1,288,000 were both classified as held for sale.

5. Property and Equipment

		Trinidad		Canada		Total
Cost:						
Balance, January 1, 2015	**$**	**139,256**	**$**	**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**
Additions		1,069		14		1,083
Dispositions		-		(4,197)		(4,197)
Effect of change in foreign exchange rates		(14,566)		-		(14,566)
Balance, March 31, 2016	**$**	**153,699**	**$**	**3,071**	**$**	**156,770**

		Trinidad		Canada		Total
Accumulated depletion, depreciation and impairments:						
Balance, January 1, 2015	**$**	**43,241**	**$**	**1,819**	**$**	**45,060**
Depletion and depreciation		7,762		618		8,380
Impairments		33,996		(2,223)		31,773
Dispositions		(442)		1,539		1,097
Decommissioning obligation change in estimate		8,170		-		8,170
Effect of change in foreign exchange rates		9,331		-		9,331
Balance, December 31, 2015	**$**	**102,058**	**$**	**1,753**	**$**	**103,811**
Depletion and depreciation		922		47		969
Dispositions		-		671		671
Effect of change in foreign exchange rates		(8,627)		-		(8,627)
Balance, March 31, 2016	**$**	**94,353**	**$**	**2,471**	**$**	**96,824**
Net book values:						
Balance, December 31, 2015	**$**	65,138	**$**	5,501	**$**	70,639
Balance, March 31, 2016		**59,346**		**600**		**59,946**

As at March 31, 2016, $63,691,000 and $nil in future development costs were included in the respective Trinidad and Canada cost bases for depletion calculation purposes (December 31, 2015 - $70,764,000 and $1,019,000). During the three months ended March 31, 2016, $321,000 and $20,000 in general and administrative and share-based compensation expenses were capitalized, respectively (2015 – $330,000 and $36,000, respectively).

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment cash generating unit ("CGU") and undeveloped land in its Luseland, Edam and Winter CGUs, all of which were included in the Company's Canadian operations segment. The Company received total consideration of $4,150,000, which included cash proceeds of $650,000 and $3,500,000 in securities through the issuance of 35,000 non-voting preferred shares of the purchaser. The preferred shares were valued at $250,000 due to a share conversion option. No gain or loss was recorded on the transaction as the Kerrobert CGU net carrying value equaled the proceeds on disposal.

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 three months ended March 31, 2016, the production volumes produced under expired MEEI production licenses represented 5.3% of total Trinidad segment production (2015 – 5.9%).

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 three months ended March 31, 2016, the production volumes produced under expired Trinidad freehold lease agreements represented 2.4% of total Trinidad segment production, respectively (2015 – 2.2%).

6. Other Assets

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 was accounted for as a finance lease. The Company's net investment in the finance lease receivable was as follows:

		March 31, 2016		December 31, 2015
Net investment in finance lease:				
Finance lease – gross investment	**$**	**1,224**	$	1,224
Unearned finance income		**(263)**		(191)
Total	**$**	**961**	$	1,033
Current portion (included in accounts receivable)		**-**		267
Non-current portion (included in other assets)		**961**		766
Total	**$**	**961**	$	1,033

7. 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$8,000,000 at March 31, 2016 (December 31, 2015 – US$12,000,000). 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. 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.

At March 31, 2016, $2,594,000 (US$2,000,000) was drawn against the bank loan (December 31, 2015 - $8,304,000 or US$6,000,000), and US$6,000,000 of the facility was used to secure the East Brighton letter of credit (December 31, 2015 – US$6,000,000). As at March 31, 2016, $nil was available to be drawn on the credit facility (December 31, 2015 – $nil), and based on the covenant breaches noted below, the bank loan balance was classified as a current liability.

The bank loan agreement contains a number of covenants. The major financial and operational covenants and the Company's estimated position as at and during the three months ended March 31, 2016 were as follows:

Covenant	**Estimated Position at March 31, 2016[1]**	**Covenant threshold**
Total debt to EBITDA ratio	1.9 times	Max 3.0 times
Interest coverage ratio	13.4 times	Min 2.5 times
January production covenant (barrels per day)	1,377	Min 1,600
February production covenant (barrels per day)	1,369	Min 1,350
March production covenant (barrels per day)	1,339	Min 1,350

[1]Estimated position subject to final approval.

Subsequent to the release of the Company's December 31, 2015 audited consolidated financial statements, it was determined that as at December 31, 2015, the Company was in breach of the debt to EBITDA financial ratio covenant, which was 3.50 to 1.00 versus the maximum 3.00 to 1.00. The Company and its lender executed a waiver to cure this breach effective April 8, 2016.

The annual audited consolidated financial statements did not disclose this covenant breach as the final calculation is approved by the Company's lender subsequent to their public release. The lender re-assessed the definition of total debt under the agreement and determined that the East Brighton letter of credit balance should be included beginning with the December 31, 2015 quarterly covenant calculation. The calculation of total debt excluding letter of credit balances was previously approved by the Company's lender throughout 2015. The Company viewed the omission of this covenant violation as not material given the bank loan balance was classified as a current liability as at December 31, 2015.

Effective March 8, 2016, the Company and its lender executed an Amended and Limited Waiver to the Credit Agreement (the "Waiver") to cure the January production 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 further amended 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.

Effective April 8, 2016, the credit facility borrowing base was established at US$8,000,000 following the lender's semi-annual review. Upon the finalization of the sale of the East Brighton property disclosed in note 4 and the cancellation of the US$6,000,000 letter of credit, the credit facility borrowing base will be reduced to US$3,000,000.

In connection with the April 8, 2016 borrowing base redetermination, the Company and its lender executed a Second Amendment and Limited Waiver to the Credit Agreement (the "Second Waiver"). The Second Waiver cured the Company's March 2016 production volume covenant breach and the Company's violation of its December 31, 2015 consolidated debt to EBITDA ratio covenant discussed above. In addition, the Second Waiver amended the credit agreement regarding the mandatory April 8, 2016 US$1,000,000 prepayment. If the East Brighton letter of credit is cancelled prior to May 31, 2016, the prepayment is not required. If the East Brighton letter of credit remains outstanding as of May 31, 2016, the Company must make the prepayment on May 31, 2016, and the lender has the right to hold a one-time interim borrowing base redetermination prior to June 21, 2016.

The Company is currently in default of its April production covenant and is seeking a waiver from its lender.

8. 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.

Under certain Trinidad licenses, the Company is obligated to remit funds into an abandonment fund based on production. The abandonment fund obligations are determined based on cumulative crude oil sales and recognized as a current liability and a reduction of the long-term decommissioning obligation. Payments to the fund are typically made on an annual basis and recorded as a long-term asset included in property equipment. As at March 31, 2016, the Company has remitted $501,000 of abandonment fund payments and $406,000 in short-term fund obligations are included in accounts payable and accrued liabilities. The Company and the Trinidad government must agree on the budget and particular site to reclaim prior to using the abandonment fund.

	Trinidad	Canada	Total
Balance, January 1, 2015	**$ 13,979**	**$ 5,441**	**$ 19,420**
Dispositions	-	(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**
Dispositions (note 5)	-	(4,028)	(4,028)
Liabilities incurred	-	-	-
Accretion expense	78	-	78
Change in estimates	(32)	-	(32)
Effect of change in foreign exchange rates	(1,140)	-	(1,140)
Balance, March 31, 2016	**$ 11,865**	**$ -**	**$ 11,865**
Non-current	10,171	-	10,171
Current (included in accounts payable)	406	-	406
Current (classified as held for sale – note 4)	1,288	-	1,288
Total	**$ 11,865**	**$ -**	**$ 11,865**

As disclosed in note 5, the Company closed a transaction to dispose of its Kerrobert property and equipment CGU and undeveloped land in its Luseland, Edam and Winter CGUs on February 1, 2016. Through the disposition, the Company transferred its entire Canadian segment decommissioning liability to the purchaser.

As at March 31, 2016, the Company estimated the total undiscounted cash flows required to settle its Trinidad decommissioning obligations was approximately $24,474,000 (December 31, 2015 - $26,809,000). The majority of these obligations are anticipated to be incurred in 2026 and are expected to be funded from the abandonment fund and the Company’s internal resources available at the time of settlement. Decommissioning liabilities were discounted using a weighted average risk-free rate of 7.5% and calculated using an inflation rate of 4% (December 31, 2015 – 7.5% and 4%, respectively).

9. Shareholders’ Capital

(a) Issued and outstanding common shares

	Number of shares	Amount
Balance, January 1, 2015	**83,059,643**	**$ 169,893**
Exercise of incentive share options	27,500	57
Balance, December 31, 2015 and March 31, 2016	**83,087,143**	**$ 169,950**

The Company has authorized an unlimited number of voting common shares without nominal or par value.

(b) Share options

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. The exercise price of each option may not be less than the closing price of the common shares prior to the date of grant. Compensation expense is recognized as the options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options and incentive share options at any time is limited to 10% of the issued and outstanding common shares.

	Number of options	Weighted avg. exercise price
Outstanding, January 1, 2015	**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**
Forfeited	(377,705)	0.95
Outstanding, March 31, 2016	**4,930,740**	**$ 0.73**
Exercisable, March 31, 2016	**1,497,719**	**0.99**

(c) Incentive share options

The Company has an incentive share option plan which provides for the grant of incentive share options to purchase common shares of the Company at a $0.05 exercise price. A maximum of two million incentive shares has been approved for issuance under this plan. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant, and the incentive share options typically expire five years from the date of the grant.

	Number of incentive shares	Weighted avg. exercise price
Outstanding, January 1, 2015	**336,750**	**$ 0.06**
Granted	(27,500)	0.10
Exercised	(11,125)	0.10
Outstanding, December 31, 2015	**298,125**	**$ 0.06**
Forfeited	(20,625)	0.10
Outstanding, March 31, 2016	**277,500**	**$ 0.05**
Exercisable, March 31, 2016	**127,500**	**0.06**

10. Net Finance Expenses

	Three months ended March 31, **2016**	2015
Interest income	**$ (31)**	$ (3)
Interest expense on bank loan	**95**	98
Finance fees and other	**435**	183
Net finance expenses	**$ 499**	$ 278

Interest income included interest earned from funds on deposit and interest generated from a Trinidad capital equipment finance lease (note 6). Financing fees were comprised primarily of bank loan administrative fees and interest expenses relating to outstanding Trinidad tax balances.

11. Loss per Common Share

	Three months ended March 31, 2016	2015
Net loss	**$ (2,444)**	$ (1,128)
Weighted number of average common shares outstanding: Basic and diluted	**83,087,143**	83,073,865
Basic and diluted loss per share	**(0.03)**	(0.01)

There was no dilutive impact to the weighted average number of common shares at March 31, 2016 and 2015, 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.

12. Capital Management

The basis for the Company's capital structure is dependent on the Company's expected business growth and any changes in the business and commodity price 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, capital expenditures 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	**March 31, 2016**	December 31, 2015
Working capital deficiency (surplus)		**$ 1,164**	$ (987)
Long-term portion of bank loan		**-**	-
Net debt (surplus)		**$ 1,164**	$ (987)
Shareholders' equity		**46,010**	52,657
Net debt plus equity		**$ 47,174**	$ 51,670
Net debt to net debt plus equity	< 0.4 times	**0.02**	(0.02)

13. Risk Management

(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 the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"). Typically, the Company's maximum credit exposure to Petrotrin is revenue for one month's petroleum sales, of which $1,954,000 was included in accounts receivable as at March 31, 2016 (December 31, 2015 - $2,732,000). 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 March 31, 2016 and December 31, 2015 were as follows:

		March 31, 2016		December 31, 2015
Not past due	**$**	**6,459**	$	8,733
Past due greater than 90 days		**2,181**		1,113
Total accounts receivable	**$**	**8,640**	$	9,846

No provision was made for past due receivables as the Company assessed that there were no impaired receivables. The Company believed that the accounts receivable balances that are past due were still collectible, as the majority were due from government agencies. The Company's carrying values of accounts receivable and financial derivative balances represented 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 increase its bank loan borrowing base 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. Refer to note 2(b) for further discussion on liquidity risk. Undiscounted cash outflows relating to financial liabilities as at March 31, 2016 was as follows:

		Less than 1 year		**1 – 3 years**		**4 – 5 years**		**Total**
Accounts payable and accrued liabilities	$	11,686	$	-	$	-	$	11,686
Income taxes payable		4,369		-		-		4,369
Bank loan		2,594		-		-		2,594
Total financial liabilities	**$**	**18,649**	**$**	**-**	**$**	**-**	**$**	**18,649**

(c) Commodity price risk

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

The Company had the following commodity financial contracts in place as at March 31, 2016:

Contract	Volume	Pricing
ICE Brent crude oil swap		
April 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
ICE Brent crude oil purchased call		
April 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
ICE Brent crude oil sold put		
November 1, 2016 – December 31, 2016	800 barrels per day	US$31.00 per barrel

As at March 31, 2016, the Company recorded a financial derivative asset of $6,171,000 related to commodity management contracts (December 31, 2015 - $7,650,000). During the three months ended March 31, 2016, the Company realized gains of $3,146,000 (2015 - $1,379,000) and unrealized losses of $2,333,000 (2015 – $181,000) related to commodity management contracts.

(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 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 three months ended March 31, 2016.

(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 three months ended March 31, 2016.

14. Segmented Information

The Company is comprised of Trinidad and Canada operating segments.

	Trinidad	Canada	Total
As at March 31, 2016			
Exploration assets	$ 1,098	$ 431	$ 1,529
Property and equipment, net	59,346	600	59,946
Total assets	58,645	22,564	81,209
Decommissioning obligations	10,171	-	10,171
Deferred tax liabilities	4,341	-	4,341
Total liabilities	33,065	2,134	35,199
Three months ended March 31, 2016			
Petroleum revenue	4,787	-	4,787
Total expenses	5,748	1,432	7,180
Loss before income taxes	(1,583)	(1,432)	(3,015)
Income tax recovery	(571)	-	(571)
Net loss	(1,012)	(1,432)	(2,444)
Exploration asset expenditures	153	-	153
Property and equipment expenditures	1,032	14	1,046
As at March 31, 2015			
Exploration assets	1,366	7,859	9,225
Property and equipment, net	103,070	4,555	107,625
Total assets	115,196	26,290	141,486
Decommissioning obligations	14,489	5,294	19,783
Deferred tax liabilities	22,511	-	22,511
Total liabilities	62,878	9,086	71,964
Three months ended March 31, 2015			
Petroleum revenue	9,210	912	10,122
Total expenses	6,184	2,540	8,724
Earnings (loss) before income taxes	1,319	(1,730)	(411)
Income tax expense	717	-	717
Net earnings (loss)	602	(1,730)	(1,128)
Exploration asset expenditures	20	168	188
Property and equipment expenditures	1,164	7	1,171

15. 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 three years and thereafter as at March 31, 2016 were as follows:

	2016	2017	2018	Thereafter	Total
Trinidad operating agreements	$ 6,942	$ 5,949	$ 3,550	$ 958	$ 17,399
Trinidad exploration license	2,660	6,128	4,196	2,598	15,582
Canada office leases	620	615	193	149	1,577
Trinidad equipment leases	13	-	-	-	13
Total minimum payments	**$ 10,235**	**$ 12,692**	**$ 7,939**	**$ 3,705**	**$ 34,571**

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 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 supports a US$3,130,000 letter of credit provided to the MEEI related to work commitments on its Ortoire property. In addition, 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 bank loan. This letter of credit is expected to be cancelled upon closing of the East Brighton disposition (note 4). The Company has excluded an estimated US$4,200,000 in future East Brighton work obligations in its commitments disclosure above.

16. Subsequent Event

Subsequent to March 31, 2016, the Company entered into the following derivative contract:

Contract	Volume	Pricing
ICE Brent crude oil swap February 1, 2017 – February 28, 2017	800 barrels per day	US$46.25 per barrel