Touchstone Exploration Inc.

Management's Discussion and Analysis

June 30, 2016

Management's Discussion and Analysis
For the three and six months ended June 30, 2016

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Touchstone Exploration Inc. (the "Company" or "Touchstone") for the three and six months ended June 30, 2016, is dated August 11, 2016 and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2016, as well as the Company's audited consolidated financial statements for the year ended December 31, 2015. The unaudited interim consolidated financial statements and the audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with Touchstone's MD&A for the year ended December 31, 2015, as disclosure which is unchanged from December 31, 2015 may not be duplicated herein.

Additional information related to Touchstone and factors that could affect the Company's operations and financial results are included with reports on file with the Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 24, 2016, and may be accessed through the SEDAR website at www.sedar.com.

Tabular amounts herein are in thousands of Canadian dollars ("Cdn$"), 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. This MD&A contains forward-looking statements and non-GAAP measures. Readers are cautioned that the MD&A should be read in conjunction with Touchstone's disclosure under the headings "*Forward-looking Statements*," "*Non-GAAP Measures*," and "*Abbreviations*" included at the end of this document.

About Touchstone Exploration Inc.

Touchstone is incorporated under the laws of Alberta, Canada with its head office located in Calgary, Alberta. The Company is an oil and gas exploration and production company active in the Republic of Trinidad and Tobago ("Trinidad"). The Company's common shares are traded on the Toronto Stock Exchange under the symbol "TXP". Touchstone'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.

2016 Second Quarter Highlights

- Achieved average oil sales of 1,322 barrels per day, representing a decrease of 3% from the first quarter of 2016 and a decrease of 19% from the second quarter of 2015.
- Realized Trinidad operating netbacks prior to hedging of $1,950,000 ($16.21 per barrel), representing an increase of 521% from the first quarter of 2016 and a decrease of 40% from the prior year comparative quarter.
- Reduced per barrel operating expenses by 18% and 26% from the first quarter of 2016 and the second quarter of 2015, respectively. We continue to focus on reductions in operating expenses and expect to fully realize second quarter cost cutting initiatives in the third quarter of 2016.
- Generated funds flow from operations of $3,278,000 ($0.04 per basic share) compared to $919,000 ($0.01 per basic share) recognized in the prior quarter and $762,000 ($0.01 per basic share) recognized in the second quarter of 2015.
- Recorded a net loss of $2,553,000 ($0.03 per basic share) versus a net loss of $2,444,000 ($0.03 per basic share) in the first quarter of 2016 and a net loss of $8,505,000 ($0.10 per basic share) recognized in the prior year comparative quarter.
- Liquidated the Company's outstanding commodity hedging contracts and used the proceeds to fully repay the outstanding bank loan balance.

2016 Second Quarter and Year to Date Financial and Operating Results Summary

	Three months ended June 30,		**Six months ended June 30,**	
	2016[2]	2015	**2016**[2]	2015
Operating				
Average daily oil production *(bbls/day)*				
Trinidad	**1,322**	1,625	**1,342**	1,683
Canada	**-**	161	**-**	227
Company total	**1,322**	1,786	**1,342**	1,910
Average realized oil prices before hedging *($/bbl)*				
Trinidad	**49.83**	66.67	**44.16**	62.59
Canada	**-**	49.37	**-**	39.81
Company total	**49.83**	65.12	**44.16**	59.89
Operating netback[1] *($000's)*				
Petroleum revenue	**5,996**	10,583	**10,783**	20,705
Royalties	**(1,627)**	(3,127)	**(3,062)**	(6,134)
Operating expenses	**(2,419)**	(4,415)	**(5,457)**	(8,708)
Operating netback prior to hedging	**1,950**	3,041	**2,264**	5,863
Realized gain on derivatives	**3,316**	628	**6,462**	2,007
Operating netback after hedging	**5,266**	3,669	**8,726**	7,870
Operating netback[1] *($/bbl)*				
Brent benchmark price	**58.72**	75.74	**52.61**	71.49
Discount	**(8.89)**	(10.62)	**(8.45)**	(11.60)
Realized sales price	**49.83**	65.12	**44.16**	59.89
Royalties	**(13.52)**	(19.24)	**(12.54)**	(17.74)
Operating expenses	**(20.10)**	(27.17)	**(22.35)**	(25.19)
Operating netback prior to hedging	**16.21**	18.71	**9.27**	16.96
Realized gain on derivatives	**27.56**	3.86	**26.47**	5.81
Operating netback after hedging	**43.77**	22.57	**35.74**	22.77

[1]See "*Non-GAAP Measures.*"
[2]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

	Three months ended June 30,		Six months ended June 30,	
	2016[2]	2015	**2016**[2]	2015
Financial *($000's except share and per share amounts)*				
Funds flow from operations[1]	**3,278**	762	**4,197**	1,187
Per share – basic and diluted[1]	**0.04**	0.01	**0.05**	0.01
Net loss	**(2,553)**	(8,505)	**(4,997)**	(9,633)
Per share – basic and diluted	**(0.03)**	(0.10)	**(0.06)**	(0.12)
Capital expenditures				
Exploration assets	**476**	291	**629**	479
Property and equipment	**(340)**	1,144	**706**	2,315
Company total	**136**	1,435	**1,335**	2,794
Total assets – end of period			**73,330**	125,788
Net debt[1] – end of period			**4,188**	5,755
Weighted average shares outstanding				
Basic and diluted	**83,125,605**	83,079,643	**83,106,374**	83,076,770
Outstanding shares - end of period			**83,137,143**	83,079,643

[1]See "*Non-GAAP Measures.*"
[2]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Touchstone continues to focus on operational initiatives to ensure sustainability and future profitability through all commodity price cycles. During the quarter, Touchstone continued to curtail spending, manage controllable costs and paid off its outstanding principal bank loan balance. We continued to respond to the weakness in oil prices with $136,000 in capital spending in the second quarter. Production in Trinidad decreased based on natural declines and reduced operational spending, as production volumes averaged 1,322 bbls/d during the second quarter of 2016 which represented a decrease of 3% from Trinidad average daily volumes delivered in the first quarter of 2016.

In June 2016 we liquidated our outstanding commodity hedges which resulted in proceeds of US$2,019,000. In total, our commodity hedging program contributed $3,316,000 in realized gains during the quarter. Excluding commodity hedging, Trinidad realized second quarter 2016 pricing for crude oil was $49.83 (US$38.60) per barrel versus $38.66 (US$28.08) per barrel received in the first quarter of 2016. Second quarter operating expenses and general and administrate spending decreased by 20% and 24% from the first quarter of 2016, respectively. The hedging liquidation and diligent cost control efforts allowed Touchstone to generate funds flow from operations of $3,278,000 ($0.04 per basic share) in the quarter versus funds flow from operations of $919,000 ($0.01 per basic share) recognized in the prior quarter. We recorded a net loss of $2,553,000 ($0.03 per basic share) in the second quarter, which was mainly a result of a $6,099,000 non-cash loss on unrealized derivative contracts based on second quarter settlements and the hedge book liquidation.

At the end of the second quarter Touchstone's net debt was $4,188,000. Touchstone's bank loan borrowing base is currently US$6,000,000, all of which is dedicated as security for a letter of credit. We expect the letter of credit to be cancelled in the third quarter, upon which our bank loan borrowing base will be reduced to $nil. Our lender will then assess the credit facility which may include a new borrowing base redetermination. We are managing our business based on the current commodity strip price, and have structured our near term spending so that fund flows from operations will match or exceed cash outflows for capital expenditures. Touchstone will continue to assess new sources of financing available to manage current capital commitments and create future growth.

Principal Properties

Effective June 30, 2016, the Company's principal land holdings were as follows:

Property	Working interest	Lease type	Gross acres	Working interest acres
Trinidad				
Producing				
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
	91%		**11,185**	**10,205**
Exploratory				
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
	70%		**63,808**	**44,752**
	73%		**74,993**	**54,957**
Canada				
Exploratory				
Beadle	100%	Freehold	4,795	4,795
Druid	100%	Crown	8,641	8,641
Luseland	100%	Crown & Freehold	6,849	6,849
Winter	100%	Crown	11,323	11,323
	100%		**31,608**	**31,608**
Company total	**81%**		**106,601**	**86,565**

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 at June 30, 2016 and the date of this MD&A.

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. In addition to the mineral rights, the sale included all of the facilities, infrastructure, interests and decommissioning obligations related to the Kerrobert combustion project.

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. As at June 30, 2016 and as of the date of this MD&A, the Company is in compliance with all 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 June 30, 2016 and as of the date of this MD&A, the Company is in 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 three and six months ended June 30, 2016, the production volumes produced under expired MEEI production licenses represented 5.2% and 5.3% of total Trinidad segment production, respectively (2015 – 6.3% and 6.1%).

Touchstone 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 and six months ended June 30, 2016, the production volumes produced under expired Trinidad freehold lease agreements represented 2.4% and 2.4% of total Trinidad segment production, respectively (2015 – 2.2% and 2.2%).

Economic Environment

Selected Benchmark Prices and Exchange Rates

	Three months ended June 30,		%	Six months ended June 30,		%
	2016	2015	change	**2016**	2015	change
Brent average (US$/bbl)	**45.57**	61.65	(26)	**39.80**	57.87	(31)
Brent average (Cdn$/bbl)[1]	**58.72**	75.74	(22)	**52.61**	71.49	(26)
WTI average (US$/bbl)	**45.46**	57.85	(21)	**39.47**	53.25	(26)
WTI average (Cdn$/bbl)[1]	**58.58**	71.09	(18)	**52.18**	65.73	(21)
Cdn$:US$ average exchange rate[2]	**0.7762**	0.8134	(5)	**0.7530**	0.8098	(7)
Cdn$:TT$ average exchange rate[2]	**5.1490**	5.1702	-	**4.9430**	5.1440	(4)
US$:TT$ average exchange rate[2]	**6.6338**	6.3565	4	**6.5623**	6.3522	3

[1]Canadian reference prices are calculated using the Bank of Canada Cdn$/US$ noon day average on a daily basis.
[2]Source: Average of daily Bank of Canada nominal noon exchange rates.

Despite exiting with high global crude oil and product inventories, global crude oil prices improved throughout the second quarter of 2016. Unites States crude oil production volumes continued their decline and unexpected disruptions caused primarily by Canadian wildfires and unrest in Nigeria improved the global supply/demand imbalance. Touchstone's crude oil price is primarily referenced to the Brent benchmark price. In the second quarter of 2016 the Brent reference price averaged 35% higher than the first quarter of 2016 and 26% lower than the second quarter of 2015.

The Canadian dollar remained range-bound relative to the United States dollar ("US$") during the second quarter of 2016 averaging US$0.78 (Cdn$/US$ - 1.29). Relative to the US$, the Trinidad and Tobago dollar ("TT$") dollar depreciated 1% from the first quarter of 2016. In April 2016 the Trinidad government publically stated that they intend intervene to defend and stabilize the TT$, and will not allow the TT$:US$ exchange rate to fluctuate more than 7% from the rate that prevailed in September 2015. As of June 30, 2016 the Trinidad and Tobago dollar has depreciated 5% relative to the United States dollar from September 30, 2015.

2016 Second Quarter Financial and Operating Results

The Company's operations are conducted in Trinidad and Canada, which are the Company's reportable segments. Effective December 31, 2015, Touchstone disposed of the Kerrobert property, which was the Company's remaining Canadian segment producing asset. Accordingly, there was no Canadian segment production or related operating expenses recorded during the three and six months ended June 30, 2016.

Production volumes

	Three months ended June 30,		%	Six months ended June 30,		%
	2016	2015	change	**2016**	2015	change
Trinidad						
Total oil production (bbls)	**120,319**	147,901	(19)	**244,155**	304,681	(20)
Average daily oil production (bbls/day)	**1,322**	1,625	(19)	**1,342**	1,683	(20)
Canada[1]						
Total oil production (bbls)	**-**	14,624	(100)	**-**	41,049	(100)
Average daily oil production (bbls/d)	**-**	161	(100)	**-**	227	(100)
Company total						
Total oil production (bbls)	**120,319**	162,525	(26)	**244,155**	345,730	(29)
Average daily oil production (bbls/day)	**1,322**	1,786	(26)	**1,342**	1,910	(30)

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Production volumes by property

(bbls)	Three months ended June 30, **2016**	2015	% change	Six months ended June 30, **2016**	2015	% change
Trinidad						
Coora 1	**12,688**	18,347	(31)	**25,501**	41,270	(38)
Coora 2	**8,327**	11,515	(28)	**15,500**	25,273	(39)
WD-4	**47,183**	49,574	(5)	**94,884**	99,424	(5)
WD-8	**23,434**	32,652	(28)	**49,812**	66,802	(25)
New Dome	**1,871**	1,042	80	**3,288**	2,476	33
South Palo Seco	**326**	604	(46)	**631**	1,266	(50)
Barrackpore	**5,019**	6,497	(23)	**10,223**	12,768	(20)
Fyzabad	**14,453**	19,750	(27)	**29,506**	38,695	(24)
Icacos	**1,096**	1,133	(3)	**2,147**	2,049	5
Palo Seco	**1,371**	1,713	(20)	**2,900**	3,681	(21)
San Francique	**4,551**	5,074	(10)	**9,763**	10,977	(11)
	120,319	147,901	(19)	**244,155**	304,681	(20)
Canada[1]						
Kerrobert	**-**	14,624		**-**	38,010	
Luseland	**-**	-		**-**	3,039	
	-	14,624	(100)	**-**	41,049	(100)
Company total	**120,319**	162,525	(26)	**244,155**	345,730	(29)

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Trinidad second quarter production decreased 19% from the prior year comparative quarter as a result of minimal capital investment throughout 2015 and the first half of 2016. Second quarter and year to date 2015 production included the benefits of Touchstone's 2014 drilling program, where 11 developmental wells were drilled from May through December 2014. Trinidad total production in the second quarter decreased 3% from the first quarter of 2016 based on natural declines and minimal well workovers performed in the quarter. Year to date 2016 total production decreased 29% from the same period in 2015 based on natural declines, reduced capital investment as well as the disposition of the Company's non-core Canadian producing assets effective December 31, 2015.

Realized prices excluding hedging

	Three months ended June 30, **2016**	2015	% change	Six months ended June 30, **2016**	2015	% change
US$/bbl						
Trinidad	**38.60**	54.25	(29)	**33.28**	50.61	(34)
Cdn$/bbl						
Trinidad	**49.83**	66.67	(25)	**44.16**	62.59	(29)
Canada[1]	**-**	49.37	(100)	**-**	39.81	(100)
Company total	**49.83**	65.12	(23)	**44.16**	59.89	(26)
Trinidad						
US$ realized price discount as a % of Brent	**15**	12		**16**	13	
US$ realized price discount as a % of WTI	**15**	6		**16**	5	

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

In the second quarter of 2016, Brent decreased 26% to US$45.57 per barrel as compared to US$61.65 per barrel in the same period in 2015. Similarly, Touchstone's Trinidad realized US$ crude oil price decreased 29% over the same time period, averaging US$38.60 per barrel in the second quarter of 2016. During the same period, the average exchange rate for the Canadian dollar compared to the US dollar weakened by 5%, which served to partially mitigate the overall impact of the decrease in Brent on the Company's realized prices on a Canadian dollar basis.

During the six months ended June 30, 2016, Brent and Touchstone's realized US$ crude prices decreased 31% and 34% over the corresponding 2015 periods, respectively. Similar to above, the average exchange rate for the Canadian dollar compared to the US dollar weakened by 7% over the same periods, which partially mitigated the overall impact of the decrease in Brent on the Company's translated Canadian dollar prices.

From 2013 through 2015, realized US$ Trinidad crude oil prices consistently averaged a 12% discount to Brent average pricing. During the three and six months ended June 30, 2016, the differential increased to 15% and 16%, respectively. 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.

Petroleum revenue

($000's)	**Three months ended June 30, 2016**	2015	% change	**Six months ended June 30, 2016**	2015	% change
Trinidad						
Crude oil	**5,996**	9,861	(39)	**10,783**	19,071	(43)
Canada[1]						
Crude oil	**-**	722	(100)	**-**	1,634	(100)
Company total	**5,996**	10,583	(43)	**10,783**	20,705	(48)

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Trinidad petroleum revenue was $5,996,000 during the three months ended June 30, 2016. This represented a decrease of 39% from second quarter 2015 revenue, as production and realized pricing decreased 19% and 25%, respectively.

For the six months ended June 30, 2016, Trinidad petroleum revenue decreased by 43% compared to the same period in 2015. The decrease reflects lower average realized commodity prices and lower production in the six months ended June 30, 2016 as compared to the same period in 2015.

As at June 30, 2016, Trinidad crude oil inventory totaled 6,006 barrels versus 8,019 barrels at December 31, 2015. The Company's crude oil is typically sold from its various sales batteries to Petrotrin three days per week. Crude oil sales are sold with no additional transportation costs, as the Company's sales batteries are directly tied into Petrotrin pipelines.

Commodity price financial derivatives

In the past the Company entered into Brent reference based crude oil financial derivative contracts for the purposes of protecting its Trinidad segment funds flow from operations from the volatility of commodity prices. Gains and losses on risk management contracts are composed of both realized gains and losses, representing the portion of risk management contracts that have settled in cash during the period, and unrealized gains or losses that represent the change in the mark-to-market position of those contracts throughout the period.

The following table summarizes the total gains or losses on risk management contracts for the second quarter and year to date periods of 2016 compared to the same periods in 2015:

($000's)	Three months ended June 30, 2016	2015	% change	Six months ended June 30, 2016	2015	% change
Realized gain	**3,316**	628	100	**6,462**	2,007	100
Unrealized loss	**(6,099)**	(2,206)	(100)	**(8,432)**	(2,387)	(100)
Loss on risk management contracts	**(2,783)**	(1,578)	100	**(1,970)**	(380)	100

During the three months ended June 30, 2016, the Company realized losses of $2,783,000 related to commodity management contracts comprising of realized gains of $3,316,000 and unrealized losses of $6,099,000. The realized gains reflected positive cash settlements received on the liquidation of the Company's outstanding Brent referenced crude oil swaps. Touchstone's second quarter 2016 unrealized losses on crude oil contracts are a result of settled positions and a decrease in the Brent referenced forward curve prior to the June 2, 2016 hedge book liquidation.

The Company had no commodity financial contracts in place as at June 30, 2016 and the date of this MD&A. For further information, refer to the *"Risk Management"* section of this MD&A.

Royalties

($000's)	Three months ended June 30, 2016	2015	% change	Six months ended June 30, 2016	2015	% change
Trinidad						
Crown royalties	**480**	1,011		**1,035**	2,209	
Private royalties	**105**	59		**195**	257	
Overriding royalties	**814**	1,683		**1,350**	2,892	
User fees	**228**	277		**482**	577	
	1,627	3,030	(46)	**3,062**	5,935	(48)
As a percentage of petroleum revenue	**27.1%**	30.7%		**28.4%**	31.1%	
Canada[1]						
Crown royalties	**-**	28		**-**	54	
Overriding royalties	**-**	69		**-**	145	
	-	97	(100)	**-**	199	(100)
As a percentage of petroleum revenue	**-**	13.4%		**-**	12.2%	
Company total	**1,627**	3,127	(48)	**3,062**	6,134	(50)
As a percentage of petroleum revenue	**27.1%**	29.5%		**28.4%**	29.6%	

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Touchstone incurs a crown royalty rate of 12.5% on gross production under crown and Petrotrin 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 10% to 35% on predefined monthly base production levels. For any production volumes sold in excess of the base production levels, the Company incurs an enhanced NORR ("enhanced NORR") of 8% to 22.5%. The NORR and enhanced NORR rates are indexed to the 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.

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 properties.

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

Second quarter and year to date 2016 royalty expenses reduced commensurately with the corresponding reduction in petroleum revenues. For the three and six months ended June 30, 2016, Trinidad royalties represented 27.1% and 28.4% of petroleum revenues respectively, both of which were lower than the prior year comparative periods. The decreases in both periods reflect the sliding scale effect of decreased commodity prices to royalty rates.

Operating expenses

($000's)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2016	2015	change	**2016**	2015	change
Trinidad						
Operating expenses	**2,419**	3,561	(32)	**5,457**	6,708	(19)
Canada[1]						
Operating expenses	**-**	854	(100)	**-**	2,000	(100)
Company total	**2,419**	4,415	(45)	**5,457**	8,708	(37)

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Trinidad operating costs for the three months ended June 30, 2016 were $2,419,000, representing $20.10 per barrel or US$15.61. This represented a decrease of $1,142,000 or US$3.07 per barrel from the 2015 second quarter. On a US dollar basis, second quarter operating expenses per barrel decreased 12% from the first quarter of 2016 despite a 3% decrease in Trinidad production volumes. For the six months ended June 30, 2016, Trinidad operating expenses decreased by $1,251,000 or US$0.71 per barrel compared to the same period in the prior year.

The overall annual decreases in operating costs for the three and six months ended June 30, 2016 was mainly a result of the disposition of Canadian non-core assets in 2015, and diligent cost control efforts, including negotiating service cost decreases with many of Touchstone's suppliers throughout 2016. Touchstone continues to focus on reductions in operating expenses and expects to fully realize second quarter cost cutting initiatives in the third quarter of 2016.

Operating netbacks[1]

($/bbl)	Three months ended June 30, 2016	2015	% change	Six months ended June 30, 2016	2015	% change
Trinidad						
Brent benchmark price	**58.72**	75.74	(22)	**52.61**	71.49	(26)
Discount	**(8.89)**	(9.07)	(2)	**(8.45)**	(8.90)	(5)
Realized sales price	**49.83**	66.67	(25)	**44.16**	62.59	(29)
Royalties	**(13.52)**	(20.49)	(34)	**(12.54)**	(19.48)	(36)
Operating expenses	**(20.10)**	(24.08)	(17)	**(22.35)**	(22.02)	1
Operating netback prior to hedging	**16.21**	22.10	(27)	**9.27**	21.09	(56)
Realized gain on derivatives	**27.56**	4.25	100	**26.47**	6.59	100
Operating netback after hedging	**43.77**	26.35	66	**35.74**	27.68	29
Canada[2]						
WTI benchmark price	**-**	71.09		**-**	65.73	
Discount	**-**	(21.72)		**-**	(25.92)	
Realized sales price	**-**	49.37		**-**	39.81	
Royalties	**-**	(6.63)		**-**	(4.85)	
Operating expenses	**-**	(58.40)		**-**	(48.72)	
Operating netback	**-**	(15.66)	(100)	**-**	(13.76)	(100)
Company operating netback after hedging	**43.77**	22.57	94	**35.74**	22.77	57

[1]See "*Non-GAAP Measures.*"
[2]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Touchstone's second quarter 2016 operating netbacks were $43.77 per barrel compared to $22.57 per barrel in the same period of 2016, representing an increase of 94%. The increase was based on a 66% increase in Trinidad operating netbacks combined with the sale of the Company's Canadian assets in 2015 which contributed negative operating netbacks in the prior year comparative quarter. Prior to realized derivative gains, Trinidad operating netbacks for the second quarter of 2016 were $1,950,000 or $16.21 per barrel versus $3,270,000 or $22.10 per barrel in the same period in 2015. Realized prices decreased 25% and related royalties decreased 34% reflecting the sliding scale of royalty rates on decreased average realized prices during the quarter. Second quarter $US per barrel operating expenses of $15.61 decreased 16% from the second quarter of 2015 in response to the Company's focus on reducing costs. Based on lower Brent pricing, the Company's commodity derivative contracts increased second quarter 2016 operating netbacks by $3,316,000 or $27.56 per barrel versus $628,000 or $4.25 per barrel in 2015.

Similarly, 2016 year to date per barrel operating netbacks increased 57% from the corresponding 2015 period based on a 29% increase in Trinidad operating netbacks and the cessation of Canadian operating netback losses incurred in same period of the prior year. Trinidad 2016 year to date operating netbacks prior to realized derivative gains were $2,264,000 or $9.27 per barrel versus $6,428,000 or $21.09 per barrel in the same period in 2015. Realized prices decreased 29% and related royalties decreased 36% from 2015. Year to date 2016 operating expenses were US$16.72 per barrel, which represented a decrease of 4% from the US$17.43 per barrel incurred in the corresponding 2015 period. The Company's commodity derivative contracts increased year to date 2016 operating netbacks by $6,462,000 or $26.47 per barrel versus $2,007,000 or $6.49 per barrel in the comparative 2015 period.

General and administrative ("G&A") expenses

($000's)	Three months ended June 30, **2016**	2015	% change	Six months ended June 30, **2016**	2015	% change
Trinidad						
Gross G&A	**972**	1,165	(17)	**2,101**	2,535	(17)
Capitalized G&A	**(317)**	(303)	5	**(649)**	(633)	3
Net G&A	**655**	862	(24)	**1,452**	1,902	(24)
Canada						
Gross G&A	**916**	1,414	(35)	**2,179**	3,736	(42)
Capitalized G&A	**-**	-	-	**-**	-	-
Net G&A	**916**	1,414	(35)	**2,179**	3,736	(42)
Company total	**1,571**	2,276	(31)	**3,631**	5,638	(36)

G&A expenses primarily consist of management and administrative salaries and benefits, legal and professional fees, office rent, insurance, and travel expenses. In Trinidad, a total of 126 full-time-equivalents were working for Touchstone at June 30, 2016 compared to 135 as at December 31, 2015. At Touchstone's Canadian head office, a total of 13 full-time-equivalents were employed on June 30, 2016 versus 21 as at December 31, 2015.

For the quarter ended June 30, 2016, gross G&A expenses were $1,888,000, representing declines of 27% and 21% from 2015 second quarter and 2016 first quarter G&A spending, respectively. For the six months ended June 30, 2016, gross G&A expenses were $4,280,000 which represented a 32% decrease from the prior year comparative period. During the six months ended June 30, 2016, the Company recognized non-recurring severance charges of $252,000 (2015 - $707,000). After deducting these charges in each period, net G&A expenses reduced 31% from the prior year. The overall decrease in 2016 G&A reflects lower compensation associated with a smaller workforce and reduced administrative spending in all areas. The Company continues to adjust its fixed cost base and is striving to further reduce G&A throughout 2016.

Net finance expenses

($000's)	Three months ended June 30, **2016**	2015	% change	Six months ended June 30, **2016**	2015	% change
Interest income	**(30)**	(7)		**(61)**	(10)	
Interest expense on bank loan	**25**	115		**120**	213	
Interest expense on income taxes	**263**	-		**616**	-	
Finance fees and other	**79**	175		**161**	358	
Net finance expenses	**337**	283	19	**836**	561	49
Less: amortized credit facility expense	**-**	(169)		**-**	(341)	
Cash finance expenses[1]	**337**	114	100	**836**	220	100

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

Interest income includes interest earned from funds on deposit and interest generated from a Trinidad capital equipment finance lease which commenced in May 2015. Bank loan interest expenses decreased from 2015 based on reduced borrowing amounts. Interest expense on income taxes relates to amounts accrued for outstanding Trinidad based value added taxes payable, which will be remitted when the offsetting value added tax receivables are ultimately collected from the Trinidad government. Financing and other fees primarily consist of bank loan administrative fees.

Foreign exchange and foreign currency translation

The Company's presentation currency is the Canadian dollar. The Company and its Canadian subsidiaries have a Canadian dollar functional currency while the Trinidad subsidiaries have a Trinidad and Tobago dollar functional currency. Touchstone Exploration (Barbados) Ltd., a wholly-owned holding subsidiary of the Company, has a United States dollar functional currency. In each reporting period, the change in values of the US$ and TT$ relative to the Canadian dollar reporting currency are recognized. The applicable rates used to translate the Company's TT$ and US$ denominated financial statement items were as follows:

	June 30, 2016	December 31, 2015	% change
Closing foreign exchange rates[1]			
Cdn$ / US$	**0.7687**	0.7225	6
Cdn$ / TT$	**5.1308**	4.6404	11

[1]Source: 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 US$ and its bank loan balance denominated in US$. The TT$ and US$ depreciated relative to the Canadian dollar throughout the first half of 2016. This resulted in the Company recognizing total foreign exchange losses of $35,000 and $100,000 during the three and six months ended June 30, 2016, respectively (2015 – $230,000 loss and $858,000 gain). 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 for presentation purposes. 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 depreciation of the TT$ versus the Canadian dollar, foreign currency translation losses of $450,000 and $4,741,000 were recorded during the three and six months ended June 30, 2016, respectively (2015 – $1,061,000 loss and $3,329,000 gain).

Share-based compensation

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

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 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.

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.

At June 30, 2016, share options and incentive share options outstanding represented 7.6% of the Company's outstanding common shares (December 31, 2015 – 6.7%). During the three and six months ended June 30, 2016, Touchstone recorded share-based compensation expenses of $33,000 and $101,000, respectively (2015 - $159,000 and $147,000). Share-based compensation expense decreased from the prior year as unvested share options were forfeited based on second quarter and year to date 2016 employee departures, which resulted in a recovery of the related unvested share-based compensation expense initially recorded.

Depletion and depreciation expense

($000's)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2016	2015	change	**2016**	2015	change
Trinidad						
Depletion expense	**961**	1,767		**1,998**	2,998	
Depreciation expense	**149**	207		**324**	534	
	1,110	1,974	(44)	**2,322**	3,532	(34)
Canada[1]						
Depletion expense	**-**	93		**-**	289	
Depreciation expense	**44**	57		**91**	114	
	44	150	(71)	**91**	403	(77)
Company total	**1,154**	2,124	(46)	**2,413**	3,935	(39)

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

Depreciation expense is recorded relating to corporate assets in Canada and motor vehicles and rig equipment in Trinidad on a declining balance basis. The Company's producing assets in Trinidad are subject to depletion expense. The net carrying value of producing assets is depleted using the unit of production method by reference to the ratio of production in the 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. Assets deemed to be in the exploration phase are not amortized.

Second quarter 2016 depletion and depreciation expenses were $1,154,000 or $9.59 per barrel compared to $2,124,000 or $13.07 per barrel in the same period of 2015. During the six months ended June 30, 2016, corporate per barrel depletion charges were $9.88 compared to $11.38 for the prior year comparative period. The decrease in Trinidad depletion expense in both periods reflects the effect of a lower depletable base as a result of impairment charges recorded during the year ended December 31, 2015. Furthermore, Touchstone disposed of its Canadian producing assets effective December 31, 2015 and only recorded depreciation on corporate assets during the three and six months ended June 30, 2016.

Impairment

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated depletion and depreciation expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. Touchstone assesses exploration asset and property and equipment indicators of impairment on a quarterly basis. During the three and six months ended June 30, 2016, impairment charges of $114,000 and $227,000 were recorded relating to the East Brighton property, respectively. The property was held for sale as at June 30, 2016 with an estimated fair value of $nil. The property and equipment carrying value of $1,278,000 offsets the associated decommissioning obligation balance. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Accretion and decommissioning obligations

The Company's decommissioning obligations relate to future site restoration and abandonment costs including the costs of production equipment removal based on current regulations and economic circumstances. The total decommissioning obligation is estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods.

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 June 30, 2016, the Company has remitted $497,000 of abandonment fund payments and $439,000 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.

During the three and six months ended June 30, 2016, the Company recorded $76,000 and $154,000 in accretion related to its decommissioning obligations, respectively (2015 - $153,000 and $312,000). Decommissioning obligation details as at June 30, 2016 were as follows:

	# of well locations	**Undiscounted balance** *($000's)*	**Inflation adjusted balance** *($000's)*	**Discounted balance** *($000's)*
Trinidad	813	24,297	59,097	11,860
Canada	-	-	-	-
Company total	**813**	**24,297**	**59,097**	**11,860**

As previously disclosed herein, 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 on February 1, 2016. Through the disposition, the Company transferred its total Canadian segment discounted decommissioning liability balance of $4,028,000 to the purchaser. $1,278,000 of the discounted decommissioning liability relates to the East Brighton property which was classified as held for sale as at June 30, 2016.

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

- 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 0.3% of gross revenue

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.

The Company also has a Trinidad based service company that is subject to the greater of a 25% corporation tax calculated on net chargeable profits or a 0.2% business levy calculated on gross revenue. The service company is also subject to the green fund levy noted above.

The following table summarizes the total current income tax expense for the second quarter and year to date periods of 2016 compared to the same periods in 2015:

($000's)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2016	2015	change	**2016**	2015	change
Trinidad						
SPT	**-**	402		**-**	533	
PPT	**-**	-		**-**	-	
UL	**-**	-		**-**	-	
Business levy	**9**	28		**12**	28	
Green fund levy	**39**	21		**55**	30	
Company total	**48**	451	(89)	**67**	591	(89)

Trinidad current income taxes for the three and six months ended June 30, 2016 were $48,000 and $67,000, respectively. Touchstone was not obligated to remit quarterly SPT given that realized prices received were below US$50.00 per barrel in 2016. In the first quarter of 2015, Touchstone paid $533,000 in SPT. The Company is currently not in a PPT and UL taxable position as a result of decreased Trinidad cash flows driven by decreases in realized oil prices and production. The Company's Canadian operations continue to remain in a loss position and are not taxable.

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 June 30, 2016, $2,998,000 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 June 30, 2016 income tax payable balance was comprised of the following:

($000's)	**Principal**	**Interest**	**Total**
Prior year taxes (2015 and prior)	(109)	4,437	4,328
Current year tax accruals less instalments paid (2016)	-	-	-
Income taxes payable	**(109)**	**4,437**	**4,328**

Touchstone's $2,726,000 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 deferred tax liability balance mainly relates to the discrepancy of the fair values over the carrying values of the Trinidad producing assets. During the three and six months ended June 30, 2016, the Company recorded deferred tax recoveries of $1,648,000 and $2,238,000, respectively (2015 – $2,452,000 and $1,875,000).

At June 30, 2016, the Company had an estimated $24,933,000 in Trinidadian non-capital losses which can be carried forward indefinitely to reduce petroleum profit tax and corporation tax in future years. The benefit of $10,038,000 of Trinidad non-capital losses were not recognized as at June 30, 2016. Touchstone's Canadian tax losses were also not recognized as at June 30, 2016.

On July 20, 2016 the Finance (No.2) Act ("Act") was assented to by the President of Trinidad. The Act included a tax amnesty to grant a waiver of penalties and interest for the late filing of tax returns and the late payment of taxes for years of income up to and including 2015 in respect of corporation tax, PPT, green fund levy, business levy, withholding tax, and value added tax. This measure takes effect from July 1, 2016 and expires on September 16, 2016. Providing all principal amounts are paid for the aforementioned taxes, interest and penalties applicable to these taxes will be waived. This amnesty will affect a portion of the Company's $4,437,000 income tax interest payable balance noted above. The Company will assess the impact of the Act in the third quarter of 2016.

Funds flow netbacks

($/bbl)	**Three months ended June 30,**		%	**Six months ended June 30,**		%
	2016	2015	change	**2016**	2015	change
Operating netback[1]	**43.77**	22.57	94	**35.74**	22.77	57
G&A	**(13.06)**	(14.00)	(7)	**(14.87)**	(16.31)	(9)
Cash finance expense[1]	**(2.80)**	(0.70)	100	**(3.42)**	(0.64)	100
Current income taxes	**(0.40)**	(2.77)	(86)	**(0.27)**	(1.71)	(84)
Funds flow netback[1]	**27.51**	5.10	100	**17.18**	4.11	100

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

Second quarter funds flow netbacks were $3,310,000 or $27.51 per barrel versus $828,000 or $5.10 per barrel generated in the prior year comparative quarter. The increase in funds flow over prior year was predominantly a result of $2,688,000 in additional realized gains on derivatives in addition to $229,000 in Canadian operating netback losses incurred in the prior year comparative quarter. Year over year decreases in G&A and income taxes were slightly offset by increased finance expenses recorded in the second quarter of 2016.

For the six months ended June 30, 2016, the Company generated funds flow netbacks of $4,192,000 or $17.18 per barrel versus $1,421,000 or $4.11 per barrel in the same period of 2015. Year over year comparative decreases in G&A and income taxes were partially offset by increased finance expenses recorded throughout 2016.

Capital Expenditures and Dispositions

Exploration asset cash expenditures

($000's)	**Three months ended June 30, 2016**	2015	% change	**Six months ended June 30, 2016**	2015	% change
Trinidad						
Lease payments	**163**	-		**163**	20	
Geological	**48**	203		**71**	203	
Capitalized G&A	**123**	-		**134**	-	
Other	**107**	-		**226**	-	
	441	203	100	**594**	223	100
Canada						
Lease payments	**35**	7		**35**	54	
Capitalized losses	**-**	81		**-**	202	
	35	88	(60)	**35**	256	(86)
Company total	**476**	291	64	**629**	479	31

Exploration asset expenditures include asset additions in areas that have been determined to be in the exploration phase. The Company incurred $476,000 and $629,000 in exploration asset expenditures during the three and six months ended June 30, 2016, respectively. The majority of the expenditures relate to capitalized finance costs in connection with the East Brighton and Ortoire letters of credit that secure the concessions. In addition, capitalized G&A for work performed on the Ortoire property and accrued lease expenses were incurred in the second quarter of 2016.

Property and equipment cash expenditures

($000's)	**Three months ended June 30, 2016**	2015	% change	**Six months ended June 30, 2016**	2015	% change
Trinidad						
Drilling and completions	**(541)**	694		**170**	1,230	
Production equipment and facilities	**-**	49		**-**	398	
Capitalized G&A	**194**	303		**515**	633	
Rig equipment / other	**-**	89		**-**	38	
	(347)	1,135	(100)	**685**	2,299	(70)
Canada[1]						
Corporate assets / other	**7**	9	(22)	**21**	16	31
Company total	**(340)**	1,144	(100)	**706**	2,315	(70)

[1]Effective December 31, 2015, the Company disposed of its remaining Canadian segment producing oil and gas assets.

During the three months ended June 30, 2016, the Company reached a settlement with a supplier relating to amounts owed on a well drilled in the prior year resulting in a credit recognized through property and equipment expenditures. In 2016 the Company completed two fracture stimulations and two recompletions with no major workovers performed in the second quarter of 2016.

Asset dispositions

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 June 30, 2016, the exploration asset carrying value of $1,278,000 and associated decommissioning obligations balance of $1,278,000 were both classified as held for 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. In addition to the mineral rights, the sale included all of the facilities, infrastructure, interests and decommissioning obligations related to the Kerrobert combustion project. 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.

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 Cdn$:US$ and Cdn$:TT$ 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.

On June 2, 2016, the Company liquidated its outstanding commodity financial contracts for gross proceeds of US$2,019,000. During the three and six months ended June 30, 2016, the Company realized gains of $3,316,000 and $6,462,000 (2015 - $628,000 and $2,007,000) and unrealized losses of $6,099,000 and $8,432,000 (2015 – $2,206,000 and $2,387,000) related to commodity management contracts, respectively. The Company had no commodity financial contracts in place as at June 30, 2016 and the date of this MD&A.

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$ and US$ 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 and six months ended June 30, 2016.

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 and six months ended June 30, 2016.

Liquidity and Capital Resources

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's long-term goal is to fund capital expenditures and reclamation expenditures using funds flow from operations.

($000's)	**June 30, 2016**	December 31, 2015
Net debt (surplus)[1]	**4,188**	(987)
Shareholders' equity	**43,059**	52,657

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

The Company exited the second quarter of 2016 with a net debt position of $4,188,000, including $2,782,000 in cash. In June 2016 the Company liquidated its outstanding commodity hedges which resulted in proceeds of US$2,019,000 which were used to repay US$2,000,000 of its bank loan principal in the quarter, leaving $nil outstanding as of June 30, 2016 and the date of this MD&A. The Company funded its combined $1,335,000 of year to date 2016 capital expenditures from operating funds flows and $650,000 received from the Kerrobert disposition.

Bank loan

The Company has 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$6,000,000 at June 30, 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 June 30, 2016, $nil 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 June 30, 2016, $nil was available to be drawn on the credit facility (December 31, 2015 – $nil).

The Company is subject to the following financial and operational bank loan covenants:

- Quarterly 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. Total debt includes principal amounts drawn from the credit facility and outstanding letter of credit and bonding obligations. "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.

- Quarterly 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 bank loan 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 1,400 barrels per day.

The major financial and operational covenants and the Company's estimated position as at and during the three months ended June 30, 2016 were as follows:

Covenant	**Estimated Position at June 30, 2016[1]**	**Covenant threshold**
Total debt to EBITDA ratio	1.0 times	Max 3.0 times
Interest coverage ratio	10.8 times	Min 2.5 times
April 2016 production covenant (barrels per day)	1,318	Min 1,400
May 2016 production covenant (barrels per day)	1,366	Min 1,400
June 2016 production covenant (barrels per day)	1,278	Min 1,400

[1]Estimated position subject to final approval.

Effective June 7, 2016, the Company and its lender executed an amendment and limited waiver to the credit agreement which cured the Company's April and May monthly production covenant breaches and reduced the credit facility borrowing base from US$8,000,000 to US$6,000,000. Effective July 20, 2016, the parties executed another amendment and limited waiver. This agreement cured the Company's June 2016 monthly production covenant breach and extended the US$1,000,000 prepayment due on July 15, 2016 to August 31, 2016 should the East Brighton letter of credit remain outstanding. Upon the cancellation of the East Brighton letter of credit, the borrowing base will concurrently be reduced to $nil. Beginning on July 29, 2016 and on the 15th of each month thereafter, the Company is required to pre-pay US$75,000 per month to the lender. The Company is currently in default of its July 2016 monthly production covenant and is seeking a waiver from its lender.

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 manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability. There can be no certainty as to the ability of the Company to increase its credit facility borrowing base or obtain new financing should low crude oil prices persist.

Undiscounted cash outflows relating to financial liabilities as at June 30, 2016 was as follows:

($000's)	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**Total**
Accounts payable and accrued liabilities	11,125	-	-	11,125
Income taxes payable	4,328	-	-	4,328
Bank loan	-	-	-	-
Total financial liabilities	**15,453**	**-**	**-**	**15,453**

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.

Contractual Obligations, Commitments and Guarantees

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

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under the Ortoire license and production agreement with the MEEI and various lease commitments for office space and light-duty vehicles. As of June 30, 2016, Touchstone's estimated capital commitments over the next five years and thereafter were as follows:

($000's)	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**	**Total**
Minimum work obligations and lease payments:						
Coora block	2,096	2,113	125	81	128	4,543
WD-4 block	1,364	1,339	1,386	88	91	4,268
WD-8 block	1,071	1,105	1,154	72	123	3,525
New Dome block	52	11	13	13	28	117
South Palo Seco block	1,214	92	97	103	218	1,724
Ortoire exploration commitments	189	7,839	4,208	2,271	334	14,841
Office leases	176	227	401	380	504	1,688
Equipment leases	4	-	-	-	-	4
Total minimum payments	**6,166**	**12,726**	**7,384**	**3,008**	**1,426**	**30,710**

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 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 ("EDC") 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 June 30, 2016 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, were as follows:

($000's)	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**	**Total**
Lease payments	111	292	306	320	334	1,363
Geological studies	78	-	-	-	-	78
2D seismic	-	5,596	-	-	-	5,596
Drilling commitments	-	1,951	3,902	1,951	-	7,804
Total minimum payments	**189**	**7,839**	**4,208**	**2,271**	**334**	**14,841**

The Company has a US$6,000,000 letter of credit relating to work commitments on the East Brighton block which restricts the entire borrowing base available on the credit facility. This letter of credit is expected to be cancelled upon closing of the East Brighton disposition, at which point the bank loan borrowing base will be reduced to $nil. The Company has excluded an estimated US$4,200,000 in future East Brighton work obligations in its commitments disclosure above, of which there are no immediate commitments in 2016.

Off-balance Sheet Arrangements

Touchstone has certain office and equipment lease agreements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations. All leases are currently treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the statement of financial position as of June 30, 2016.

As disclosed above, the Company has letters of credit in the amounts of US$6,000,000 and US$3,313,000 that are secured by Touchstone's bank loan and by the EDC, respectively. These liability values are not included on the statement of financial position as at June 30, 2016.

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 June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
Common shares outstanding – end of period	**83,137,143**	83,087,143
Share options outstanding – end of period	**6,074,040**	5,308,445
Incentive share options outstanding – end of period	**227,500**	298,125
Warrants outstanding – end of period	**-**	2,260,800

As at the date of this MD&A, there were 83.1 million common shares outstanding and 6.3 million share options and incentive share options 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	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
Operating				
Average daily production *(bbls/d)*	1,322	1,361	1,571	1,638
Average oil prices before derivatives *($/bbl)*	49.83	38.66	49.54	56.24
Operating netback[1] *($/bbl)*				
Petroleum revenue	49.83	38.66	49.54	56.24
Royalties	(13.52)	(11.59)	(15.60)	(18.06)
Operating expenses	(20.10)	(24.53)	(26.81)	(26.75)
Operating netback prior to hedging	16.21	2.54	7.13	11.43
Realized gain on derivatives	27.56	25.40	16.25	12.12
Operating netback after hedging	43.77	27.94	23.38	23.55
Operating netback[1] *($000's)*				
Petroleum revenue	5,996	4,787	7,159	8,476
Royalties	(1,627)	(1,435)	(2,254)	(2,722)
Operating expenses	(2,419)	(3,038)	(3,874)	(4,032)
Operating netback prior to hedging	1,950	314	1,031	1,722
Realized gain on derivatives	3,316	3,146	2,348	1,826
Operating netback after hedging	5,266	3,460	3,379	3,548
Financial *($000's except share and per share amounts)*				
Funds flow from operations[1]	3,278	919	1,408	313
Per share – basic and diluted[1]	0.04	0.01	0.02	0.01
Net (loss) earnings	(2,553)	(2,444)	152	(12,666)
Per share – basic and diluted	(0.03)	(0.03)	0.01	(0.15)
Capital expenditures				
Exploration assets	476	153	612	154
Property and equipment	(340)	1,046	578	679
Company total	136	1,199	1,190	833
Total assets - end of period	73,330	81,209	100,619	101,564
Net debt (surplus) [1] - end of period	4,188	1,164	(987)	39
Weighted average shares outstanding				
Basic	83,125,605	83,087,143	83,087,143	83,080,866
Diluted	83,125,605	83,087,143	83,294,151	83,080,866
Outstanding shares - end of period	83,137,143	83,087,143	83,087,143	83,087,143

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

Three months ended	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Operating				
Average daily production *(bbls/d)*	1,786	2,036	2,283[1]	2,269[1]
Average oil prices before derivatives *($/bbl)*	65.12	55.25	75.36[1]	92.82[1]
Financial *($000's except share and per share amounts)*				
Funds flow from operations[2]	762	425	2,247	4,264
Per share – basic and diluted[2]	0.01	0.01	0.03	0.05
Net loss	(8,505)	(1,128)	(49,356)	(6,690)
Per share – basic and diluted	(0.10)	(0.01)	(0.59)	(0.08)
Capital expenditures				
Exploration assets	291	188	504	1,851
Property and equipment	1,144	1,171	9,960	5,834
Company total	1,435	1,359	10,464	7,685
Total assets - end of period	125,788	141,486	140,333	192,637
Net debt (surplus)[2] - end of period	5,755	6,172	6,926	(1,570)
Weighted average shares outstanding				
Basic and diluted	83,079,643	83,073,865	83,059,643	82,844,988
Outstanding shares - end of period	83,079,643	83,079,643	83,059,643	83,059,643

[1]Average daily production and average realized prices include Canadian exploration property results.
[2]See "*Non-GAAP Measures.*"

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.

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. Net operating losses and net debt decreased throughout 2015 based on Canadian segment asset dispositions that closed during the year.

Effective December 31, 2015, Touchstone disposed of its Kerrobert property, which was the Company's remaining Canadian segment producing asset. Accordingly, there was no Canadian segment production or operating expenses during 2016.

Business Risks

For a full understanding of risks that affect the Company, the following should be read in conjunction with the Company's Annual Information Form dated March 24, 2016 available on SEDAR.

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.

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$6,000,000 and will be further reduced to $nil based on the decline in forward commodity prices. There can be no certainty as to the ability of the Company to increase its credit facility borrowing base or obtain new financing should low crude oil prices persist.

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 maintaining an adaptable capital expenditure program that can be adjusted to capitalize on acquisition opportunities and, if necessary, a tightening of liquidity sources.

Significant Accounting Judgments, Estimates, Assumptions and Accounting Policies

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 estimates and those differences may be material. The estimates and assumptions used are subject to updates based on experience and the application of new information. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the period in which the estimates are revised. There were no changes to the Company's significant judgments, estimates or assumptions used in applying accounting policies during the six months ended June 30, 2016. Further details on the Company's significant accounting policies and significant accounting judgements, estimates and assumptions can be found in the notes to the audited consolidated financial statements and the MD&A for the year ended December 31, 2015.

Adoption of new accounting policies

There were no new or amended accounting standards or interpretations adopted by the Company during the six months ended June 30, 2016.

Future changes in accounting policies

There were no new or amended accounting standards or interpretations issued during the six months ended June 30, 2016 that are applicable to the Company in future periods. A description of additional accounting standards and interpretations that will be adopted in future periods can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2015.

Control Environment

There have been no changes to internal control over financial reporting ("ICFR") during the three months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, ICFR.

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.

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;
- the Company's future sources of liquidity;
- the Company's future compliance with its credit facility covenants;
- terms of exploration and production contracts and the expected renewal of certain contracts;
- 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;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;

- 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; and
- effect of business and environmental risks on the Company.

The Company is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results. The Company is exposed to risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities. Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain qualified employees on a cost-effective basis, commodity and marketing risk. The Company is subject to significant drilling risks and uncertainties including the ability to find 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)	**Three months ended June 30,**		**Six months ended June 30,**	
	2016	2015	**2016**	2015
Cash flows from operating activities	**3,543**	2,562	**6,355**	41
Changes in non-cash working capital	**(265)**	(1,800)	**(2,158)**	1,146
Funds flow from operations	**3,278**	762	**4,197**	1,187

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

The Company also 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, realized gains/losses on derivative contracts, general and administrative expenses, net cash finance expenses and current income tax expenses from petroleum revenue. Net cash finance expenses include all cash finance expenses incurred during a period and exclude the amortization of prepaid bank loan fees. Management uses funds flow netbacks for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

The following table summarizes net debt (surplus):

($000's)	**June 30, 2016**	December 31, 2015
Working capital deficiency (surplus)	**4,188**	(987)
Long-term portion of bank loan	**-**	-
Net debt (surplus)	**4,188**	(987)

Net debt (surplus) 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 dated March 24, 2016, can be accessed on-line on SEDAR at www.sedar.com or from the Company’s website at www.touchstoneexploration.com.

CORPORATE INFORMATION

DIRECTORS

John Wright[3]
Chairman of the Board

Paul R. Baay

Kenneth McKinnon[1,2]

Trevor Mitzel[1,2]

Corey Ruttan[1,3]

Thomas Valentine[4]

Harrie Vredenburg[2,3]

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

OFFICERS AND KEY PERSONNEL

Paul R. Baay
President and Chief Executive Officer

Scott Budau
Chief Financial Officer

James Shipka
Chief Operating Officer

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BANKERS

The Bank of Nova Scotia
Houston, USA
Port of Spain, Trinidad

AUDITORS

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

RESERVE EVALUATORS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

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
WTI	Western Texas Intermediate, the reference price paid for crude oil and standard grade in U.S. dollars at Cushing Oklahoma

Other

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