Touchstone Exploration Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2016

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

	Note	**September 30, 2016**	December 31, 2015
Assets	7		
Current			
Cash		**$ 1,248**	$ 4,710
Restricted cash	7	**295**	-
Accounts receivable	13	**8,432**	9,846
Crude oil inventory		**163**	261
Prepaid expenses		**449**	3,680
Financial derivatives	13	**-**	7,650
Assets held for sale	4	**-**	1,413
		10,587	27,560
Exploration assets	4	**3,457**	1,654
Property and equipment	5	**57,566**	70,639
Other assets	6	**940**	766
		$ 72,550	$ 100,619
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 11,260**	$ 12,219
Income taxes payable		**3,442**	4,637
Bank loan	7	**-**	8,304
Liabilities associated with assets held for sale	4,8	**-**	1,413
		14,702	26,573
Provisions		**502**	830
Decommissioning obligations	8	**11,720**	15,168
Deferred income taxes		**3,018**	5,391
		29,942	47,962
Shareholders' equity			
Shareholders' capital	9	**169,995**	169,950
Warrants		**-**	33
Contributed surplus		**2,139**	1,939
Accumulated other comprehensive income		**8,456**	13,018
Deficit		**(137,982)**	(132,283)
		42,608	52,657
		$ 72,550	$ 100,619

Basis of presentation (note 2)
Subsequent event (note 7)
Commitments (note 15)

See accompanying notes to these interim consolidated financial statements.

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

(signed)
John D. Wright
Chairman

(signed)
Trevor Mitzel
Director

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

	Note	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Revenues					
Petroleum revenue		**$ 6,169**	$ 8,476	**$ 16,952**	$ 29,181
Royalties		**(1,630)**	(2,722)	**(4,692)**	(8,856)
		4,539	5,754	**12,260**	20,325
Realized gain on financial derivatives	13	**-**	1,826	**6,462**	3,833
Unrealized gain (loss) on financial derivatives	13	**-**	3,305	**(8,432)**	918
		4,539	10,885	**10,290**	25,076
Expenses					
Operating		**2,307**	4,032	**7,764**	12,740
General and administrative		**1,077**	2,591	**4,708**	8,229
Gain on asset dispositions		**-**	(3,351)	**-**	(3,475)
Loss on marketable securities		**-**	-	**-**	51
Net finance (income) expenses	10	**(1,007)**	311	**(171)**	872
Foreign exchange loss (gain)		**30**	(798)	**130**	(1,656)
Share-based compensation	9	**58**	102	**159**	249
Depletion and depreciation	5	**1,153**	2,110	**3,566**	6,045
Impairment	4,5	**813**	31,036	**1,040**	37,774
Accretion	8	**123**	159	**277**	471
		4,554	36,192	**17,473**	61,300
Loss before income taxes		**(15)**	(25,307)	**(7,183)**	(36,224)
Income taxes					
Current tax expense		**369**	460	**436**	1,051
Deferred tax expense (recovery)		**318**	(13,101)	**(1,920)**	(14,976)
		687	(12,641)	**(1,484)**	(13,925)
Net loss		**(702)**	(12,666)	**(5,699)**	(22,299)
Foreign currency translation adjustment		**179**	4,551	**(4,562)**	7,880
Comprehensive loss		**$ (523)**	$ (8,115)	**$ (10,261)**	$ (14,419)
Net loss per common share					
Basic and diluted	11	**$ (0.01)**	$ (0.15)	**$ (0.07)**	$ (0.27)

See accompanying notes to these interim consolidated financial statements.

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

	Note		Shareholders' capital		Warrants		Contributed surplus		Accumulated other comprehensive income		Deficit		Total
Balance as at January 1, 2015		**$**	**169,893**	**$**	**33**	**$**	**1,513**	**$**	**4,455**	**$**	**(110,136)**	**$**	**65,758**
Net loss			-		-		-		-		(22,147)		(22,147)
Other comprehensive income			-		-		-		8,563		-		8,563
Share-based compensation expense			-		-		363		-		-		363
Share-based compensation capitalized			-		-		118		-		-		118
Share-based settlements			57		-		(55)		-		-		2
Balance as at December 31, 2015		**$**	**169,950**	**$**	**33**	**$**	**1,939**	**$**	**13,018**	**$**	**(132,283)**	**$**	**52,657**
Net loss			-		-		-		-		(5,699)		(5,699)
Other comprehensive loss			-		-		-		(4,562)		-		(4,562)
Share-based compensation expense	9		-		-		160		-		-		160
Share-based compensation capitalized	5		-		-		49		-		-		49
Share-based settlements	9		45		-		(42)		-		-		3
Transfer of unexercised warrants			-		(33)		33		-		-		-
Balance as at September 30, 2016		**$**	**169,995**	**$**	**-**	**$**	**2,139**	**$**	**8,456**	**$**	**(137,982)**	**$**	**42,608**

See accompanying notes to these interim consolidated financial statements.

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

	Note	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
Cash provided by (used in):					
Operating activities					
Net loss		**$ (702)**	$ (12,666)	**$ (5,699)**	$ (22,299)
Items not involving cash from operations:					
Gain on asset dispositions		**-**	(3,351)	**-**	(3,475)
Unrealized (gain) loss on financial derivatives	13	**-**	(3,305)	**8,432**	(918)
Non-cash loss on marketable securities		**-**	-	**-**	41
Share-based compensation	9	**58**	102	**159**	249
Depletion and depreciation	5	**1,153**	2,110	**3,566**	6,045
Impairment	4,5	**813**	31,036	**1,040**	37,774
Accretion	8	**123**	159	**277**	471
Non-cash other		**(193)**	180	**(402)**	423
Unrealized foreign exchange (gain) loss		**(3)**	(851)	**311**	(1,835)
Deferred income tax expense (recovery)		**318**	(13,101)	**(1,920)**	(14,976)
		1,567	313	**5,764**	1,500
Change in non-cash working capital		**(533)**	(1,436)	**1,625**	(2,582)
		1,034	(1,123)	**7,389**	(1,082)
Investing activities					
Restricted cash	7	**(295)**	-	**(295)**	-
Disposition of marketable securities		**-**	-	**-**	249
Exploration asset expenditures	4	**(847)**	(154)	**(1,476)**	(633)
Property and equipment expenditures	5	**(327)**	(679)	**(1,033)**	(2,994)
Proceeds from dispositions	5	**(250)**	6,300	**650**	8,500
Change in non-cash working capital		**(831)**	(975)	**(845)**	(4,671)
		(2,550)	4,492	**(2,999)**	451
Financing activities					
Net payments of bank loan	7	**-**	(1,325)	**(7,864)**	(74)
Finance lease receipts (payments)	6	**3**	64	**38**	(233)
Issuance of common shares	9	**-**	1	**3**	2
		3	(1,260)	**(7,823)**	(305)
Change in cash		**(1,513)**	2,109	**(3,433)**	(936)
Cash, beginning of period		**2,782**	4,363	**4,710**	7,441
Impact of foreign exchange in foreign denominated cash balances		**(21)**	(23)	**(29)**	(56)
Cash, end of period		**$ 1,248**	$ 6,449	**$ 1,248**	$ 6,449
Supplemental information:					
Cash interest paid		**-**	99	**152**	257
Cash income taxes paid		**12**	1,102	**79**	3,199

See accompanying notes to these interim consolidated financial statements.

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

1. Reporting Entity

Touchstone Exploration Inc. (the "Company"), formerly Petrobank Energy and Resources Ltd., is incorporated under the laws of Alberta, Canada with its head office located in Calgary, Alberta. The Company is an oil and gas exploration and production company active in the Republic of Trinidad and Tobago ("Trinidad").

The principal address of the Company is located at 4100, 350 7th Avenue SW, Calgary, Alberta, T2P 3N9. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "TXP".

2. Basis of Presentation

(a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. The interim consolidated financial statements do not include all of the information required for full annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

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

The interim consolidated financial statements were authorized for issue by the Board of Directors on November 9, 2016.

(b) Basis of presentation

On November 7, 2016, the Company entered into escrow arrangements for a $15,000,000, five-year term loan agreement (the "Term Loan") from a Canadian investment fund. The Term Loan is expected to become effective prior to November 30, 2016 once all conditions precedent have been met, which includes the completion of security interest filings in Trinidad and Barbados and the receipt of regulatory approvals in Trinidad. The financing is intended to replace the Company's existing bank loan. The proceeds will primarily be used to cash collateralize the Company's US$6,000,000 letter of credit currently secured by its existing bank loan. The Term Loan is subject to various financial covenants (see note 7).

Taking into consideration the Term Loan, management's current forecast using 2016 and 2017 forward strip prices of Brent US$45.00 indicates that the Company will generate sufficient cash flows and be in compliance with all financial covenants for the next fifteen months.

(c) Basis of measurement

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

(d) Functional and presentation currency

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

(e) Use of estimates, judgements and assumptions

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

3. Changes in Accounting Policies

(a) Accounting standards adopted

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

(b) Standards issued but not yet adopted

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

4. Exploration Assets

Exploration assets consist of the Company's projects in the exploration and evaluation stage which are pending determination of technical and commercial feasibility. The following is a continuity schedule of the Company's exploration assets:

	Trinidad	Canada	Total
Balance, January 1, 2015	**$ 1,306**	**$ 8,183**	**$ 9,489**
Additions	1,792	273	2,065
Transfer to property and equipment	(631)	(3,237)	(3,868)
Dispositions	-	(4,728)	(4,728)
Classified as held for sale	(1,413)	-	(1,413)
Effect of change in foreign exchange rates	109	-	109
Balance, December 31, 2015	**$ 1,163**	**$ 491**	**$ 1,654**
Additions	1,441	35	1,476
Dispositions (note 5)	-	(60)	(60)
Impairment	(790)	-	(790)
Transfer from held for sale	1,413	-	1,413
Effect of change in foreign exchange rates	(236)	-	(236)
Balance, September 30, 2016	**$ 2,991**	**$ 466**	**$ 3,457**

The Company entered into an agreement on October 1, 2015 to dispose of its 70% working interest in the East Brighton offshore block. The transaction failed to close as the agreement expired on September 16, 2016. Accordingly, the carrying values of the East Brighton exploration asset and associated decommissioning obligations were no longer classified as held for sale as at September 30, 2016. During the three and nine months ended September 30, 2016, the Company incurred $563,000 and $790,000 of East Brighton expenses which were impaired as the recoverable amount of the asset did not exceed the corresponding carrying amount. The Company incurred lease payments and letter of credit holding costs in relation to the property, which resulted in the additional impairment charges.

During the three and nine months ended September 30, 2016, $40,000 and $174,000 (2015 - $nil and $nil) of general and administrative expenses were capitalized to Trinidad segment exploration assets, respectively.

5. Property and Equipment

		Trinidad		Canada		Total
Cost:						
Balance, January 1, 2015	**$**	**139,256**	**$**	**7,390**	**$**	**146,646**
Additions		4,093		278		4,371
Dispositions		(1,626)		(414)		(2,040)
Effect of change in foreign exchange rates		25,473		-		25,473
Balance, December 31, 2015	**$**	**167,196**	**$**	**7,254**	**$**	**174,450**
Additions		1,263		22		1,285
Dispositions		-		(4,197)		(4,197)
Effect of change in foreign exchange rates		(15,260)		-		(15,260)
Balance, September 30, 2016	**$**	**153,199**	**$**	**3,079**	**$**	**156,278**
Accumulated depletion, depreciation and impairments:						
Balance, January 1, 2015	**$**	**43,241**	**$**	**1,819**	**$**	**45,060**
Depletion and depreciation		7,762		618		8,380
Impairments		33,996		(2,223)		31,773
Dispositions		(442)		1,539		1,097
Decommissioning obligation change in estimate		8,170		-		8,170
Effect of change in foreign exchange rates		9,331		-		9,331
Balance, December 31, 2015	**$**	**102,058**	**$**	**1,753**	**$**	**103,811**
Depletion and depreciation		3,461		154		3,615
Dispositions		-		670		670
Effect of change in foreign exchange rates		(9,384)		-		(9,384)
Balance, September 30, 2016	**$**	**96,135**	**$**	**2,577**	**$**	**98,712**
Net book values:						
Balance, December 31, 2015	**$**	65,138	**$**	5,501	**$**	70,639
Balance, September 30, 2016		**57,064**		**502**		**57,566**

As at September 30, 2016, $63,653,000 and $nil in future development costs were included in the respective Trinidad and Canada cost bases for depletion calculation purposes (December 31, 2015 - $70,764,000 and $1,019,000). During the three and nine months ended September 30, 2016, $211,000 and $726,000 (2015 - $318,000 and $951,000) of general and administrative expenses and $13,000 and $49,000 (2015 - $25,000 and $98,000) of share-based compensation expenses were capitalized to Trinidad segment property and equipment, respectively.

On February 1, 2016, the Company closed a transaction to dispose of its Kerrobert property and equipment cash generating unit ("CGU") and undeveloped land in its Luseland, Edam and Winter CGUs, all of which were included in the Company's Canadian operations segment. The Company received total consideration of $4,150,000, which included cash proceeds of $650,000 and $3,500,000 in securities through the issuance of 35,000 non-voting preferred shares of the purchaser. The preferred shares were valued at $250,000 due to a share conversion option exercisable on July 1, 2016. During the three months ended September 30, 2016, the share conversion receivable was written to $nil as the purchaser entered creditor protection. This resulted in an impairment expense of $250,000.

The Company's Fyzabad and Palo Seco agreements with the Trinidad and Tobago Minister of Energy and Energy Industries ("MEEI") expired on August 19, 2013. The Company is currently negotiating license renewals and has permission from the MEEI to operate in the interim period. The Company has no indication that the two licenses will not be renewed. During the three and nine months ended September 30, 2016, the production volumes produced under expired MEEI production licenses represented 5.7% and 5.4% of total Trinidad segment production, respectively (2015 – 5.7% and 6.0%).

The Company is operating under a number of Trinidad freehold lease agreements which have expired and are currently being renegotiated. Based on legal opinions received, the Company is continuing to recognize revenue on the producing blocks as the Company is the operator, no title to the revenue has been disputed, and the Company is paying all associated royalties and taxes. The Company currently has no indication that any of the producing expired leases will not be renewed. During the three and nine months ended September 30, 2016, the production volumes produced under expired Trinidad freehold lease agreements represented 3.2% and 2.6% of total Trinidad segment production, respectively (2015 – 2.0% and 2.2%).

6. Other Assets

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

	September 30, 2016	December 31, 2015
Net investment in finance lease:		
Finance lease – gross investment	**$ 1,231**	$ 1,224
Unearned finance income	**(217)**	(191)
Total	**$ 1,014**	$ 1,033
Current portion (included in accounts receivable)	**177**	267
Non-current portion (included in other assets)	**837**	766
Total	**$ 1,014**	$ 1,033

In addition to the $837,000 lease receivable, the Company has a $103,000 prepaid expense balance included in other assets that is long-term in nature.

7. Bank Loan

Subsequent to September 30, 2016, the Company entered into escrow arrangements for the $15,000,000, five-year Term Loan to replace the Company's existing bank loan. The Term Loan will be released from escrow and the funds will be advanced upon satisfaction of conditions precedent, including security registrations in favour of the lender. The proceeds will primarily be used to cash collateralize the Company's US$6,000,000 letter of credit currently secured by its existing bank loan. The Term Loan also requires that the Company maintain a minimum cash reserve balance of $5,000,000 at inception, the amount of which can be reduced if the Company meets certain financial thresholds or raises additional equity.

The Term Loan matures 60 months from the closing date with no mandatory repayment of principal until 24 months. The Term Loan bears a fixed interest rate of 8% per annum, compounded and payable quarterly in arrears from January 1, 2017. The Term Loan also grants the lender a 1% gross overriding royalty on petroleum sales (the "Royalty") from current Company land holdings in Trinidad during the loan term. The Company has the ability to prepay the Term

Loan after 18 months and has the option to buy out all of the future Royalty obligations if the Term Loan balance is prepaid in full. The Term Loan and the Company's obligations in respect of the Royalty will be principally secured by fixed and floating security interests over all present and after acquired assets of the Company and its subsidiaries. The Term Loan contains quarterly financial covenants, including the maintenance of a maximum net debt to earnings (before interest, taxes, and non-cash items) ratio, minimum earnings (before interest, taxes, and non-cash items), and a maximum net funded debt to shareholders' equity ratio.

Prior to the effective date of the Term Loan, the Company continues to operate under its existing bank loan. Total borrowings permitted under the facility cannot exceed the borrowing base, which was US$5,775,000 at September 30, 2016 (December 31, 2015 – US$12,000,000). The facility is principally secured by a pledge of the Company's equity interest in its material subsidiaries, together with their respective assets. At September 30, 2016, $nil was drawn against the bank loan (December 31, 2015 - $8,304,000 or US$6,000,000), and the borrowing base was fully restricted by the letter of credit securing the Company's East Brighton offshore concession.

Effective September 15, 2016, the Company and its lender executed an amendment and limited waiver which cured the Company's July and August 2016 monthly production covenant breaches and extended the US$1,000,000 prepayment due on August 31, 2016 to September 30, 2016 should the secured letter of credit remain outstanding. The Company breached its September and October 2016 monthly production covenants and has failed to pay the US$1,000,000 collateralization payment due September 30, 2016. To date, the lender has elected not to enforce its remedies in connection with the breaches in light of the Term Loan. Each breach of a bank loan covenant allows the lender to demand funds to collateralize the letter of credit balance or negotiate revisions to existing covenants.

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, of which $295,000 (US$225,000) of cash was classified as restricted as of September 30, 2016.

8. Decommissioning Obligations

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

Under certain Trinidad licenses, the Company is obligated to remit funds into an abandonment fund based on production. The abandonment fund obligations are determined based on cumulative crude oil sales and recognized as a current liability and a reduction of the long-term decommissioning obligation. Payments to the fund are typically made on an annual basis and recorded as a long-term asset included in property equipment. As at September 30, 2016, the Company has remitted $654,000 of abandonment fund payments and $320,000 in short-term fund obligations are included in accounts payable and accrued liabilities. The Company and the Trinidad government must agree on the budget and particular site to reclaim prior to using the abandonment fund.

	Trinidad	Canada	Total
Balance, January 1, 2015	**$ 13,979**	**$ 5,441**	**$ 19,420**
Dispositions	-	(1,625)	(1,625)
Liabilities incurred	517	-	517
Accretion expense (recovery)	643	(19)	624
Change in estimates	(5,098)	231	(4,867)
Effect of change in foreign exchange rates	2,918	-	2,918
Balance, December 31, 2015	**$ 12,959**	**$ 4,028**	**$ 16,987**
Dispositions (note 5)	-	(4,028)	(4,028)
Liabilities incurred	1	-	1
Accretion expense	276	-	276
Change in estimates	(3)	-	(3)
Effect of change in foreign exchange rates	(1,194)	-	(1,194)
Balance, September 30, 2016	**$ 12,039**	**$ -**	**$ 12,039**
Non-current	11,719	-	11,719
Current (included in accounts payable)	320	-	320
Total	**$ 12,039**	**$ -**	**$ 12,039**

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

As at September 30, 2016, the Company estimated the total undiscounted cash flows required to settle its Trinidad decommissioning obligations was approximately $24,403,000 (December 31, 2015 - $26,809,000). The majority of these obligations are anticipated to be incurred in twenty-five years and are expected to be funded from the abandonment fund and the Company's internal resources available at the time of settlement. Decommissioning liabilities were discounted using a weighted average risk-free rate of 7.5% and calculated using an inflation rate of 4% (December 31, 2015 – 7.5% and 4%, respectively).

9. Shareholders' Capital

(a) Issued and outstanding common shares

	Number of shares	Amount
Balance, January 1, 2015	**83,059,643**	**$ 169,893**
Exercise of incentive share options	27,500	57
Balance, December 31, 2015	**83,087,143**	**$ 169,950**
Exercise of incentive share options	50,000	45
Balance, September 30, 2016	**83,137,143**	**$ 169,995**

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

(b) Share options

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

	Number of options	Weighted avg. exercise price	
Outstanding, January 1, 2015	**4,814,085**	**$**	**1.04**
Granted	1,891,800		0.33
Forfeited	(1,397,440)		1.21
Outstanding, December 31, 2015	**5,308,445**	**$**	**0.75**
Granted	1,578,800		0.23
Forfeited	(865,205)		0.80
Outstanding, September 30, 2016	**6,022,040**	**$**	**0.60**
Exercisable, September 30, 2016	**2,786,166**		**0.87**

(c) Incentive share options

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

	Number of incentive shares	Weighted avg. exercise price	
Outstanding, January 1, 2015	**336,750**	**$**	**0.06**
Exercised	(27,500)		0.10
Forfeited	(11,125)		0.10
Outstanding, December 31, 2015	**298,125**	**$**	**0.06**
Exercised	(50,000)		0.05
Forfeited	(20,625)		0.10
Outstanding, September 30, 2016	**227,500**	**$**	**0.06**
Exercisable, September 30, 2016	**160,800**		**0.06**

10. Net Finance Income

	Three months ended September 30,				Nine months ended September 30,			
		2016		2015		**2016**		2015
Interest income	**$**	**(25)**	$	(58)	**$**	**(86)**	$	(68)
Interest expense on bank loan		**-**		171		**120**		384
Finance fees and other		**(982)**		198		**(205)**		556
Net finance (income) expenses	**$**	**(1,007)**	$	311	**$**	**(171)**	$	872

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

11. Loss per Common Share

	Three months ended September 30, **2016**	Three months ended September 30, 2015	Nine months ended September 30, **2016**	Nine months ended September 30, 2015
Net loss	**$ (702)**	$ (12,666)	**$ (5,699)**	$ (22,299)
Weighted number of average common shares outstanding:				
Basic and diluted	**83,137,143**	83,080,866	**83,116,705**	83,078,150
Basic and diluted loss per share	**(0.01)**	(0.15)	**(0.07)**	(0.27)

There was no dilutive impact to the weighted average number of common shares at September 30, 2016 and 2015, as all share options, incentive share options and warrants outstanding were excluded from the weighted average dilutive share calculation because their effect would be anti-dilutive.

12. Capital Management

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

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

	Target measure	**September 30, 2016**	December 31, 2015
Working capital deficiency (surplus)		**$ 4,115**	$ (987)
Long-term portion of bank loan		**-**	-
Net debt (surplus)		**$ 4,115**	$ (987)
Shareholders' equity		**42,608**	52,657
Net debt plus equity		**$ 46,723**	$ 51,670
Net debt to net debt plus equity	< 0.4 times	**0.09**	(0.02)

13. Risk Management

(a) Credit risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. All of the Company's Trinidad crude oil production is sold, as determined by market based prices adjusted for quality differentials, to the Petroleum Company of Trinidad and Tobago Limited ("Petrotrin"). Typically, the Company's maximum credit exposure to Petrotrin is revenue for one month's petroleum sales, of which $2,590,000 was included in accounts receivable as at September 30, 2016 (December 31, 2015 - $2,732,000). The aging of accounts receivable as at September 30, 2016 and December 31, 2015 were as follows:

		September 30, 2016		December 31, 2015
Not past due	**$**	**2,911**	$	8,733
Past due greater than 90 days		**5,521**		1,113
Total accounts receivable	**$**	**8,432**	$	9,846

No provision was made for past due receivables as the Company assessed that there were no impaired receivables. The Company believes that the accounts receivable balances that are past due are still collectible, as the majority are due from government agencies. The Company's carrying values of accounts receivable represent the Company's maximum credit exposure.

(b) Liquidity risk

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

To manage its capital structure in a period of low commodity prices, the Company may reduce its fixed cost structure, adjust capital spending, issue new equity or seek additional sources of debt financing. There can be no certainty as to the ability of the Company to close the Term. Furthermore, no assurance can be given that the Company's current bank loan lender will continue to not enforce its contractual remedies relating to the existing bank loan covenant breaches which could result in a material adverse impact to the Company's liquidity position and cash flows. The Company will continue to proactively manage its expenditures to reflect current financial resources in the interest of sustaining long-term viability. Undiscounted cash outflows relating to financial liabilities as at September 30, 2016 were as follows:

		Less than 1 year		**1 – 3 years**		**4 – 5 years**		**Total**
Accounts payable and accrued liabilities	$	11,260	$	-	$	-	$	11,260
Income taxes payable		3,442		-		-		3,442
Total financial liabilities	**$**	**14,702**	**$**	**-**	**$**	**-**	**$**	**14,702**

(c) Commodity price risk

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

On June 2, 2016, the Company liquidated its outstanding commodity financial contracts for gross proceeds of US$2,019,000. During the three and nine months ended September 30, 2016, the Company realized gains of $nil and $6,462,000 (2015 - $1,826,000 and $3,833,000) and unrealized losses of $nil and $8,432,000 (2015 – gains of $3,305,000 and $918,000) related to commodity management contracts, respectively. The Company had no commodity financial contracts in place as at September 30, 2016.

(d) Foreign currency risk

Foreign exchange risk arises from changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. As the Company primarily operates in Trinidad, fluctuations in the exchange rate between the Canadian dollar and the Trinidad and Tobago dollar can have a significant effect on reported results. The Company's foreign exchange gain or losses primarily include unrealized foreign exchange gains on losses on the translation of the Company's US$ denominated bank loan and the translation of the Company's TT$ denominated working capital balances. The Company's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expenses with revenues denominated in foreign currencies. The Company attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion. The Company had no contracts in place to manage foreign currency risk as at or during the three and nine months ended September 30, 2016.

(e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect earnings, cash flows and valuations. The Company is exposed to interest rate risk in relation to interest expense on its variable rate bank loan. The Company had no contracts in place to manage interest rate risk as at or during the three and nine months ended September 30, 2016.

14. Segmented Information

The Company is comprised of Trinidad and Canada operating segments.

	Trinidad	Canada	Total
As at September 30, 2016			
Exploration assets	$ 2,991	$ 466	$ 3,457
Property and equipment, net	57,064	502	57,566
Total assets	70,473	2,077	72,550
Decommissioning obligations	11,720	-	11,720
Deferred tax liabilities	3,018	-	3,018
Total liabilities	27,641	2,301	29,942
Nine months ended September 30, 2016			
Petroleum revenue	16,952	-	16,952
Total expenses	14,054	3,419	17,473
Loss before income taxes	(3,764)	(3,419)	(7,183)
Income tax (recovery) expense	(1,834)	350	(1,484)
Net loss	(1,930)	(3,769)	(5,699)
Exploration asset expenditures	1,441	35	1,476
Property and equipment expenditures	1,011	22	1,033

	Trinidad	Canada	Total
As at September 30, 2015			
Exploration assets	$ 825	$ 1,162	$ 1,987
Property and equipment, net	74,537	4,669	79,206
Total assets	80,685	20,879	101,564
Decommissioning obligations	19,458	4,005	23,463
Deferred tax liabilities	7,321	-	7,321
Total liabilities	43,908	5,968	49,876
Nine months ended September 30, 2015			
Petroleum revenue	27,152	2,029	29,181
Total expenses	54,342	6,958	61,300
Loss before income taxes	(30,957)	(5,267)	(36,224)
Income tax recovery	(13,878)	(47)	(13,925)
Net loss	(17,079)	(5,220)	(22,299)
Exploration asset expenditures	365	268	633
Property and equipment expenditures	2,968	26	2,994

15. Commitments

The Company has minimum work obligations under various operating agreements with Petrotrin, exploration commitments under exploration license and production agreements with the MEEI and various commitments for office space. The Company's estimated capital commitments over the next three years and thereafter as at September 30, 2016 were as follows:

	2016	2017	2018	Thereafter	Total
Trinidad operating agreements	$ 102	$ 9,203	$ 3,218	$ 1,461	$ 13,984
Trinidad exploration license	160	5,143	10,157	3,214	18,674
Canada office leases	48	227	401	879	1,555
Total minimum payments	**$ 310**	**$ 14,573**	**$ 13,776**	**$ 5,554**	**$ 34,213**

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

The Company has various letters of credit totaling US$299,000 related to its work commitments on its Petrotrin concessions. The Company has a security agreement with Export Development Canada in connection with a performance security guarantee that supports a US$3,313,000 letter of credit provided to the MEEI related to work commitments on its Ortoire exploration property. In addition, the Company has a US$6,000,000 letter of credit relating to work commitments on its offshore East Brighton exploration concession which restricted the full borrowing base available on the bank loan as at September 30, 2016.