



Business Description:

Touchstone Exploration Inc. ("Touchstone"), formerly Petrobank Energy and Resources Ltd., is an oil and gas exploration and production company. Touchstone's operations exist in Trinidad and Canada.

Touchstone's strategy is to leverage western Canadian enhanced oil recovery experience and capability and bring this to international upstream oil and gas onshore properties to create shareholder value.

Touchstone's core producing properties are located onshore within Trinidad. Touchstone's producing properties in Trinidad include Coora 1, Coora 2, New Dome, South Palo Seco, Barrackpore, Fyzabad, Icos, Palo Seco and San Francique. Touchstone's exploratory properties in Trinidad include Bovallius, Moruga, New Grant, Ortoire, Otaheite, Piparo, Rousillac, Siparia and St. John. Touchstone's exploratory properties in Canada include Beadle, Druid, Luseland and Winter. The gross acres of the properties include approximately 106,604. Touchstone operates a total of approximately 370 wellbores on the Coora blocks. The New Dome block is located onshore in the southwest portion of Trinidad in the Ward of Siparia. The Barrackpore Block is located approximately 11 kilometers southeast of the city of San Fernando.

Overview and Investment Thesis:

- Global energy prices are currently in a cyclical trough and there is a general expectation that prices will rise over the next 12 months. The current cyclical decline was caused by an increase in world supply of oil, which was not managed by traditional market leaders. Drilling activity has declined significantly and the over-supply is moderating.
- Trinidad is located 11 kilometres off of the coast of Venezuela, which has the world's largest proven oil reserves
- Trinidad is situated at the triple junction formed by the meeting of three plates; the Caribbean, South American and North Atlantic Plates
- Trinidad's principle industry is oil and gas (represents ~45% of country GDP)
- Trinidad exports liquefied natural gas to over 19 different countries
- Trinidad is the world's largest exporter of ammonia and second largest exporter of methanol

Industry Growth Drivers/Trends:

- The drop in oil prices is primarily attributed to the increase in global supply, which has outpaced the growth in demand. The United States nearly doubled its domestic production over the last few years and as a result has become the swing producer in the global oil markets. The growth in the US shale oil market has reduced the United States foreign oil imports.
- In order to maintain its market share, Saudi Arabia and other Organization of the Petroleum Exporting Countries have dropped their production quotas and have increased their production to record levels resulting in the imbalance of supply and demand.
- If oil prices continue to remain depressed there are likely to be more cutbacks in production as oil companies pull out of existing projects and cancel future construction, potentially having a significant upward impact on long-term oil prices.
- Global consumption of petroleum and other liquid fuels is estimated to have grown by 1.4 million barrels per day in 2015. The US Energy Information Agency expects global consumption of petroleum and other liquid fuels to again increase by 1.4 million barrels per day in both 2016 and 2017, mostly driven by

growth in countries outside of the Organization for Economic Cooperation and Development. Non-Organization for Economic Cooperation and Development consumption growth was 1.0 million barrels per day in 2015, and it is expected to be 1.3 million barrels per day in 2016 and 1.5 million barrels per day in 2017.

- India and China are expected to be the largest contributors to non-Organization for Economic Cooperation and Development petroleum consumption growth, with each country's consumption forecast to grow by 0.4 million barrels per day annually in both 2016 and 2017. In India, consumption growth is mainly a result of increased use of transportation fuels and of naphtha for new petrochemical projects. China's growth in consumption of petroleum and other liquid fuels is driven by increased use of gasoline, jet fuel, and hydrocarbon gas liquids, which more than offset decreases in diesel consumption. Last year's significant rise in the use of hydrocarbon gas liquids in China will continue at least for the next few years in our view, as new propane dehydrogenation plants increase the use of propane.

Competitive Advantages:

- We believe management has gained experience in negotiating and dealing with the various levels of governments involved in effectively operating an international oil and gas company.

Competitors:

- Gran Tierra Exchangeco Inc., Range Energy Resources Inc., Canadian Spirit Resources Inc., Petrolia Inc., CGX Energy Inc., Hemisphere Energy Corp, Bengal Energy Ltd., Toscana Energy Income Corp, PetroFrontier Corp, Avanti Energy Inc., Questfire Energy Corp, Blue Sky Energy Inc., Niko Resources Ltd., East West Petroleum Corp, Margaux Resources Ltd., Petrolympic Ltd., Montana Exploration Corp, Sahara Energy Ltd., Hyduke Energy Services Inc., and Antrim Energy Inc.

Customers:

- Touchstone sells all of its crude oil production to Petrotrin. Petrotrin is the state oil company for Trinidad and this company sets the monthly net price of crude oil in Trinidad.
- Petrotrin will purchase 100% of Touchstone's oil production regardless of volume of output.
- Petrotrin operates the only petroleum refinery in Trinidad with a full conversion capacity of up to 168,000 barrels per day and average throughput of 112,974 barrels per day.
- Petrotrin is under direct control by the Minister of Finance for Trinidad.
- Petrotrin is one of the largest employers in Trinidad with a workforce of more than 5,000 people.

Barriers to Entry:

- Trinidad and Tobago has one of the highest Foreign Direct Investment rates in Latin America and the Caribbean, therefore the country is fairly open to investment with capital flowing relatively freely across its borders.

Officers and Directors:

- Directors: President and Chief Executive Officer, Paul Baay; Corporate Secretary, Thomas Valentine; Director, John Wright; Independent Director, Kenneth McKinnon; Independent Director, Trevor Mitzel; Independent Director, Corey Ruttan; and Independent Director, Dr. Harrie Vredenburg
- Management: President and Chief Executive Officer, Paul Baay; Chief Financial Officer, Scott Budau; Chief Operating Officer, James Shipka; Corporate Secretary, Thomas Valentine; and Assistant Corporate Secretary, Andrea Hatzinikolas



Corporate Governance:

- Touchstone has 4 independent directors on its board.
- The original founder of Touchstone is the chief executive officer who still owns equity (1.33%) in the company. This shows that management's interests are still aligned with shareholders.
- Health, Safety and Environment: Touchstone's health and safety program works every day to ensure that all regulatory requirements and industry standards are understood and abided by within the workplace. Touchstone complies with all of the necessary Federal, Provincial and Local laws, as well as recognized safety practices. This is done with complete willingness as Touchstone strongly believes that workplace safety is a major component to the foundation of its corporate culture. Touchstone is currently working towards completing the Certificate of Recognition (COR) program.
- Environmental Monitoring Program: Touchstone is committed to protecting and preserving the quality of the work environment while conducting its operations. Our program is built around prevention, compliance, conservation and restoration. Touchstone closely monitors its operations through various programs including: shallow groundwater monitoring, passive air monitoring and soil monitoring – all of these efforts are taken to minimize disturbance of the lands it operates on.

Ownership:

- As of October 17, 2016, the top 5 owners of Touchstone are Polar Asset Management Partners Inc. 17.70%, Orbis Investment Management Ltd. 10.58%, John David Wright 3.41%, Paul Raymond Baay 1.33%, and Corey Christopher Ruttan 0.34%.

Capital Allocation/Uses:

- The loan by Crown Capital is being used to pay back a line of credit and is to be used for working capital purchases.
- The company has not spent capital expenditures on developing new wells since oil prices have fallen and has spent considerable time cutting operating expenses for its existing operating wells.
- Touchstone expects to continue to develop its core properties as well as divesting its non-core properties.

Profitability Ratios (Annual in Millions of Canadian Dollars)

	2015	2014	2013
Sales/Receivables	2.04	3.68	0.0
Revenue/Inventory	74.64	0.0	0.0
Revenue/Working Capital	0.0	1.21	0.0
Revenue/Total Assets	0.21	0.25	0.0
EBITDA/Common Shareholder's Equity %	(2.83%)	5.53%	(8.85%)
EBITDA/Total Equity %	(2.83%)	5.53%	(8.85%)
EBITDA/Total Assets %	(1.39%)	3.48%	(7.36%)
ROFA Fixed Assets %	(23.90%)	(75.05%)	(108.63%)
ROE Common Equity %	(37.41%)	(76.14%)	(48.44%)
ROA Total Assets %	(18.38%)	(47.89%)	(40.26%)
Income Avail. Common/Total Equity %	(37.41%)	(76.14%)	(48.44%)
Reinvestment Rate %	(37.41%)	(76.14%)	(48.44%)
Revenue/Employee	185,514.71	0.0	0.0

Composition of Revenue by Geography

	2015	2014
Canada	6%	12%
Trinidad and Tobago	94%	88%

Operating Netback¹ per Barrel (Canadian Dollars)

	2012A	2013A	2014A	2015A	2016E	2017E	2018E
Operating Netback	\$53.70	\$55.40	\$34.78	\$27.22	\$21.28	\$18.49	\$22.02


Balance Sheet (Annual As Reported in Millions of Canadian Dollars)

	2015	2014	2013
Cash	0.0	0.0	3.6
Cash and cash equivalents	4.7	7.4	0.0
Cash/Equivalents	0.0	0.0	31.5
Accounts receivable	9.8	14.9	1.3
Investment in marketable securities	0.0	0.3	20.6
Prepaid Expenses	0.8	1.8	0.7
Acquisition deposit	2.8	0.0	0.0
Financial derivatives	7.7	3.1	0.0
Assets held for sale	1.4	0.0	0.0
Crude oil inventory	0.3	0.4	0.0
Total Current Assets	27.6	28.0	57.8
Other assets Liabilities Current	0.8	1.2	0.0
Exploration assets	0.0	0.0	37.5
Property, Plant and Equipment	174.5	146.6	2.9
Acc Depr/Imp Plant/Machinery/Equipment	(3.9)	(37.1)	0.0
Depreciation	(103.8)	(45.1)	(1.6)
Exploration assets - Gross	5.5	46.6	0.0
Patent And other Intangibles	0.0	0.0	0.3
Total Assets	100.6	140.3	96.8
Accounts payable and accrued liabilities	12.2	22.3	6.6
Current portion of finance lease obligat	0.0	0.5	0.5
Current Liability HFS/Disc Operations	1.4	0.0	0.0
Bank Loan	8.3	0.0	0.0
Income taxes payable	4.6	6.6	0.0
Total Current Liabilities	26.6	29.3	7.0
Bank Loan	0.0	5.8	0.0
Finance lease obligations and other	0.8	0.3	1.2
Total Long Term Debt	0.8	6.1	1.2
Decommissioning obligations	15.2	19.1	5.2
Deferred income taxes	5.4	20.1	0.0
Total Liabilities	48.0	74.6	13.4
Shareholders Equity (CAD Millions)			
Shareholders capital	170.0	169.9	134.7
Contributed surplus	1.9	1.5	1.6
Deficit Commitments and contingencies	(132.3)	(110.1)	(52.9)
Accumulated other comprehensive income	13.0	4.5	0.0
Total Equity	52.7	65.8	83.4
Total Liabilities & Shareholders' Equity	100.6	140.3	96.8



Income Statement (Annual As Reported in Millions of Canadian Dollars)			
	2015	2014	2013
Petroleum revenue	36.3	42.6	0.0
Royalties	(11.1)	(12.6)	0.0
Total Revenue	25.2	30.0	0.0
Other SGA	4.7	0.0	0.0
Operating	16.6	15.1	0.0
General/Administration	0.0	10.0	8.3
Salary and employee	5.9	0.0	0.0
Capitalized salaries and benefits	(1.3)	0.0	0.0
Stock-based compensation	0.4	0.4	1.2
Impairment	38.1	72.2	45.0
Gain on asset dispositions	(3.5)	0.0	0.0
Severances	1.2	0.0	0.0
Acquisition-related expenses	0.0	3.0	0.0
Accretion on decommissioning liabilities	0.6	0.5	0.1
Depletion and depreciation	8.4	5.2	0.5
Total Operating Expense	71.2	106.2	55.2
Interest Income	0.1	0.0	0.0
Interest Income - Non Bank	0.0	0.2	0.3
Interest expense on bank loan	(0.4)	0.0	0.0
Interest Exp-Net of Capitalized Interest	0.0	(0.3)	0.0
Realized gain on financial derivatives	6.2	0.0	0.0
Unrealized loss on financial derivatives	2.7	0.0	0.0
Loss (gain) on marketable securities	0.0	1.9	(6.2)
Foreign exchange loss (gain)	1.8	1.0	0.0
Realized gain on financial derivatives	0.0	0.2	0.0
Unrealized gain on financial derivatives	0.0	3.1	0.0
Finance fee and other	(3.2)	0.0	0.0
Other Non-operating Income/Expense	0.0	(0.3)	0.0
Loss on marketable securities	(0.1)	0.0	0.0
Net Income Before Taxes	(38.8)	(70.4)	(61.1)
Provision for Income Taxes	(16.7)	(13.6)	(8.2)
Net Income	(22.1)	(56.8)	(52.9)

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Sourced from Thomson Reuters and Company Reports

1. Operating Netback = Revenue - Royalties - Selling Expenses (Transportation and Operating Expenses)

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