



2014



First Quarter Results

PETROBANK ANNOUNCES Q1 2014 FINANCIAL AND OPERATING RESULTS

Calgary, Alberta – May 8, 2014 – Petrobank Energy and Resources Ltd. (TSX: PBG) announces our 2014 first quarter financial and operating results.

This news release includes forward-looking statements and information within the meaning of applicable securities laws. Readers are advised to review "Forward-Looking Information and Statements" at the conclusion of this news release. A full copy of our 2014 First Quarter Financial Statements and Management's Discussion and Analysis ("MD&A") have been filed on our website at www.petrobank.com and under our profile on SEDAR at www.sedar.com.

All financial figures are unaudited and in Canadian dollars (\$) unless otherwise noted. Comparisons presented in this press release are the first quarter of 2014 compared to the first quarter of 2013, unless otherwise noted.

OVERVIEW

Q1 Financial and Operating Highlights

- Average production at our Kerrobert THAI® project was 335 barrels of oil per day ("**bopd**") in Q1 2014 compared to 222 bopd in Q4 2013 and 202 bopd in Q1 2013. Kerrobert THAI® production averaged 345 bopd in April, 2014.
- We operate two cold conventional heavy oil wells which produced approximately 50 bopd combined in Q1 2014. These cold wells currently produce approximately 75 bopd.
- At Dawson, we initiated steam injection in one of the two horizontal THAI® wells in late December 2013 and in the second well in mid-February 2014. Initial production is expected in Q2 2014 with each well expected to produce for approximately nine months before starting a second steam and production cycle.
- We recognized a non-cash accounting impairment related to our Kerrobert THAI® project of \$0.9 million, reflecting assessed fair value less costs of disposal at March 31, 2014.
- Petrobank reported expenditures on exploration assets of \$5.8 million in Q1 2014 compared to \$8.4 million in Q1 2013. The decrease was primarily related to a decrease in capitalized pre-commercial operating costs at our Kerrobert project and reduction in expenditures on land, seismic and exploration, partially offset by an increase in expenditures at our Dawson project for cyclic steam stimulation ("**CSS**") operations.
- At March 31, 2014, we had \$42.0 million of positive working capital and no debt, including 3.5 million Lightstream Resources Ltd. ("**Lightstream**") shares which earn a \$0.04 per share monthly cash dividend based on Lightstream's current dividend policy. At March 31, 2014, the Lightstream shares were valued at \$5.62 per share compared to \$7.23 per share on May 8, 2014.

PLAN OF ARRANGEMENT WITH TOUCHSTONE EXPLORATION INC.

On April 30, 2014, Petrobank and Touchstone Exploration Inc. (“Touchstone”) received approval from the Court of Queen’s Bench of Alberta for the combination of Petrobank and Touchstone, to be effected by way of a plan of arrangement (the “Arrangement”) under the Business Corporations Act (Alberta). Shareholder approval for the Arrangement was received on April 28, 2014.

Under the terms of the Arrangement Agreement dated March 6, 2014 between Petrobank and Touchstone, the Arrangement will become effective after all of the conditions to closing are satisfied or waived. Touchstone and Petrobank are currently working to bring about the satisfaction of all remaining closing conditions. Full details regarding the terms of the Arrangement are set out in the Joint Management Information Circular and Proxy Statement dated March 28, 2014 which is available on SEDAR at www.sedar.com.

OPERATIONAL UPDATE

Kerrobert THAI® Project and Saskatchewan Conventional Cold Production

First quarter 2014 Kerrobert THAI® production averaged 335 bopd, an increase from 222 bopd in Q4 2013 and 202 bopd in the Q1 2013. April 2014 production was 345 bopd based on field estimates.

As announced in late 2013, Petrobank is committed to eliminating the negative field operating netbacks at our Kerrobert THAI® project by mid-2014. This may include investing small amounts of capital to test new processes to increase production and reducing costs by shutting-in low-volume wells that require workovers. We are planning to test steam injection in the near future at one of our air injection wells. It is our intention to suspend THAI® operations in the event the negative netback cannot be eliminated by the end of the first half of 2014. We have also filed a regulatory approval application to test steam assisted gravity drainage (“SAGD”) operations at one of our THAI® wells. We will continue to evaluate the economics, opportunities and challenges with SAGD as we await regulatory approval.

Petrobank currently has two conventional cold production wells operating. These wells averaged approximately 50 bopd combined in Q1 2014 and are currently producing approximately 75 bopd combined.

Dawson Project

At Dawson, we commenced CSS operations at one of the two horizontal THAI® production wells in late-December 2013 and initiated steaming operations at the second well in mid-February 2014. First production is expected in Q2 2014. We are planning a nine-month production cycle followed by a second steam and production cycle. If these two CSS wells are successful, Petrobank intends to prepare and submit an application for full field CSS development at Dawson.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2014, we had positive working capital of \$42.0 million, including \$45.9 million of cash and marketable securities, and no third party debt. We own 3.5 million Lightstream shares and are receiving monthly cash dividends of \$0.04 per share based on Lightstream’s current dividend rate. At March 31, 2014, the Lightstream shares were valued at \$5.62 per share compared to \$7.23 per share on May 8, 2014.

Our current capital resources are expected to be adequate for our planned 2014 expenditures. Petrobank will announce revised 2014 capital and operating plans once the Arrangement is completed.

SUMMARY OF FINANCIAL RESULTS

The following table provides a summary of Petrobank's financial results for the three months ending March 31, 2014 and 2013. Unaudited consolidated financial statements with MD&A will be available on the Company's website at www.petrobank.com and on the SEDAR website at www.sedar.com.

Three months ended March 31,	2014	2013	% Change
Financial (\$000s except where noted)			
Net loss	(3,967)	(3,008)	32
Per share – basic and diluted (\$)	(0.04)	(0.03)	33
Expenditures on exploration assets	5,811	8,422	(31)
Total assets	92,952	155,183	(40)
Common shares outstanding, end of period (000s)			
Basic and diluted	97,575	97,597	-

Petrobank Energy and Resources Ltd. is a Calgary-based oil and natural gas exploration and production company with operations in western Canada. Petrobank's common shares are traded on the TSX under the symbol "PBG".

Forward-Looking Statements: Certain information provided in this press release constitutes forward-looking statements. Specifically, this press release contains forward-looking statements relating to financial results, results from operations, plans related to and the timing of certain projects, anticipated sources of available financing and the anticipated timing for the closing of the Arrangement. Forward-looking statements are necessarily based on a number of assumptions and judgments, including but not limited to, assumptions relating to the outlook for commodity and capital markets, the success of future resource evaluation and development activities, the successful application of our technology, the performance of producing wells and reservoirs, well development and operating performance, general economic conditions, weather, the regulatory and legal environment, the ability of Petrobank and Touchstone to receive, in a timely manner, the necessary regulatory, stock exchange and other third party approvals related to the Arrangement and the ability of Petrobank and Touchstone to satisfy, in a timely manner, the other conditions to the closing of the Arrangement. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. You can find a discussion of those risks and uncertainties in our Canadian securities filings. Such factors include, but are not limited to: general economic, market and business conditions; weather conditions and access to our properties; fluctuations in oil prices; the results of exploration and development drilling, recompletions and related activities; timing and rig availability; outcome of exploration contract negotiations; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; uncertainties associated with the regulatory review and approval process in respect to our projects; risks associated with the application of early stage technology; risks associated with oil and gas operations; the failure of Petrobank or Touchstone to obtain necessary regulatory, stock exchange and other third party approvals, or to otherwise satisfy the conditions to the Arrangement, in a timely manner, or at all, and other factors, many of which are beyond the control of Petrobank. There is no representation by Petrobank that actual results achieved during the forecast period will be the same in whole or in part as those forecasted. Except as may be required by applicable securities laws, Petrobank assumes no obligation to publicly update or revise any forward-looking statements made herein or otherwise, whether as a result of new information, future events or otherwise.



2014



Management's Discussion and Analysis

SUMMARY OF Q1 2014 RESULTS

Three months ended March 31,	2014	2013	% Change
Financial (\$000s except where noted)			
Net loss	(3,967)	(3,008)	32
Per share – basic and diluted (\$)	(0.04)	(0.03)	33
Expenditures on exploration assets	5,811	8,422	(31)
Total assets	92,952	155,183	(40)
Common shares outstanding, end of period (000s)			
Basic and diluted	97,575	97,597	-

The following Management's Discussion and Analysis ("MD&A") is dated May 8, 2014 and should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. ("Petrobank", "we", "our" or the "Company") as at and for the three months ended March 31, 2014 ("interim Consolidated Financial Statements") as well as the audited consolidated financial statements and accompanying notes of Petrobank Energy and Resources Ltd. as at December 31, 2013 and for the years then ended ("Consolidated Financial Statements") and MD&A for the year ended December 31, 2013.

Forward-Looking Statements

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance. Specifically, this MD&A contains forward-looking statements relating to future capital plans and projects, future production levels and sources of funding. Forward-looking statements are necessarily based upon assumptions and judgments with respect to the future including, but not limited to, the outlook for commodity markets and capital markets, success of future evaluation and development activities, the successful application of technology, prevailing commodity prices, the performance of producing wells and reservoirs, well development and operating performance, general economic and business conditions, weather, and the regulatory and legal environment. These statements are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; costs and availability of services; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; the ability to economically test, develop and utilize the Company's patented technologies, the feasibility of the technologies; and other factors, many of which are beyond the control of the Company. Accordingly, there is no representation by Petrobank that actual results achieved during the forecast period will be the same in whole or in part as those forecasts. Except to the extent required by law, Petrobank assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise.

Overview

The Company operates the Kerrobert heavy oil project using our patented THAI® heavy oil recovery process. THAI® (Toe to Heel Air Injection), is an evolutionary in-situ combustion technology for the recovery of heavy oil and bitumen. The Company has also initiated a cyclic steam stimulation (“CSS”) pilot project for the two existing THAI® wells at our Dawson property. The Kerrobert project, Dawson demonstration project and our conventional oil operations are in the exploration and evaluation phase and, accordingly, all expenses, net of revenues, are capitalized. Therefore, it is important to note that throughout this MD&A, operational results such as average daily production, revenue, royalties, production expenses, or depletion and depreciation expense are excluded.

Management is responsible for preparing the MD&A. The Audit Committee of the Company reviewed the MD&A and recommended approval by the Board of Directors (the “Board”). The Board approved the MD&A.

The interim Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards (“IFRS”) which are also generally accepted accounting principles (“GAAP”) for publicly accountable enterprises in Canada.

All amounts are presented in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except share amounts or as otherwise noted.

Additional information for the Company, including the Annual Information Form, can be found on SEDAR at www.sedar.com or at www.petrobank.com.

Comparatives

Comparisons presented in this MD&A are the first quarter of 2014 compared to the first quarter of 2013, unless otherwise noted.

FINANCIAL AND OPERATIONAL REVIEW

Our operations are in the exploration and evaluation phase and accordingly operating costs and royalties, net of any revenues received, are charged to exploration assets as opposed to being recognized in net income.

The following table includes the Company's operating results (in \$000s).

	Three months ended March 31,		
	2014	2013	Change
General and administrative	2,389	2,897	(18%)
Loss on marketable securities	499	513	(3%)
Share-based compensation	134	405	(67%)
Impairment	898	-	-
Finance and other	(55)	(132)	(58%)
Foreign exchange (gain) loss	(8)	84	-
Depletion and depreciation	110	118	(7%)
Deferred income tax recovery	-	(877)	(100%)
Net loss	3,967	3,008	32%

Significant Transactions

On April 30, 2014, Petrobank and Touchstone Exploration Inc. ("Touchstone") received approval from the Court of Queen's Bench of Alberta for the combination of Petrobank and Touchstone, to be effected by way of a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta). Shareholder approval for the Arrangement was received on April 28, 2014.

Under the terms of the Arrangement Agreement dated March 6, 2014 between Petrobank and Touchstone, the Arrangement will become effective after all of the conditions to closing are satisfied or waived. Touchstone and Petrobank are currently working to bring about the satisfaction of all remaining closing conditions.

Upon completion of the Arrangement, Petrobank will acquire all the outstanding shares of Touchstone through the issuance of 0.471 Petrobank shares in exchange for each Touchstone share, Petrobank will also change its name to Touchstone Exploration Inc. ("New Touchstone"), New Touchstone's outstanding shares will be consolidated on a two for one basis, and New Touchstone is expected to trade on the Toronto Stock Exchange under the symbol TXP.

The integration of the operations of Petrobank and Touchstone will allow the combined company to execute an expanded capital program in the Republic of Trinidad and Tobago and will position the combined company to increase shareholder value through improved netbacks, increased cash flow, and superior capital efficiencies. The combined company will have significant financial resources, proven operational expertise and a high quality asset base characterized by large oil in place, low declines and an extensive inventory of low risk drilling, workover and reactivation opportunities.

The combined company will also assess all alternatives to maximize the value of our Canadian assets, including initiating cyclic steam stimulation production at the Dawson property, which has been proven to be effective in the offsetting acreage by other operators in the same reservoir, continuing our commitment to eliminate the negative operating cash flows from the Kerrobert THAI® project by mid-2014 and pursuing opportunities on our large Saskatchewan resource base.

General and Administrative

General and administrative costs decreased in the first quarter of 2014 primarily due lower personnel costs as a result of a decrease in the number of employees, and a final payment made in the first quarter of 2013 related to the Company's sponsorship of Telus Spark – the New Science Centre in Calgary, partially offset by increased legal and advisory fees related to the Arrangement.

Loss on Marketable Securities

The Company's investment in marketable securities during the first quarter of 2014 consisted of Lightstream Resources Ltd. ("Lightstream") common shares. The fair value of the investment in marketable securities is recorded on the consolidated statement of financial position at the end of each period, with the change in fair value included in the determination of net loss on the consolidated statement of operations.

The majority of the loss on marketable securities for the three months ended March 31, 2014 is due to a decline in Lightstream's share price at March 31, 2014 (\$5.62) from December 31, 2013 (\$5.88), offset somewhat by dividends received in shares and cash. As of March 31, 2014, the Company owned 3.5 million Lightstream shares.

Share-Based Compensation

Share-based compensation expense in the first quarter of 2014 relates to stock options granted. The calculation of this non-cash expense is based on the fair value of the awards granted, amortized over the vesting period of the option using the graded vesting method. The decrease in share-based compensation expense is a result of incentive shares granted, which fully vested during 2013, and fewer employees compared to the same period in the prior year.

Impairment

Petrobank assessed our assets for indicators of impairment at March 31, 2014 and recorded a write-down related to our Kerrobert cash generating unit ("CGU") of \$0.9 million. The Kerrobert CGU's production during the first quarter of 2014 did not generate revenues that exceeded operating costs and this impairment indicator prompted an impairment assessment. The recoverable amount of the CGU was determined based on the estimated fair value of the facilities equipment at the property.

Finance and Other

During the first quarter of 2014, the Company earned interest income on our cash and cash equivalents in excess of minimal bank charges. Interest income declined in the first quarter of 2014 consistent with the cash balance.

Foreign Exchange (Gain) Loss

There is an immaterial foreign exchange impact in 2014 and 2013 as most of the Company's transactions were in Canadian dollars.

Depletion and Depreciation

Depletion and depreciation expense includes only depreciation on other fixed assets and patents and other intangible assets.

Deferred Income Tax Recovery

The deferred income tax recovery in the first quarter of 2014 was not recorded as the criteria to recognize a deferred tax asset were not met.

	Three months ended March 31,		
	2014	2013	Change
Drilling, completions and workovers	750	158	375%
Facilities	1,584	992	60%
Land, seismic and exploration	88	2,287	(96%)
Other ⁽¹⁾	3,389	4,985	(32%)
Total expenditures on exploration assets	5,811	8,422	(31%)

⁽¹⁾ Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, and operating costs, net of revenue.

Expenditures on Exploration Assets by CGU – Three months ended March 31, 2014

	Drilling, Completions, and Workovers	Facilities	Land, Seismic and Exploration	Other ⁽¹⁾	Total
Kerrobert	65	130	23	698	916
Dawson	657	1,449	8	2,576	4,690
Luseland and Other	28	5	57	115	205
Total expenditures on exploration assets	750	1,584	88	3,389	5,811

⁽¹⁾ Includes health, safety and environmental, capitalized salaries and benefits for qualifying employees, and operating costs, net of revenue.

The majority of the Company's expenditures in the first quarter of 2014 related to capitalized operating costs incurred at Dawson and facilities for CSS operations at Dawson.

The Company operates the following projects which have not commenced generating significant revenue:

Kerrobert:

Since the full Kerrobert field was placed on production in September 2011, we have maintained a consistent and patient operating philosophy to rateably increase sustained production of upgraded THAI® oil. Petrobank is committed to eliminating the negative field operating netbacks at our Kerrobert THAI® project by mid-2014. This may include investing small amounts of capital to test new processes to increase production and reducing costs by shutting-in low-volume wells that require workovers. We are also planning to test steam injection in the near future at one of our air injection wells. It is our intention to suspend THAI® operations in the event the negative netback cannot be eliminated mid-2014. We have also filed a regulatory approval application to test steam assisted gravity drainage (“SAGD”) operations at one of our THAI® wells. We will continue to evaluate the economics, opportunities and challenges with SAGD as we await regulatory approval.

Dawson:

Our Dawson demonstration project was initially planned to consist of two THAI® well-pairs. The project is located in the Peace River, Alberta area, situated on a large Bluesky formation of heavy oil/oil sands fairway. During 2013, we received approval from the Alberta Energy Regulator (“AER”) to initiate two cyclic steam stimulation cycles on the two THAI® production wells drilled in 2011 based on the principle that it will be more effective in pre-conditioning the reservoir for THAI® as it will result in more production than conventional cold operations. We have commenced steaming operations on both wells, with initial production forecast for the second quarter of 2014.

Luseland and Other:

We have two conventional heavy oil wells operating and continue to evaluate and work on improving the operating efficiency of these wells.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments as at March 31, 2014:

Type of Commitment	< 1 Year	1-3 Years	4-5 Years	Total
Office operating leases ⁽¹⁾	\$ 829	\$ 1,724	\$ 788	\$ 3,341
Finance leases ⁽²⁾	407	24	-	431
Total commitments	\$ 1,236	\$ 1,748	\$ 788	\$ 3,772

⁽¹⁾ Minimum lease payments are net of sub-lease payments received by the Company, which reduces rent expense included in general and administrative expenses on the consolidated statement of operations.

⁽²⁾ Excludes bargain purchase option at end of lease term.

Liquidity and Capital Resources

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain investor, creditor and market confidence. The table below outlines the composition of the consolidated capital structure:

As at March 31,		2014
Working capital surplus ⁽¹⁾	\$	41,984
Share capital	\$	134,848

⁽¹⁾ Working capital surplus is calculated as current assets less current liabilities.

At March 31, 2014, the Company had a working capital surplus of \$42.0 million, including \$26.0 million in cash and cash equivalents and \$19.9 million of investment in marketable securities (consisting of 3.5 million Lightstream common shares).

We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. We consider our capital structure to include working capital and common share capital. In order to maintain or adjust the capital structure, from time to time we may issue common shares or other securities, sell a portion of our investment in marketable securities or other corporate assets or adjust our capital spending to manage current and projected cash levels.

At March 31, 2014, the Company held 3.5 million common shares in Lightstream at a closing price of \$5.62 for value of \$19.9 million. The primary reason for this investment is to earn a reasonable return on capital in a company with an asset base, business plan and management team that was well known to Petrobank at the time of the investment. These securities are held for investment purposes and may be sold at any time. We receive monthly dividends of \$0.04 per share in cash based on Lightstream's current dividend rate.

Petrobank expects the above mentioned sources of capital to be adequate to meet our working capital requirements and planned 2014 expenditures while providing financial flexibility to pursue future developments and acquisition opportunities.

In addition to the financial resources noted above, other possible sources of funding available include the following:

- Issuance of common shares;
- Sale of producing or non-producing assets.

Capital Plan

Activity for the remainder of 2014 will focus on increasing heavy oil production on our conventional wells at Luseland, and increasing production at our Kerrobert THAI® project while minimizing costs. At Dawson we will complete steaming operations and bring the two wells on to production. In addition, we are continually undertaking research and development activities at Archon Technologies Ltd., our wholly owned technology subsidiary, to improve and protect our intellectual property.

Petrobank will announce new 2014 capital and operating plans once the Arrangement with Touchstone is completed.

Dividends

The Company has not paid or declared any dividends since the date of incorporation.

SUMMARY OF QUARTERLY RESULTS

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (\$000s except where noted)								
Net loss	3,967	44,255	1,460	4,151	3,008	155,830	6,025	4,282
Per share – basic and diluted (\$)	0.04	0.45	0.01	0.04	0.03	1.60	0.06	0.04
Expenditures on exploration assets	5,811	4,266	9,394	3,050	8,422	9,746	9,581	4,448

Significant factors influencing quarterly results were:

- The net loss in the fourth quarter of 2013 and 2012 is due primarily to impairment related to our Saskatchewan assets.
- Expenditures increased in the third quarter of 2013 compared to the second quarter of 2013 as we drilled two horizontal wells at Luseland and two multi-THAI® wells at Kerrobert.

Outstanding Share Data

The number of shares outstanding at the date of this MD&A is 97,788,023, an increase of 213,250 from March 31, 2014 as a result of the exercise of incentive shares.

Related Party Transactions

The Company is party to several transactions with Lightstream and Alvopetro Energy Ltd. (“Alvopetro”), related parties of the Company during the first quarter of 2014 as there are multiple common directors. These transactions include net management and technical service fees charged, natural gas purchased for the Company's operations from Lightstream, office sub-lease and miscellaneous expenses charged between the companies. A summary of these transactions is as follows:

Three months ended March 31,	2014	2013
Transactions with Lightstream:		
Net management fees charged by Lightstream	\$ 31	\$ 149
Gas purchased from Lightstream	208	153
Office rent and related costs charged by Lightstream	-	232
Transactions with Alvopetro:		
Office rent and related costs charged to Alvopetro	\$ 63	\$ -
Technical service fees charged to Alvopetro	13	-

The management and technical service fees charged were based on a cost recovery basis with all other transactions at fair value. The amounts owed to Petrobank from these related parties at the end of the periods as indicated are:

As at	March 31, 2014	Dec. 31, 2013
Lightstream	\$ -	\$ 297
Alvopetro	-	3

These amounts are unsecured with terms similar to amounts receivable from arm's length parties.

Sensitivities

The Company's cash flow is not currently sensitive to changes in crude oil prices, exchange rates or interest rates.

Risks and Uncertainties

There have been no significant changes in the three months ended March 31, 2014 to the risk and uncertainties identified in the MD&A for the year ended December 31, 2013.

Accounting Policies and Estimates

On January 1, 2014 the Company adopted IFRIC 17, "Levies", and amendments related to IAS 36, "Impairment of Assets". The adoption of this IFRIC and amendment had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2014 or on the comparative periods.

The Company has not made any significant changes to estimates to critical accounting estimates in the three months ended March 31, 2014.

Regulatory Policies

Certification of Disclosures in Interim Filings

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, the Company quarterly issues a "Certification of Interim Filings" ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

The Certification requires certifying officers to state that they designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that: (i) material information relating to Petrobank is made known to the certifying officers by others; (ii) information required to be disclosed by Petrobank in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities legislation. In addition, the Certification requires certifying officers to state that they have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

During the quarter ended March 31, 2014 there has been no change to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has procedures in place relating to DC&P and ICFR and will continue to monitor such procedures as the Company's business evolves.

Outlook

In addition to the plans discussed in this MD&A, please see the Company's recent news releases, corporate presentations and Annual Information Forms.



2014



Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, thousands of Canadian dollars)

As at	Note	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 26,010	\$ 35,120
Investment in marketable securities	2	19,871	20,591
Accounts receivable		1,786	1,345
Prepaid expenses		713	734
		48,380	57,790
Exploration assets			
Property, plant and equipment	4	43,066	37,518
Patents and other intangible assets		1,199	1,276
		307	255
Total assets		\$ 92,952	\$ 96,839
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,989	\$ 6,552
Current portion of finance lease obligations		407	477
		6,396	7,029
Finance lease obligations and other			
Decommissioning liabilities		1,104	1,205
		5,872	5,213
Total liabilities		13,372	13,447
Shareholders' equity			
Share capital	6	134,848	134,709
Contributed surplus		1,573	1,557
Deficit		(56,841)	(52,874)
Total shareholders' equity		79,580	83,392
Total liabilities and equity		\$ 92,952	\$ 96,839

Subsequent event (Note 10)

See accompanying notes to these interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited, thousands of Canadian dollars, except per share amounts)

Three months ended March 31,	Note	2014	2013
Expenses (income)			
General and administrative		\$ 2,389	2,897
Loss on marketable securities	2	499	513
Share-based compensation		134	405
Finance and other	3	(55)	(132)
Impairment	5	898	-
Foreign exchange (gain) loss		(8)	84
Depletion and depreciation		110	118
		3,967	3,885
Loss before taxes		(3,967)	(3,885)
Deferred income tax recovery		-	877
Net loss and total comprehensive loss		\$ (3,967)	\$ (3,008)
Net loss per share			
Basic and diluted	7	\$ (0.04)	\$ (0.03)

See accompanying notes to these interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited, thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Deficit	Total
January 1, 2013		\$ 134,924	\$ -	\$ -	\$ 134,924
Net and comprehensive loss		-	-	(3,008)	(3,008)
Share-based compensation expense		-	405	-	405
March 31, 2013		\$ 134,924	\$ 405	\$ (3,008)	\$ 132,321
January 1, 2014		\$ 134,709	\$ 1,557	\$ (52,874)	\$ 83,392
Net and comprehensive loss		-	-	(3,967)	(3,967)
Share-based compensation expense		-	134	-	134
Share-based compensation capitalized		-	14	-	14
Issued under employee incentive plans	6	7	-	-	7
Share-based settlements	6	132	(132)	-	-
March 31, 2014		\$ 134,848	\$ 1,573	\$ (56,841)	\$ 79,580

See accompanying notes to these interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited, thousands of Canadian dollars)

Three months ended March 31,	Note	2014	2013
Operating Activities			
Net loss		\$ (3,967)	\$ (3,008)
Non-cash loss on marketable securities	2	720	685
Share-based compensation		134	405
Impairment	5	898	-
Depletion and depreciation		110	118
Non-cash finance	3	38	28
Non-cash loss on sublease		(47)	(43)
Deferred income tax recovery		-	(877)
		(2,114)	(2,692)
Changes in non-cash working capital	9	(259)	(2,980)
		(2,373)	(5,672)
Investing Activities			
Purchase of marketable securities		-	(39,487)
Expenditures on exploration assets		(5,811)	(8,422)
Expenditures on property, plant and equipment		(19)	(51)
Expenditures on patents and other intangible assets		(66)	(75)
Changes in non-cash working capital	9	(724)	(1,629)
		(6,620)	(49,664)
Financing Activities			
Issuance of common shares	6	7	-
Finance lease obligations		(124)	(113)
		(117)	(113)
Net change in cash and cash equivalents		(9,110)	(55,449)
Cash and cash equivalents, beginning of period		35,120	93,996
Cash and cash equivalents, end of period		\$ 26,010	\$ 38,547
Cash and cash equivalents consist of:			
Cash		\$ 3,503	\$ 2,529
Cash equivalents		\$ 22,507	\$ 36,018
Other cash flow information:			
Cash interest paid		\$ 18	\$ 26
Cash interest received		\$ 95	\$ 335

See accompanying notes to these interim consolidated financial statements.

Note 1 – Corporate Information and Basis of Presentation

Corporate Information

Petrobank Energy and Resources Ltd. (“Petrobank”, “we”, “our” or the “Company”) is a Canadian corporation with shares listed on the Toronto Stock Exchange (“TSX”). The records office and principal address is located at 1100, 332-6th Avenue S.W., Calgary, Alberta, T2P 0B2.

Petrobank’s operations are focused on the exploration and development of heavy oil in western Canada. The Company’s assets include the Kerrobert heavy oil project which uses Petrobank’s patented THAI® heavy oil recovery process in the field. THAI® (Toe to Heel Air Injection), is an in-situ combustion technology for the recovery of heavy oil and bitumen. The Company has also initiated a cyclic steam stimulation (“CSS”) pilot project for the two existing THAI® wells at our Dawson property. The Kerrobert project, Dawson demonstration project and our conventional oil operations are in the exploration and evaluation phase and accordingly all directly attributable expenses, net of revenues, are capitalized.

Basis of Presentation and Statement of Compliance

The interim consolidated financial statements for Petrobank as at March 31, 2014 and for the three months ended March 31, 2014 and 2013 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2013. The interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The interim consolidated financial statements are presented in Canadian dollars and all amounts are rounded to the nearest thousand dollars (\$000s), except where otherwise indicated. The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

The interim consolidated financial statements were approved by the Company’s Board of Directors on May 8, 2014.

Adoption and Amendments of Accounting Standards

On January 1, 2014 the Company adopted IFRIC 17, “Levies”, and amendments related to IAS 36, “Impairment of Assets”. The adoption of this IFRIC and amendment had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2014 or on the comparative periods.

Note 2 – Investment in Marketable Securities

The Company’s investment in marketable securities at March 31, 2014 consists of Lightstream Resources Ltd. (“Lightstream”) common shares (TSX). This investment is recorded at fair value as follows:

Investment	Fair Value at December 31, 2013	Net additions ⁽¹⁾	Fair Value Adjustment	Fair Value at March 31, 2014
Lightstream shares	\$ 20,591	\$ 203	\$ (923)	\$ 19,871

⁽¹⁾ Consists of dividends received in shares.

At March 31, 2014 the Company owned 3.5 million Lightstream shares (December 31, 2013 – 3.5 million).

The Company also held Lightstream U.S. dollar denominated 8.625 percent senior notes during 2013. These notes were sold in December 2013. The loss on marketable securities included in the statement of operations is comprised of the following:

Three months ended March 31,	2014	2013
Loss in fair value of Lightstream shares	\$ (923)	\$ (1,371)
Loss in fair value of Lightstream notes	-	(236)
Gain related to foreign exchange	-	317
Dividend income received in shares	203	605
Non-cash loss	(720)	(685)
Interest income on Lightstream notes	-	172
Dividend income received in cash	221	-
Total loss	\$ (499)	\$ (513)

Note 3 – Finance and Other

Finance and other includes the following:

Three months ended March 31,	2014	2013
Interest expense and other	\$ 2	\$ 2
Interest income and other	(95)	(162)
Cash finance and other	(93)	(160)
Accretion of decommissioning liabilities	38	28
Finance and other income	\$ 55	\$ (132)

Note 4 – Exploration Assets

Exploration assets comprise the Company's projects in the exploration and evaluation stage which are pending determination of technical and commercial feasibility. The following is a continuity schedule of the Company's exploration assets for the three months ended March 31, 2014 and the year ended December 31, 2013:

Three months ended March 31, 2014 and year ended December 31, 2013	Mar. 31, 2014	Dec. 31, 2013
Exploration assets, beginning of year	\$ 37,518	\$ 56,754
Additions	6,446	25,793
Impairment	(898)	(45,029)
Exploration assets, end of period	\$ 43,066	\$ 37,518

See Note 5 for details regarding impairment losses on exploration assets.

Note 5 – Impairment

Three months ended March 31,	2014	2013
Impairment losses on exploration assets	\$ 898	\$ -

Impairment losses of \$0.9 million on exploration assets for the three months ended March 31, 2014 (2013 - \$nil) relate to the Company's Kerrobert cash generating unit ("CGU"). The Kerrobert CGU's production during the first quarter of 2014 did not generate revenues that exceeded operating costs and this indicator of potential impairment of the Company's Kerrobert THAI® project prompted an impairment assessment. The recoverable amount was assessed at \$3.1 million based on the estimated fair value of the facilities equipment. The calculation is sensitive to assumptions which if altered may result in additional impairment charges required in future reporting periods, or, conversely, the impairment may be reversed if actual results exceed our expectations.

Note 6 – Shareholders' Equity

Authorized

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value.

Common Shares

	Number of Common Shares	Amount
Balance at December 31, 2013	97,442,773	\$ 134,709
Exercise of incentive shares	132,000	7
Share-based settlements	-	132
Balance at March 31, 2014	97,574,773	\$ 134,848

Normal Course Issuer Bid ("NCIB")

In September 2013, Petrobank renewed the NCIB which authorizes the purchase of up to 7,548,205 common shares, representing approximately 10 percent of the public float, during the period from September 30, 2013 to September 29, 2014 or until such earlier time as the NCIB is completed or terminated. On any trading day, the Company may not purchase more than 55,023 shares. No shares have been purchased by the Company to date under this plan.

Stock Options

The following is a continuity of stock options outstanding:

	Stock Options	Weighted- Average Exercise Price
Balance at December 31, 2013	2,721,250	\$ 1.05
Forfeited	(110,000)	1.05
Balance at March 31, 2014	2,611,250	\$ 1.05

Options typically vest over three years and expire five years from the grant date.

Incentive Shares

The following is a continuity of incentive shares outstanding:

	Incentive Shares
Balance at December 31, 2013	730,750
Exercised	(132,000)
Balance at March 31, 2014	598,750

Incentive shares allow the holder to acquire one common shares upon vesting at an exercise price of \$0.05 per share. All the Company's incentive shares are vested at March 31, 2014.

Note 7 – Net Loss Per Share

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period.

The following table provides the number of shares used in the basic and diluted per share computations:

Three months ended March 31,	2014	2013
Weighted average common shares outstanding, basic and diluted	97,496,623	97,596,573

In determination of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2014 and 2013 all stock options and incentive shares were excluded because the effect would be anti-dilutive.

Note 8 – Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments.

Investments in marketable securities are recorded at their estimated fair value based on quoted market prices at the period end date for each of the securities owned (level 1 fair values).

The Company is exposed to a number of risks associated with its financial assets and liabilities, primarily risks related to the market prices of the Company's investments in marketable securities but also including commodity price risk, credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Company has several policies and processes in place to help mitigate these risks which are substantially unchanged from December 31, 2013.

Note 9 – Changes in Non-Cash Working Capital

Three months ended March 31,	2014	2013
Change in:		
Accounts receivable	\$ (441)	\$ 2,663
Prepaid expenses	21	(297)
Accounts payable and accrued liabilities	(563)	(6,975)
	\$ (983)	\$ (4,609)
Changes relating to:		
Attributable to operating activities	\$ (259)	\$ (2,980)
Attributable to investing activities	\$ (724)	\$ (1,629)

Note 10 – Subsequent Event

On April 30, 2014, Petrobank and Touchstone Exploration Inc. (“Touchstone”) received approval from the Court of Queen’s Bench of Alberta for the combination of Petrobank and Touchstone, to be effected by way of a plan of arrangement (the “Arrangement”) under the Business Corporations Act (Alberta). Shareholder approval for the Arrangement was received on April 28, 2014.

Under the terms of the Arrangement Agreement dated March 6, 2014 between Petrobank and Touchstone, the Arrangement will become effective after all of the conditions to closing are satisfied or waived. Touchstone and Petrobank are currently working to bring about the satisfaction of all remaining closing conditions.

Upon completion of the Arrangement, Petrobank will acquire all the outstanding shares of Touchstone through the issuance of 0.471 Petrobank shares in exchange for each Touchstone share, Petrobank will also change its name to Touchstone Exploration Inc. (“New Touchstone”), New Touchstone’s outstanding shares will be consolidated on a two for one basis, and New Touchstone is expected to trade on the Toronto Stock Exchange under the symbol TXP.

New Touchstone will initially focus on developing our resource base in the Republic of Trinidad and Tobago. New Touchstone will also assess all alternatives to maximize the value of our Canadian assets, including initiating cyclic steam stimulation production at the Dawson property and continuing our commitment to eliminate the negative operating cash flows from the Kerrobert THAI® project by mid-2014.