



Management's Discussion and Analysis

For the three months and years ended

December 31, 2014 and 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("the MD&A") is dated March 5, 2015. The MD&A should be read in conjunction with TORC Oil & Gas Ltd.'s ("TORC" or the "Company") audited financial statements as at and for the years ended December 31, 2014 and December 31, 2013. The reader should be aware that historical results are not necessarily indicative of future performance.

The financial data presented below has been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise indicated.

Barrel of Oil Equivalent

Where amounts are expressed on a barrel of oil equivalent ("Boe") basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe figures may be misleading, particularly if used in isolation.

Non-IFRS Measurements

The MD&A contains the terms "*funds flow from operations, including transaction related costs*", "*funds flow from operations, excluding transaction related costs*", "*net debt*" and "*operating netback*" which are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Funds flow from operations, including transaction related costs represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. Funds flow from operations, excluding transaction related costs represents cash flow from operating activities prior to changes in non-cash working capital, settlement of decommissioning obligations and transaction related costs. Working capital (net debt) is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities), ii) bank debt, and iii) non-current deferred lease incentives. Operating netback represents revenue and realized gain or loss on financial derivatives, less royalties, operating expenses and transportation expenses and has been presented on a per Boe basis. Management believes that in addition to net income, the aforementioned non-IFRS measurements are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

The reconciliation between funds flow from operations, as defined above, and net cash from operating activities, as defined by IFRS, is as follows:

<i>(\$ thousands)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Net cash from operating activities (defined by IFRS)	\$72,191	\$46,912	\$198,982	\$78,785
Settlement of decommissioning obligations	225	-	347	262
Changes in non-cash working capital	(30,706)	(5,454)	(10,752)	10,489
Funds flow from operations, including transaction related costs	\$41,710	\$41,458	\$188,577	\$89,536
Transaction related costs (recovery)	38	(689)	142	6,976
Funds flow from operations, excluding transaction related costs	\$41,748	\$40,769	\$188,719	\$96,512

The reconciliation of net debt, as defined above, is as follows:

	As at Dec 31, 2014	As at Dec 31, 2013
Current assets (excluding financial derivative assets)	\$24,754	\$50,068
Less: current liabilities (excluding financial derivative liabilities)	(89,459)	(109,971)
Less: bank debt	(179,849)	(85,000)
Less: non-current deferred lease incentives	(104)	(280)
Net debt	(\$244,658)	(\$145,183)

The reconciliation for operating netback is found within this MD&A.

TORC's reporting and measurement currency is the Canadian dollar. Amounts in this MD&A are in Canadian dollars unless otherwise stated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

This MD&A contains forward-looking statements. More specifically, it contains forward-looking statements respecting: (i) the expected timing of closing the Asset Swap, (ii) TORC's expectation that it will continue to realize natural gas prices greater than AECO benchmarks, (iii) the anticipated sources of funding for the Company's capital program, (iv) the sufficiency of liquidity and capital resources to fund the Company's capital program and ongoing operations, and (v) the Company's risk management activities and the benefits to be obtained therefrom.

The forward-looking statements contained in this MD&A are based on certain key expectations and assumptions made by TORC, including expectations and assumptions concerning the impact of increasing competition, the general stability of the economic and political environment in which TORC operates, the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner, drilling results, the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner, TORC's ability to obtain financing on acceptable terms, changes in the Company's banking facility, field production rates and decline rates, the ability to reduce operating costs, the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration, the timing and costs of pipeline, storage and facility construction and expansion, the ability of the Company to secure adequate product transportation, future petroleum and natural gas prices, currency, exchange and interest rates, the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates, and TORC's ability to successfully market its petroleum and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive.

Although TORC believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because TORC can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks, including, without limitation, factors and risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and inability to access sufficient capital from internal and external sources. Additional information on these and other factors and risks that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Company's website (www.torcoil.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Asset Acquisitions

Cardium and southeast Saskatchewan asset acquisitions

During the year ended December 31, 2014, the Company acquired various properties and working interests in its core Cardium areas as well as in southeast Saskatchewan (the "Asset Acquisitions"). The total cash consideration paid after customary purchase price adjustments was \$137.2 million.

The acquisition of these assets increases and consolidates the Company's exposure to light oil where the Company continues to achieve drilling and operational success.

Asset acquisition subsequent to December 31, 2014

Subsequent to December 31, 2014, the Company entered into an agreement to acquire light oil assets which are complimentary to TORC's existing conventional assets in southeast Saskatchewan (the "Acquisition"). Total consideration for the Acquisition was the issuance of 16.0 million common shares of TORC, valued at \$9.17 per common share on the closing date, for a total value of \$146.7 million before customary adjustments.

Asset swap subsequent to December 31, 2014

Subsequent to December 31, 2014, the Company entered into a strategic asset swap of common working interests in the Company's non-operated working interest properties in southeast Saskatchewan (the "Asset Swap"). The Asset Swap involves approximately 500 Boe per day of production with similar amounts of production and reserves being swapped. The Asset Swap is expected to close in the first quarter of 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Production

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Crude oil (Bbl per day) ⁽¹⁾	9,690	8,478	9,051	4,744
NGL (Bbl per day) ⁽¹⁾⁽²⁾	428	363	442	260
Natural gas (Mcf per day) ⁽³⁾	11,033	7,951	10,626	6,702
Total (Boe per day)	11,957	10,166	11,264	6,121
Production mix:				
Crude oil	81%	83%	80%	78%
NGL	4%	4%	4%	4%
Crude oil and NGL ("Liquids")	85%	87%	84%	82%
Natural gas	15%	13%	16%	18%

⁽¹⁾ "Bbl" refers to barrels.

⁽²⁾ "NGL" refers to natural gas liquids.

⁽³⁾ "Mcf" refers to thousand cubic feet.

Production in the three months and year ended December 31, 2014 increased 18% and 84%, respectively, compared to the three months and year ended December 31, 2013 (the "Corresponding Periods"). In addition to the Company's on-going drilling activities, the increase includes production from the Asset Acquisitions, and in the year-over-year increase, the acquisition of crude oil and natural gas assets located in southeast Saskatchewan which initially added approximately 5,700 Boe per day from the closing date on September 9, 2013 (the "SE Saskatchewan Acquisition").

Pricing

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Average realized prices:				
Crude oil (\$ per Bbl)	\$73.31	\$81.73	\$89.25	\$87.11
NGL (\$ per Bbl)	40.99	54.50	53.06	53.92
Natural gas (\$ per Mcf)	3.83	3.61	4.62	3.31
Boe (\$ per Boe)	\$64.41	\$72.93	\$78.16	\$73.43

During the three months and year ended December 31, 2014, TORC realized oil prices of \$73.31 per Bbl and \$89.25 per Bbl, respectively (Corresponding periods: \$81.73 per Bbl and \$87.11 per Bbl, respectively).

During the three months and year ended December 31, 2014, TORC's discount to WTI converted to Canadian dollars approximated \$10 per Bbl and \$13 per Bbl, respectively (Corresponding Periods: \$21 per Bbl and \$14 per Bbl, respectively). In the three months and year ended December 31, 2014, TORC's discount to Edmonton Par averaged approximately \$2 per Bbl and \$5 per Bbl, respectively (Corresponding Periods: \$5 per Bbl and \$6 per Bbl, respectively). The pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

In the three months and year ended December 31, 2014, the Company realized gas prices of \$3.83 per Mcf and \$4.62 per Mcf, respectively (Corresponding Periods: \$3.61 per Mcf and \$3.31 per Mcf, respectively). In the three months and year ended December 31, 2014, the Company's realized gas prices were 18% and 14% above AECO benchmarks, respectively (Corresponding Periods: 13% and 16% above AECO benchmarks, respectively). TORC expects to continue to realize natural gas prices greater than AECO benchmarks due to the higher heat content of its natural gas.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In the three months and year ended December 31, 2014, the average realized price across all products was \$64.41 per Boe and \$78.16 per Boe, respectively. For the three months and year ended December 31, 2014, the average realized price was lower by \$8.52 per Boe and higher by \$4.73 per Boe, respectively, compared to the Corresponding Periods.

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Average Benchmark Prices:				
Crude oil – WTI (US\$ per Bbl)	\$73.12	\$97.44	\$92.92	\$97.96
Crude oil – Edmonton Par (CDN\$ per Bbl)	\$75.52	\$86.75	\$94.44	\$93.40
Natural gas – AECO Daily Spot (\$ per Mcf)	\$3.24	\$3.18	\$4.04	\$2.86
Natural gas – AECO Monthly Spot (\$ per Mcf)	\$3.61	\$2.84	\$3.98	\$2.85
Exchange rate – (CDN\$/US\$)	1.14	1.05	1.10	1.03

Revenues

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
<i>(\$ thousands)</i>				
Crude oil	\$65,417	\$63,828	\$294,988	\$150,923
NGL	1,565	1,736	8,450	5,046
Natural gas	3,872	2,642	17,891	8,105
	\$70,854	\$68,206	\$321,329	\$164,074

Revenues in the three months and year ended December 31, 2014 increased compared to the Corresponding Periods, despite a 25% and 5% decrease in US\$ WTI oil prices, respectively. This increase in revenues is due to the Company's on-going drilling activities, the addition of production from the Asset Acquisitions, and in the year-over-year increase, the SE Saskatchewan Acquisition which closed on September 9, 2013.

Revenues from the sale of crude oil and NGL continue to be greater than 90% of all revenues.

Royalties

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
<i>(\$ thousands, unless otherwise noted)</i>				
Royalties	\$12,338	\$10,730	\$53,539	\$24,353
\$ per Boe	\$11.22	\$11.47	\$13.02	\$10.90
Percentage of revenue	17%	16%	17%	15%

Compared to the Corresponding Periods, the Company's corporate royalty rate (as a percentage of revenue) increased slightly in the three months and year ended December 31, 2014. The year-over-year increase in royalties is primarily due to higher royalty rates associated with the assets from the SE Saskatchewan Acquisition (at approximately 19% of revenue and includes the Saskatchewan Resource Tax) which closed in September 2013. The increase in royalties is also due to Crown royalty incentives that have expired for certain wells, as well as certain wells that were drilled which did not qualify for the Crown royalty incentives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Operating expenses	\$14,408	\$12,386	\$52,953	\$26,431
\$ per Boe	\$13.10	\$13.24	\$12.88	\$11.83

For the three months ended December 31, 2014, operating expenses on a per Boe basis remained similar compared to the three months ended December 31, 2013.

For the year ended December 31, 2014, operating expenses on a per Boe basis increased 9% compared to the year ended December 31, 2013. This year-over-year increase primarily reflects the higher operating costs associated with the properties acquired in the SE Saskatchewan Acquisition (approximately \$4 per Boe more, compared to the Company's Alberta properties).

Transportation Expenses

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Transportation expenses	\$2,222	\$2,154	\$10,009	\$8,156
\$ per Boe	\$2.02	\$2.30	\$2.43	\$3.65

For the three months and year ended December 31, 2014, the Company's transportation expenses per Boe decreased 12% and 33%, respectively, compared to the Corresponding Periods. This largely reflects the benefits associated with further development of infrastructure, economies of scale associated with greater volumes, and lower transportation costs associated with the properties acquired in the SE Saskatchewan Acquisition which closed in September 2013.

Operating Netbacks

<i>(\$ per Boe, unless otherwise noted)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Average daily production (<i>Boepd</i>)	11,957	10,166	11,264	6,121
Crude oil (\$ per Bbl)	\$73.31	\$81.73	\$89.25	\$87.11
NGL (\$ per Bbl)	\$40.99	\$54.50	\$53.06	\$53.92
Natural gas (<i>\$ per Mcf</i>)	\$3.83	\$3.61	\$4.62	\$3.31
Average price prior to hedging	\$64.41	\$72.93	\$78.16	\$73.43
Realized gain (loss) on financial derivatives (hedging)	\$3.94	\$1.08	(\$0.04)	(\$0.07)
Royalties	(11.22)	(11.47)	(13.02)	(10.90)
Operating	(13.10)	(13.24)	(12.88)	(11.83)
Transportation	(2.02)	(2.30)	(2.43)	(3.65)
Operating netback	\$42.01	\$47.00	\$49.79	\$46.98
Operating netback (prior to hedging)	\$38.07	\$45.92	\$49.83	\$47.05

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative Expenses

During the three months and year ended December 31, 2014, the Company incurred the following general and administrative expenses ("G&A"):

<i>(\$ thousands)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Gross general and administrative expenses	\$5,377	\$4,114	\$18,379	\$13,148
Recoveries ⁽¹⁾	(748)	(578)	(2,218)	(2,086)
Capitalized general and administrative expenses ⁽²⁾	(1,817)	(1,336)	(6,422)	(3,990)
Total general and administrative	\$2,812	\$2,200	\$9,739	\$7,072
\$ per Boe	\$2.56	\$2.35	\$2.37	\$3.17

- ⁽¹⁾ Recoveries refers to those G&A expenditures which under industry practice are reclassified to operating expenses, exploration and evaluation assets, or property, plant and equipment, dependent on their nature.
- ⁽²⁾ Capitalized general and administrative expenses are those G&A expenditures which are directly attributable to the acquisition or exploration activities of the Company, and are therefore reclassified to exploration and evaluation assets, or property, plant and equipment, dependent on their nature.

Total general and administrative expenses in the three months and year ended December 31, 2014 increased 28% and 38%, respectively, compared to the Corresponding Periods. These increases were due to additional employees (resulting in additional employee compensation costs) and other administrative costs largely associated with the Company's growing operations. However, for the year ended December 31, 2014, G&A per Boe decreased 25% compared to the year ended December 31, 2013, reflecting improving G&A efficiencies on a Boe basis due to the Company's growth.

Finance Costs

<i>(\$ thousands)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Interest expense and financing charges	\$1,660	\$975	\$6,211	\$1,387
Accretion on decommissioning obligations	751	651	2,819	905
Total	\$2,411	\$1,626	\$9,030	\$2,292
\$ per Boe	\$2.19	\$1.74	\$2.20	\$1.02

For the three months and year ended December 31, 2014, interest expense and financing charges increased compared to the Corresponding Periods primarily due to the Company's higher bank debt, incurred largely in connection with the Asset Acquisitions, the SE Saskatchewan Acquisition and ongoing business activities.

For the three months and year ended December 31, 2014, accretion on decommissioning obligations increased compared to the Corresponding Periods due to the additional decommissioning obligations assumed by the Company largely in connection with the Asset Acquisitions, the SE Saskatchewan Acquisition, as well as ongoing drilling activities.

Under IFRS, non-cash accretion expenses related to decommissioning obligations are presented as part of finance costs.

Average bank debt was as follows:

<i>(\$ thousands)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Bank debt	\$168,477	\$81,637	\$133,304	\$32,492

MANAGEMENT'S DISCUSSION AND ANALYSIS

Stock-Based Compensation Expenses

Stock-based compensation expenses reflect the value ascribed to the non-cash compensation provided by the Company, and were calculated utilizing a fair value assessment methodology. These amounts are net of stock-based compensation costs capitalized to exploration and evaluation assets, and property, plant and equipment when they are related to exploration or acquisition activities (in the same manner that G&A expenses are capitalized).

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
<i>(\$ thousands)</i>				
Stock-based compensation expenses	\$3,425	\$4,316	\$20,893	\$6,714
Capitalized stock-based compensation expenses	(1,777)	(2,121)	(10,446)	(3,319)
Total	\$1,648	\$2,195	\$10,447	\$3,395
\$ per Boe	\$1.50	\$2.35	\$2.54	\$1.52

For the three months ended December 31, 2014, stock-based compensation expenses net of capitalized amounts decreased compared to the same period in 2013, both on a dollar value and on a per Boe basis. This decrease reflects the initially higher stock-based compensation expenses related to the restricted awards and performance awards granted in October 2013 (the "Share Awards"), which were granted to the Company's directors, officers and employees, as part of the Company's business model transition to a dividend plus growth company.

For the year ended December 31, 2014, stock-based compensation expenses net of capitalized amounts increased compared to the same period in 2013, both on a dollar value and on a per Boe basis. This increase reflects a full twelve months of stock-based compensation expenses related to the Share Awards in the year ended December 31, 2014, compared to approximately three months of stock-based compensation expenses related to the Share Awards in the year ended December 31, 2013.

Depletion and Depreciation Expenses

For the three months and year ended December 31, 2014, the Company's depletion and depreciation expenses totaled \$29.2 million (\$26.56 per Boe) and \$114.4 million (\$27.82 per Boe), respectively, compared to the Corresponding Periods of \$25.4 million (\$27.17 per Boe) and \$59.9 million (\$26.81 per Boe), respectively.

For the three months and year ended December 31, 2014, the depletion and depreciation expenses on a total dollar basis increased 15% and 91%, respectively, compared to the Corresponding Periods. This increase is largely due to depletable base additions, primarily from acquisitions (including the Asset Acquisitions and SE Saskatchewan Acquisition), as well as on-going drilling operations. On a per Boe basis, for the three months and year ended December 31, 2014, the depletion and depreciation expenses remained relatively consistent compared to the Corresponding Periods.

Impairment

For the year ended December 31, 2014, the Company recognized impairment of \$72.6 million (year ended December 31, 2013: \$38.4 million) on exploration and evaluation ("E&E") assets related to certain southern Alberta projects with carrying values exceeding the recoverable amounts. As at December 31, 2014, the Company determined there to be a trigger regarding these E&E Assets, based on the Company's near term plans to reduce capital allocated to these exploratory projects given the current depressed crude oil price environment. As a result the Company impaired these E&E Assets principally comprised of historic land acquisition costs. In the prior year, for certain southern Alberta projects, the impairment expense related to the excess of carrying values compared to recoverable values when costs were transferred from E&E Assets to PP&E upon technical feasibility and commercial viability being determined.

Taxes

For the three months and year ended December 31, 2014, the Company recorded a deferred income tax recovery of \$8.4 million and a deferred income tax expense of \$6.9 million, respectively (Corresponding Periods: deferred income tax recovery of \$4.0 million and a deferred income tax expense of \$1.9 million, respectively). The increase is consistent with the Company's higher pre-tax income (loss) in the three months and year ended December 31, 2014, compared to the Corresponding Periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Income

Net income (loss) for the three months and year ended December 31, 2014 were \$(30.4) million and \$6.3 million, respectively (Corresponding Periods: \$(17.8) million and \$(10.1) million, respectively). A larger E&E impairment expense in the three months ended December 31, 2014, compared to the same period in 2013, resulted in a higher net loss in the fourth quarter of 2014. Despite this larger E&E impairment expense, the Company recorded net income for the year ended December 31, 2014, compared to a net loss in the previous year, primarily due to increased production and higher realized commodity prices.

Basic net income (loss) per share for the three months and year ended December 31, 2014 were \$(0.32) and \$0.07, respectively (Corresponding Periods: \$(0.20) and \$(0.18), respectively).

Diluted net income (loss) per share for the three months and year ended December 31, 2014 were \$(0.32) and \$0.07, respectively (Corresponding Periods: \$(0.20) and \$(0.18), respectively).

Funds Flow from Operations, excluding Transaction Related Costs

Funds flow from operations, excluding transaction related costs for the three months and year ended December 31, 2014 was \$41.7 million and \$188.7 million, respectively (Corresponding Periods: \$40.8 million and \$96.5 million, respectively).

Basic funds flow from operations, excluding transaction related costs per share for the three months and year ended December 31, 2014 was \$0.43 and \$2.02, respectively (Corresponding Periods: \$0.45 and \$1.76, respectively). Diluted funds flow from operations, excluding transaction related costs per share for the three months and year ended December 31, 2014 was \$0.43 and \$1.97, respectively (Corresponding Periods: \$0.44 and \$1.72, respectively).

For the year ended December 31, 2014, funds flow from operations increased on a total dollar basis (as well as on a basic and diluted per share basis) compared to the year ended December 31, 2013, primarily due to increased production from drilling and acquisitions, as well as a higher crude oil weighting in the Company's production mix.

Net Cash from Operating Activities

Net cash from operating activities for the three months and year ended December 31, 2014 was \$72.2 million and \$199.0 million, respectively (Corresponding Periods: \$46.9 million and \$78.8 million, respectively).

Basic net cash from operating activities per share for the three months and year ended December 31, 2014 was \$0.75 and \$2.13, respectively (Corresponding Periods: \$0.51 and \$1.44, respectively).

Diluted net cash from operating activities per share for the three months and year ended December 31, 2014 was \$0.74 and \$2.08, respectively (Corresponding Periods: \$0.50 and \$1.40, respectively).

Compared to the Corresponding Periods, the increased net cash from operating activities on a total dollar basis (as well as on a basic and diluted per share basis) for the three months and year ended December 31, 2014, is primarily due to increased production from drilling and acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Expenditures

Capital expenditures are summarized as follows:

(\$ thousands)	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Cash:				
Land retention costs	\$103	\$119	\$559	\$609
Geological and geophysical (disposition)	(168)	591	(31)	900
Drilling and completions	29,816	47,212	114,896	121,673
Equipment and facilities	5,406	12,061	19,827	30,448
Administrative assets	32	92	138	161
Exploration and development expenditures	35,189	60,075	135,389	153,791
Capitalized general and administrative expenses	1,817	1,336	6,422	3,990
Exploration and development expenditures, including capitalized G&A	37,006	61,411	141,811	157,781
Property acquisitions, net of dispositions	44,907	(4,859)	137,037	489,954
Total capital expenditures - cash items	\$81,913	\$56,552	\$278,848	\$647,735
Non-cash:				
Property acquisition (disposition)	-	-	(64)	1,631
Gain on disposition of undeveloped land	-	5,000	-	5,000
Decommissioning obligations	2,089	(868)	10,153	80,906
Capitalized stock-based compensation	1,777	2,120	10,446	3,318
Total capital expenditures	\$85,779	\$62,804	\$299,383	\$738,590

In the three months and year ended December 31, 2014, the Company drilled 14 (8.5 net) wells and 47 (30.7 net) wells, respectively. In the Corresponding Periods, the Company drilled 21 (12.8 net) wells and 42 (26.5 net), respectively.

As described in the Asset Acquisitions section above, during year ended December 31, 2014, the Company acquired various properties and working interests in its core Cardium and southeast Saskatchewan areas. The total cash consideration paid was approximately \$137.2 million after customary purchase price adjustments.

The Company does not set a budget for acquisitions. When making acquisitions, the Company considers opportunities that align with strategic parameters and evaluates and finances each prospect on a case-by-case basis.

Share Capital

	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Weighted average outstanding common shares:				
Basic	96,087,489	91,257,722	93,320,376	54,900,265
Diluted	97,815,323	92,929,448	95,823,544	56,120,796
Outstanding Securities:				
Common shares	96,765,123	91,423,437	96,765,123	91,423,437
Stock options	1,631,686	1,640,195	1,631,686	1,640,195
Incentive shares	68,668	129,183	68,668	129,183
Restricted awards	1,121,715	1,249,373	1,121,715	1,249,373
Performance awards	1,710,755	1,818,018	1,710,755	1,818,018
Warrants	2,345,756	3,480,000	2,345,756	3,480,000

In the year ended December 31, 2014, 1,134,244 Warrants were exercised for total cash proceeds of \$8.1 million. At December 31, 2014, there were 2.3 million Warrants outstanding of which 1.2 million of the Warrants were exercisable. The Warrants expire on December 16, 2015, five years from the date of grant.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

As at March 5, 2015, the Company had 113,089,640 common shares issued and outstanding, 1,623,798 stock options outstanding, 62,775 incentive shares outstanding, 1,783,903 performance awards outstanding, 1,136,056 restricted awards outstanding, and 2,345,756 warrants outstanding.

Liquidity and Capital Resources

The Company's net debt, as defined above in *Non-IFRS Measurements*, is as follows:

	As at Dec 31, 2014	As at Dec 31, 2013
Current assets (excluding financial derivative assets)	\$24,754	\$50,068
Less: current liabilities (excluding financial derivative liabilities)	(89,459)	(109,971)
Less: bank debt	(179,849)	(85,000)
Less: non-current deferred lease incentives	(104)	(280)
Net debt	(\$244,658)	(\$145,183)

Despite the Company's net debt position, it believes that cash flow from operations, combined with undrawn credit facility and its ability to access additional funding from capital markets, will provide sufficient resources for it to execute its business plans for the foreseeable future.

The Company may access the following capital resources:

Credit facility

At December 31, 2014, the Company had a reserves-based revolving credit facility of \$425 million with a syndicate of banks (the "Credit Facility"), comprised of a \$40 million operating facility from the operating lender (the "Operating Facility") and a \$385 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). Advances under the Credit Facility are available by way of direct advances, bankers' acceptances and standby letters of credit/guarantees. Direct advances bear interest at the prime rate, U.S. base rate or Libor rate, as applicable, plus a margin which is dependent on the Company's debt to trailing funds flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing funds flow ratio.

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 28, 2015. On or before April 28, 2015, at TORC's request and subject to the approval of the lending syndicate, the Credit Facility may be extended for an additional 364 day period. In the event of non-extension, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding will convert to a 364 day non-revolving term facility with repayment of the Credit Facility due on April 28, 2016. The Credit Facility is secured by a fixed and floating charge debenture on all of the Company's assets.

The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The borrowing base of the Company's Credit Facility is subject to review and redetermination by the lenders on a semi-annual basis and in the event of a change in the Company's borrowing base properties (including due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders). In the normal course, the Company's next credit facility evaluation is due to be completed by April 28, 2015.

Significant investor

The Company has a significant investor, the CPP Investment Board ("CPPIB"). For so long as CPPIB owns greater than 10% of the outstanding common shares of the Company, it has the right to participate in future offerings of securities by the Company, whether by way of public offering or private placement. This includes any offering of common shares and securities convertible or exchangeable into common shares, up to its pro rata ownership interest immediately prior to such offering in the case of a public offering or a private placement to five or more investors, in order to maintain its pro rata percentage ownership interest in the Company, and up to all of the offering in the case of a private placement to less than five investors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Risk Management - Financial Derivatives

From time to time, the Company may enter into commodity price, interest rate and foreign exchange rate derivative contracts (also known as hedges) in order to protect acquisition economics and provide some stability of cash flows for capital spending planning purposes. Commodity prices, interest rates and foreign exchange rates fluctuate due to economic and political events. As well, commodity prices may fluctuate due to weather conditions and changes in supply and demand. The Company's risk management activities are conducted pursuant to the Company's risk management policies approved by the Board of Directors.

At December 31, 2014, the Company had the following commodity contracts outstanding:

Remaining term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jan 1, 2015 - Sept 30, 2015	Costless Collar	500	\$95.00 - \$106.25	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$110.55	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$112.00	C\$WTI
Jan 1, 2015 - Mar 31, 2015	Differential Swap	500	\$8.50	C\$ Edm
Jan 1, 2015 - Sept 30, 2015	Costless Collar	250	\$90.00 - \$108.00	C\$WTI
Jan 1, 2015 - Sept 30, 2015	Costless Collar	250	\$90.00 - \$109.55	C\$WTI
Jan 1, 2015 - Sept 30, 2015	Costless Collar	250	\$90.00 - \$111.00	C\$WTI
Jan 1, 2015 - Sept 30, 2015	Costless Collar	250	\$90.00 - \$111.25	C\$WTI
Jan 1, 2015 - Sept 30, 2015	Costless Collar	250	\$90.00 - \$112.75	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$108.15	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$111.75	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$111.75	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$113.75	C\$WTI
Jan 1, 2015 - Dec 31, 2015	Costless Collar	250	\$90.00 - \$115.85	C\$WTI

At December 31, 2014, the mark-to-market value of these commodity contracts totaled an asset of \$24.6 million.

Contractual Obligations

The following table lists the Company's contractual obligations as at December 31, 2014 and the expected timing of these obligations:

(\$ thousands)	Total	Less than			
		1 year	1-2 years	3-5 years	Thereafter
Trade and other payables	\$84,928	\$84,928	-	-	-
Dividends payable	4,354	4,354	-	-	-
Operating leases (office rent)	1,990	1,257	733	-	-
Bank debt	179,849	-	179,849	-	-
Total	\$271,121	\$90,539	\$180,582	-	-

Operating commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. These costs include royalties paid to provincial governments, surface lease rentals and mineral rights to various landowners, abandonment and reclamation costs, farm-in commitments and office leases. These costs are highly dependent on the future operating environment and are subject to changes in commodity prices, ownership, production volumes and government policies.

Working capital

The Company manages the pace of its capital spending related to drilling operations by continuously monitoring production, commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing its capital spending levels.

The industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil, NGL and natural gas. This occurs on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. To the extent that the Company has joint venture partners in its activities it collects the partners' share of capital and operating expenses on a monthly basis. These are subject to normal collection risk.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Accounts payable consist of amounts payable to suppliers relating to capital spending, field operating activities and office expenses. These invoices are processed within the Company's normal payment cycle.

Business Conditions and Risks

The Company is engaged in the acquisition, exploration, development and production of crude oil and natural gas assets. TORC's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates, and the ability to access debt and equity financing at reasonable cost. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

TORC uses its technical, technological and industry knowledge to evaluate potential hydrocarbon plays in order to pay what it believes are economically sound prices that benefit shareholders. The Company's focus is on areas in which the prospects are understood by management.

The Company minimizes its business risks by operating a large number of its properties. This enables TORC to control the timing, direction and costs related to exploration and development opportunities. TORC's geological focus is on areas in which the prospects are understood by management. Technological tools are regularly used to reduce risk and increase the probability of success.

The Company complies with all government regulations and has an up-to-date emergency response plan that has been communicated to field operations by management. The Company also carries insurance coverage to protect itself against potential losses. Maintaining a highly motivated and talented staff of petroleum and natural gas professionals further minimizes the business risk.

TORC relies on appropriate sources of funding to support the various stages of its business strategy:

- Internally-generated cash flow from production is used to fund business activities;
- New equity, if available on favourable terms, may be utilized to fund acquisitions and to expand capital programs, when appropriate; and
- Debt may be utilized to fund acquisitions and to expand capital programs.

The Company is exposed to commodity price and market risk for its principal products of crude oil and natural gas. Commodity prices are influenced by a wide variety of factors, most of which are beyond TORC's control. To manage this risk, from time to time, the Company may enter into a number of financial derivative contracts for hedging purposes. These derivative contracts may include contracts related to crude oil and natural gas prices, as well as foreign exchange and interest rates. The Company may also, from time to time, enter into fixed physical contracts. The Company monitors the cost and associated benefit of these instruments and contracts as well as any debt levels and utilization rates on bank lines, and utilizes these derivatives and contracts when warranted.

Inflation risks subject the Company to potential erosion of product netbacks. For example, increasing domestic prices for oil and natural gas production equipment and services can inflate the costs of operations. In addition, increasing costs of undeveloped land can inflate costs of both asset and corporate acquisitions.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a reasonable cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors and maintaining an appropriate inventory of production equipment.

Demand for crude oil, NGL and natural gas produced by the Company exists within Canada and the United States; however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are currently primarily affected by North American supply and demand fundamentals. Demand for natural gas liquids is influenced mainly by the demand for petrochemicals in North American and off-shore markets. TORC mitigates these risks as follows:

- TORC attempts to explore for and produce crude oil that is of high quality, mitigating its exposure to adverse quality differentials;
- Natural gas production will generally be connected to established pipeline infrastructures that operate with minimal interruptions;
- Sale arrangements will vary in term and pricing structure creating a diverse portfolio that minimizes risk of exposure to any one market; and
- Financial derivative contracts may be used where appropriate to manage commodity price volatility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Off Balance Sheet Arrangements

TORC is not involved with any contractual arrangement under which a non-consolidated entity may have an obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to a non-consolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. TORC has no obligation under financial instruments or a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

Critical Accounting Estimates

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, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

Reserves

The estimation of reserves is critical to various accounting estimates. It requires judgments based on available geophysical, geological, engineering and economic data. These estimates can change materially as information from ongoing exploratory, development and production activities becomes available. These estimates can also change as economic conditions impacting crude oil and natural gas prices, royalties and operating costs change. Reserve estimates can change net income through depletion expense, accretion expense from decommissioning obligations and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income.

Decommissioning obligations

The calculation of decommissioning obligations is based on estimated costs to abandon and reclaim its net ownership in all wells and facilities, the estimated timing of the costs to be incurred and economic inflation and discount rates. These estimates can change due to technological advances, governmental and regulatory laws and regulations or economic conditions and can impact the amount of the decommissioning obligations and net income.

Stock-based compensation

The Company's estimate of stock-based compensation is dependent upon estimates of historic volatility, forfeiture rates and an assessment of achieving performance conditions. These estimates can impact net income and contributed surplus.

Financial derivatives

By their very nature, the estimated fair value of financial derivative contracts resulting in financial derivative contract assets and liabilities are subject to measurement uncertainty.

Deferred income taxes

The calculation of deferred income taxes includes estimates of reversal of temporary differences, tax rates substantively enacted and likelihood of assets being realized. These estimates can impact net income and deferred tax liabilities.

Environmental Regulation and Risk

The oil and gas industry has various environmental risks subject to regulation by various governmental bodies. Environmental legislation includes, but is not limited to, operational controls, site restoration and abandonment requirements and restrictions on emissions of various substances related to the production of oil and natural gas. Compliance with this legislation may require additional costs and a failure to comply may result in fines and penalties.

TORC is committed to minimizing the environmental impact from its operations through an environmental program which includes stakeholder communication, resource conservation and site restoration.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Disclosure Controls and Internal Controls Over Financial Reporting

Disclosure controls

The Chief Executive Officer and Chief Financial Officer are responsible for the design and operating effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") of the Company.

Internal control over financial reporting

During 2014, the Company completed its transition to the new COSO (2013) Internal Control framework and applied the framework in evaluating internal control design and operating effectiveness.

In accordance with National Instrument NI 52-109, the Chief Executive Officer and Chief Financial Officer have filed certifications stating that DC&P and ICFR of the Company have been adequately designed and that there have been no changes in ICFR that have materially affected, or are reasonably likely to materially affect, ICFR.

Additional Information

Additional information can be obtained by contacting the Company at TORC Oil & Gas Ltd., Suite 1800, Eighth Avenue Place, 525 - 8th Avenue SW, Calgary, Alberta, Canada T2P 1G1. Additional information is also available on www.sedar.com and on the Company's website www.torcoil.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Quarterly and Annual Results

<i>(in \$000's of dollars, except per share amounts)</i>	Q4 2014 <small>(1)</small>	Q3 2014	Q2 2014	Q1 2014	Q4 2013 <small>(1)</small>	Q3 2013	Q2 2013	Q1 2013
Petroleum and natural gas sales	70,854	83,798	87,509	79,168	68,206	41,717	28,117	26,034
Net income (loss)	(30,411)	15,146	13,494	8,029	(17,841)	3,287	3,340	1,130
Per share – basic ⁽²⁾	(0.32)	0.16	0.15	0.09	(0.20)	0.06	0.09	0.03
Per share – diluted ⁽²⁾	(0.32)	0.16	0.14	0.09	(0.20)	0.06	0.09	0.03
Funds flow from operations, including transaction related costs ⁽³⁾	41,710	49,005	50,655	47,207	41,458	16,223	16,580	15,274
Per share – basic ⁽²⁾	0.43	0.52	0.55	0.52	0.45	0.32	0.43	0.40
Per share – diluted ⁽²⁾	0.43	0.51	0.53	0.50	0.45	0.32	0.42	0.38
Funds flow from operations, excluding transaction related costs ⁽³⁾	41,748	49,029	50,735	47,207	40,769	24,163	16,397	15,274
Per share – basic ⁽²⁾	0.43	0.52	0.55	0.52	0.45	0.48	0.42	0.40
Per share – diluted ⁽²⁾	0.43	0.51	0.53	0.50	0.44	0.47	0.42	0.38
Net cash from operating activities ⁽⁴⁾	72,191	46,236	42,436	38,119	46,912	6,055	16,153	9,665
Per share – basic ⁽²⁾	0.50	0.50	0.46	0.42	0.51	0.12	0.42	0.25
Per share – diluted ⁽²⁾	0.48	0.48	0.45	0.40	0.50	0.12	0.41	0.24
Total assets	1,326,891	1,325,007	1,273,256	1,214,575	1,215,153	1,200,628	611,283	627,989
Total long-term financial liabilities	301,176	265,212	252,502	198,189	183,725	194,647	29,006	25,995
Dividends declared per share	0.1350	0.1350	0.1350	0.1350	0.1283	0.0417	-	-
Net working capital (net debt) ⁽⁵⁾	(244,658)	(213,391)	(181,169)	(145,528)	(145,183)	(121,486)	(2,088)	38

(footnotes on next page)

MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>(in \$000's of dollars, except per share amounts)</i>	Year ended Dec 2014 ⁽¹⁾	Year ended Dec 2013 ⁽¹⁾	Year ended Dec 2012 ⁽¹⁾
Petroleum and natural gas sales	321,329	164,074	32,711
Net income (loss)	6,258	(10,084)	(18,767)
Per share – basic ⁽²⁾	0.07	(0.18)	(0.81)
Per share – diluted ⁽²⁾	0.07	(0.18)	(0.81)
Funds flow from operations, including transaction related costs ⁽³⁾	188,577	89,536	13,396
Per share – basic ⁽²⁾	2.02	1.63	0.58
Per share – diluted ⁽²⁾	1.97	1.60	0.54
Funds flow from operations, excluding transaction related costs ⁽³⁾	188,719	96,512	17,193
Per share – basic ⁽²⁾	2.02	1.76	0.74
Per share – diluted ⁽²⁾	1.97	1.72	0.69
Net cash from operating activities ⁽⁴⁾	198,982	78,785	8,514
Per share – basic ⁽²⁾	2.13	1.44	0.37
Per share – diluted ⁽²⁾	2.08	1.40	0.34
Total assets	1,326,891	1,215,153	627,457
Total long-term financial liabilities	301,176	183,725	20,806
Dividends declared per share	0.5400	0.1700	-
Net working capital (net debt) ⁽⁵⁾	(244,658)	(145,183)	35,077

⁽¹⁾ The diluted number of shares is equivalent to the basic number of shares due to stock options, incentive shares, performance and restricted awards, and/or warrants being antidilutive in periods where the Company has a "net loss" or "net cash used in operating activities". Therefore, the diluted per share amounts in these periods are equivalent to the basic per share amounts.

⁽²⁾ In September 2013, the Company consolidated its outstanding common shares, stock options, incentive shares and warrants on a 1 for 5 basis. As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of five, in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

⁽³⁾ "Funds flow from operations, including transaction related costs" and "funds flow from operations, excluding transaction related costs" should not be considered an alternative to, or more meaningful than, "net cash from (used in) operating activities" as determined in accordance with International Financial Reporting Standards ("IFRS") as an indicator of TORC's performance. "Funds flow from operations, including transaction related costs" represents net cash from (used in) operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. "Funds flow from operations, excluding transaction related costs" represents net cash from (used in) operating activities prior to changes in non-cash working capital, settlement of decommissioning obligations and transaction related costs. TORC also presents "funds flow from operations, including transaction related costs" and "funds flow from operations, excluding transaction related costs" on a per share basis, whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

⁽⁴⁾ Net cash from operating activities is determined in accordance with IFRS and includes changes in non-cash working capital.

⁽⁵⁾ Net working capital (net debt) is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities), ii) bank debt, and iii) non-current deferred lease incentives.

Since its incorporation on March 23, 2010, the Company has accumulated light oil resource prone acreage and is delineating and developing its resource base. In November 2012, the Company acquired Vero and completed an equity financing. In September 2013, the Company acquired significant assets in southeast Saskatchewan, along with another equity financing. In the second, third and fourth quarters of 2014, the Company acquired various properties and working interests in its core Cardium and southeast Saskatchewan areas. In the fourth quarters of 2012, 2013, and 2014, the Company recorded impairment charges of \$13.3 million, \$38.4 million, and \$72.6 million, respectively, related to its exploration and evaluation assets, contributing to a net loss for these periods. These events, along with organic drilling growth, have resulted in an increase in total assets, comprised largely of land and wells, as well as increased petroleum and natural gas sales, influenced by commodity prices and commodity mix.



Financial Statements

As at and for the years ended

December 31, 2014 and 2013

FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying financial statements of TORC Oil & Gas Ltd. were prepared by and are the responsibility of management. They have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain assessments that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. The financial information contained elsewhere in Management's Discussion and Analysis has been reviewed to ensure consistency with the financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's financial records, that procedures and policies are adhered to, that the financial statements realistically report the Company's operating and financial results, and that assets are safeguarded from unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2014.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements in accordance with Canadian generally accepted auditing standards and to provide an independent auditors' report thereon.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of three unrelated and independent members of the Board of Directors and meets quarterly with the financial officers of the Company. KPMG LLP has access to the Audit Committee to review the planning and scope of testing and to discuss the results of their audit work. On the recommendation of the Audit Committee, the accompanying financial statements have been approved by the Board of Directors.

(signed)

Brett Herman
President and
Chief Executive Officer

March 5, 2015
Calgary, Canada

(signed)

Jason Zabinsky
Vice President, Finance and
Chief Financial Officer

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of TORC Oil & Gas Ltd.

We have audited the accompanying financial statements of TORC Oil & Gas Ltd., which comprise the statements of financial position as at December 31, 2014 and December 31, 2013, the statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TORC Oil & Gas Ltd. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

KPMG LLP
Chartered Accountants

March 5, 2015
Calgary, Canada

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.
Statements of Financial Position
(in \$000's of Canadian dollars)

	Note	As at December 31, 2014	As at December 31, 2013
Assets			
Cash and cash equivalents		\$ -	\$ 13,626
Trade and other receivables		22,670	34,418
Deposits and prepaid expenses		2,084	2,024
Financial derivative asset	20	24,596	-
Total current assets		49,350	50,068
Exploration and evaluation assets	11	54,596	129,093
Property, plant and equipment	12	1,222,945	1,035,992
Total non-current assets		1,277,541	1,165,085
Total assets		\$ 1,326,891	\$ 1,215,153
Liabilities			
Trade and other payables		\$ 84,928	\$ 105,680
Dividends payable	16	4,354	4,114
Deferred lease incentives		177	177
Financial derivative liability	20	-	220
Total current liabilities		89,459	110,191
Bank debt	19	179,849	85,000
Deferred premium on flow-through shares	21	1,925	-
Deferred lease incentives		104	280
Decommissioning obligations	13	105,670	93,045
Deferred tax liability	14	13,628	5,400
Total non-current liabilities		301,176	183,725
Total liabilities		\$ 390,635	\$ 293,916
Equity			
Share capital	15	\$ 1,010,428	\$ 958,754
Contributed surplus		19,543	11,881
Deficit		(93,715)	(49,398)
Total equity		936,256	921,237
Total liabilities and equity		\$ 1,326,891	\$ 1,215,153

Commitments (note 21)
Subsequent events (note 22)

See accompanying notes to the financial statements.

Approved on behalf of the Board

(signed)

Raymond Chan
Director

(signed)

Brett Herman
Director

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Statements of Income (Loss) and Comprehensive Income (Loss)
(in \$000's of Canadian dollars, except per share amounts)

	Note	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Revenues			
Petroleum and natural gas sales		\$321,329	\$164,074
Royalties		(53,539)	(24,353)
		267,790	139,721
Realized loss on financial derivatives		(159)	(163)
Unrealized gain (loss) on financial derivatives	20	24,816	(187)
		292,447	139,371
Expenses			
Operating		52,953	26,431
Transportation		10,009	8,156
General and administrative		9,739	7,072
Transaction related costs	6, 7	142	6,976
Finance costs	9	9,030	2,292
Stock-based compensation	17	10,447	3,395
Depletion and depreciation	12	114,360	59,901
Gain on disposition of undeveloped land		-	(5,000)
Impairment of exploration and evaluation assets	11	72,567	38,355
		279,247	147,578
Income (loss) before income taxes		13,200	(8,207)
Deferred income tax	14	6,942	1,877
Income (loss) and comprehensive income (loss)		\$6,258	(\$10,084)
Income (loss) per share:			
Basic	18	\$0.07	(\$0.18)
Diluted	18	\$0.07	(\$0.18)

See accompanying notes to the financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Statements of Changes in Equity

(in \$000's of Canadian dollars, unless otherwise noted)

	Number of common shares (000's)	Number of warrants (000's)	Share capital	Contributed surplus	Deficit	Total equity
Balance at December 31, 2012	38,585	3,480	\$558,630	\$6,165	(\$23,791)	\$541,004
Issue of common shares (note 15)	52,434	-	411,607	-	-	411,607
Stock-based compensation	-	-	-	6,714	-	6,714
Issued on vesting of incentive shares	54	-	-	-	-	-
Transfer of stock-based compensation on vesting of incentive shares	-	-	998	(998)	-	-
Share issue cost recovery, net of tax of \$5.3 million	-	-	(15,673)	-	-	(15,673)
Dividends to shareholders (note 16)	-	-	-	-	(15,523)	(15,523)
Issued pursuant to the share dividend program (note 16)	350	-	3,192	-	-	3,192
Loss for the year	-	-	-	-	(10,084)	(10,084)
Balance at December 31, 2013	91,423	3,480	\$958,754	\$11,881	(\$49,398)	\$921,237
Balance at December 31, 2013	91,423	3,480	\$958,754	\$11,881	(\$49,398)	\$921,237
Issue of common shares (note 15)	1,442	-	19,710	-	-	19,710
Stock-based compensation	-	-	-	20,893	-	20,893
Issued on vesting/exercise of:						
Incentive shares	60	-	-	-	-	-
Restricted awards	424	-	-	-	-	-
Performance awards	931	-	-	-	-	-
Stock options	8	-	61	-	-	61
Warrants	1,134	(1,134)	8,148	-	-	8,148
Transfer of stock-based compensation on vesting/exercise of:						
Incentive shares	-	-	1,000	(1,000)	-	-
Restricted awards	-	-	3,790	(3,790)	-	-
Performance awards	-	-	8,311	(8,311)	-	-
Stock options	-	-	130	(130)	-	-
Share issue costs, net of tax of \$0.3 million	-	-	(820)	-	-	(820)
Dividends to shareholders (note 16)	-	-	-	-	(50,575)	(50,575)
Issued pursuant to the share dividend program (note 16)	1,343	-	14,832	-	-	14,832
Flow-through share liability	-	-	(3,488)	-	-	(3,488)
Income for the year	-	-	-	-	6,258	6,258
Balance at December 31, 2014	96,765	2,346	\$1,010,428	\$19,543	(\$93,715)	\$936,256

See accompanying notes to the financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.
Statements of Cash Flows
(in \$000's of Canadian dollars)

	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Cash flows from (used in) operating activities:		
Income (loss) for the year	\$ 6,258	\$ (10,084)
Depletion and depreciation	114,360	59,901
Stock-based compensation	10,447	3,395
Deferred income tax	6,942	1,877
Accretion on decommissioning obligations	2,819	905
Unrealized loss (gain) on financial derivatives	(24,816)	187
Gain on disposition of undeveloped land	-	(5,000)
Impairment of exploration and evaluation assets	72,567	38,355
Settlement of decommissioning obligations	(347)	(262)
Change in non-cash working capital	10,752	(10,489)
Net cash from operating activities	198,982	78,785
Cash flows from (used in) investing activities:		
Additions to exploration and evaluation assets	(308)	(43,023)
Additions to property, plant and equipment	(141,761)	(119,690)
Property acquisitions	(137,575)	(488,889)
Proceeds from disposition of oil and gas properties	860	7,666
Change in non-cash working capital	(19,992)	31,575
Net cash used in investing activities	(298,776)	(612,361)
Cash flows from (used in) financing activities:		
Proceeds from bank debt	94,849	85,000
Proceeds from issue of share capital	27,919	411,607
Share issue costs	(1,097)	(20,903)
Dividends	(35,503)	(8,217)
Net cash from financing activities	86,168	467,487
Change in cash and cash equivalents	(13,626)	(66,089)
Cash and cash equivalents, beginning of year	13,626	79,715
Cash and cash equivalents, end of year	\$ -	\$ 13,626

See accompanying notes to the financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

1. Reporting entity

TORC Oil & Gas Ltd. (the "Company" or "TORC") was incorporated pursuant to the Business Corporations Act (Alberta) on March 23, 2010 as 1525893 Alberta Ltd. The Company's name was changed to TORC Oil & Gas Ltd. on December 17, 2010. The Company's principal business activity is the exploration for and production of petroleum and natural gas in the Western Canadian Sedimentary Basin.

The Company's principal place of business is located at Suite 1800, Eighth Avenue Place, 525 - 8th Avenue SW, Calgary, Alberta, Canada T2P 1G1.

2. Basis of preparation

Operating expenses in the statement of income and comprehensive income are presented as a combination of function and nature to conform with industry practice. Depletion and depreciation is presented on a separate line by its nature, while operating expenses and general and administrative expenses are presented on a functional basis. Significant expenses such as key management personnel's short-term employee benefits and stock-based compensation are presented by their nature in the notes to the financial statements.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Board of Directors on March 5, 2015.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

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 amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

The Company's assets are aggregated into cash generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these financial statements.

Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101.

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

The Company's estimate of stock-based compensation is dependent upon estimates of historic volatility, forfeiture rates and an assessment of achieving performance conditions.

The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the years presented in the financial statements by the Company.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into consideration. The financial statements of subsidiaries are included in consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income and comprehensive income.

(ii) Jointly owned assets

Many of the Company's oil and natural gas activities involve jointly owned assets. The financial statements include the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs. The relationships with jointly owned asset partners have been referred to as joint venture in the remainder of the financial statements as is common in the Canadian oil and gas industry.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the statement of income and comprehensive income.

(c) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents including bank overdrafts, trade and other receivables, trade and other payables, dividends payable and bank debt. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Cash and cash equivalents:

Cash and short term deposits on the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of outstanding bank overdrafts.

Other:

Other non-derivative financial instruments, such as bank debt, trade and other receivables, trade and other payables and dividends payable, are measured at amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The Company may enter into certain financial derivative contracts (often known as "hedges") in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and foreign exchange rates. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified at fair value through profit and loss and are recorded on the statement of financial position at fair value. Related transaction costs such as trading commissions are recognized in the statement of income and comprehensive income when incurred.

Forward physical delivery and sales contracts of oil and natural gas products are entered into under normal course of business and therefore not recorded at fair value on the statement of financial position. These physical delivery contracts are not considered to be derivative financial instruments or hedges. Settlements on these physical delivery contracts are recognized in oil and natural gas revenue on the statement of income and comprehensive income.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants and share options are recognized as a deduction from equity, net of any tax effects.

(d) Exploration and evaluation assets ("E&E")

Costs incurred prior to the ownership of licenses and rights to drill on properties are expensed in the statement of income and comprehensive income as incurred, if the related licenses and rights are not subsequently acquired.

The costs incurred to acquire licenses and rights to drill, including seismic costs, and the subsequent drilling and completing costs related to these licenses (including employee remuneration, materials and fuel used, rig costs and payments made to contractors) are capitalized as E&E assets until the drilling of the well is complete and the results have been evaluated.

E&E assets are accumulated in cost centers pending the determination of technical feasibility and commercial viability of the drilling project. Technical feasibility and commercial viability is considered to be achieved when proven and probable reserves are determined to exist for a project area. Upon determination of proven and probable reserves, the related E&E assets in the associated project area are typically reclassified to a different long-term asset category, *Property, Plant and Equipment ("PP&E")*, where the assets may be subject to depletion expense.

E&E assets are measured at cost less accumulated impairment losses and not subject to depletion expense until after these assets are reclassified to PP&E.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

As facts and circumstances suggest, E&E assets are tested for impairment. The Company compares the carrying amount of its total E&E assets to the assets' recoverable amount, which, for E&E assets, is generally the fair market value of undeveloped land at the time of impairment testing. In addition, E&E assets related to specific technically feasible and commercially viable cost centers are tested for impairment if and when they are reclassified to PP&E. E&E assets are aggregated with the associated cash generating units for the purposes of impairment testing.

Impairment losses recognized in prior periods are assessed as facts and circumstances suggest to evaluate if those losses have decreased or no longer exist. If those impairment losses have decreased or no longer exist (recovered), they are reversed accordingly. Previously recognized impairment losses may be recovered in future reporting periods due to changes in estimates used to determine the recoverable amount. An impairment loss recovery is recorded only to the extent that the E&E asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Impairment losses and recoveries are recorded in the statement of income and comprehensive income.

(e) Property, plant and equipment ("PP&E")

There are two categories of PP&E: Developed and Producing ("D&P") assets and Other PP&E assets.

D&P assets include capital costs (i) related to drilling projects where the drilling location is already determined to hold proven reserves, (ii) that have been reclassified from E&E assets because proven reserves have been determined, and (iii) incurred to improve an already technically feasible and commercially viable well.

Other PP&E typically includes furniture, fixtures, leasehold improvements and office equipment.

For statement of financial position presentation, both D&P assets and Other PP&E are included in the PP&E category.

(i) Recognition and measurement

PP&E is measured at cost less accumulated depletion and depreciation and accumulated impairment losses. For the purposes of depletion and depreciation, when significant parts of PP&E have different useful lives, they are accounted for separately so that depletion and depreciation rates appropriately reflect useful lives.

Gains and losses on disposal of PP&E, property swaps and farm-outs, including oil and natural gas interests, are determined by comparing the proceeds from disposal of fair value of the asset received or given up, with the carrying amount of the PP&E sold, and are recognized on a net basis in profit or loss.

For the purposes of impairment testing, assets are grouped into the smallest group of assets that generate independent cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. These groups of assets are called cash generating units ("CGU's").

Impairment testing of PP&E is performed as facts and circumstances suggest by comparing the carrying amount of each CGU to each CGU's recoverable amount. The recoverable amount of a CGU is the greater of (i) its value in use, and (ii) its fair value less selling costs. In assessing value in use for D&P assets, the estimated future cash flows from the production of proven and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from proved and probable reserves.

Impairment losses recognized in prior periods are assessed at each reporting date to evaluate if those losses have decreased or no longer exist. If those impairment losses have decreased or no longer exist (recovered), they are reversed accordingly. Previously recognized impairment losses may be recovered in future reporting periods due to changes in estimates used to determine the recoverable amount. An impairment loss recovery is recorded only to the extent that the PP&E carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. Impairment losses and recoveries are recorded in the statement of income and comprehensive income.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

(ii) Proven and probable reserves

Proven and probable reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. At least annually, reserves are evaluated by independent reserve evaluators.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Where amounts are expressed on a barrel of oil equivalent ("Boe") basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe figures may be misleading, particularly if used in isolation.

(iii) Subsequent costs

Subsequent costs are capital costs incurred to improve an existing D&P asset (such as a well) that is technically feasible and commercially viable. These costs are capitalized as D&P assets only if they increase the future economic benefits of the asset. All other expenditures are expensed in the statement of income and comprehensive income as incurred. These improvement costs include capital costs of further developing proven reserves or enhancing production. The costs of routine maintenance of D&P assets are recognized in the statement of income and comprehensive income as incurred. The carrying value of any replaced or sold component is derecognized.

(iv) Depletion and depreciation

The net carrying value of D&P assets is depleted using the unit-of-production method by calculating the ratio of production in the period to the related proven and probable reserves. The carrying value to be depleted includes estimated future development costs necessary to produce proven and probable reserves. Future development costs are estimated by considering the level of development required to produce the proven and probable reserves and are reviewed by independent reserve engineers at least annually. Undeveloped land related to a proven project area, for which specific proven and probable reserves have not yet been assigned, are withheld from depletion.

For Other PP&E, depreciation is recognized in the statement of income and comprehensive income on a straight-line basis over their estimated useful lives. Finance lease assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Goodwill

The Company records goodwill relating to corporate acquisitions when the purchase price exceeds the fair value of the net identifiable assets and liabilities acquired by the Company. When goodwill is negative, it is recognized immediately in the statement of income and comprehensive income. The goodwill balance is assessed for impairment annually or as events occur that could result in an impairment. Goodwill is measured at cost less accumulated impairment losses.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

For the purposes of impairment testing, goodwill is allocated to CGU's that are expected to economically benefit from the business combination from which the goodwill arose. An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income. Impairment losses identified in a CGU are first charged against any goodwill related to that CGU, with any remaining impairment losses charged against E&E or PP&E assets remaining in that CGU. Impairment losses of goodwill cannot be reversed.

(g) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Company's statement of financial position.

Payments made under operating leases are recognized in the statement of income and comprehensive income on a straight-line basis over the term of the lease and not recognized as a liability on the Company's statement of financial position. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Stock-based compensation

The grant date fair value of stock-based compensation on equity instruments, such as stock options, incentive shares and restricted and performance awards granted to employees, is recognized as stock-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated at the grant date and is adjusted to reflect the actual number of stock-based compensation equity instruments that vest including adjustments for performance conditions. The inputs used in the calculation of the fair value of stock-based compensation are estimated on the grant date.

(i) Flow-through shares

The Company may finance a portion of its exploration activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation.

The proceeds from the sale of flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the fair market price of the existing shares and the amount the investor pays for the flow-through shares (given no other differences between the securities). A flow-through share liability is recognized for this difference. On a pro-rata basis, the previously recorded flow-through share liability is reversed and a corresponding deferred tax liability (equal to the Company's effective tax rate multiplied by the flow-through commitment) is recognized as qualifying expenditures are incurred. Any difference between the reversal of the flow-through share liability and corresponding deferred tax liability is recognized as deferred tax expense in the statement of income and comprehensive income.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Examples of provisions include dismantling, decommissioning and site disturbance remediation activities, and anticipated losses from lawsuits. Provision is made for the estimated cost of these activities and capitalized in the relevant asset category or expensed in the statement of income and comprehensive income.

Decommissioning obligations

Decommissioning obligations (also called asset retirement obligations) are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time, known as accretion, is recognized in the statement of income and comprehensive income as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(k) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters a third party pipeline or facility. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(l) Finance income and costs

Finance costs comprise of interest expense on bank debt, accretion of the discount on decommissioning obligations, and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in the statement of income and comprehensive income, using the effective interest method.

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity, such as share issue costs, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

(n) Earnings per share

Basic earnings per share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options, incentive shares, and restricted and performance awards granted to employees.

(o) Changes to accounting policies and future accounting pronouncements

On January 1, 2014, the Company adopted the following new standards: IFRIC 21 *Levies* and amendments to IAS 32 *Financial Instruments Presentation*. The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2014 or on the comparative periods.

The following accounting standards and amendments, issued by the International Accounting Standards Board ("IASB"), become effective between January 1, 2016 and January 1, 2018: IFRS 11 (amendments to *Accounting for Acquisitions of Interests in Joint Operations*), IAS 16 and IAS 38 (amendments to *Clarification of Acceptable Methods of Depreciation and Amortization*), IFRS 15 *Revenue from Contracts with Customers*, and IFRS 9 *Financial Instruments*. The impact of these accounting standards and amendments is not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Exploration and evaluation assets, and property, plant and equipment

The fair value of exploration and evaluation assets and property, plant and equipment recognized in a business combination, is based on market value. The market value of E&E assets and PP&E is the estimated amount for which E&E assets and PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests included in E&E assets and PP&E is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Cash and cash equivalents, bank overdrafts, trade and other receivables, trade and other payables, dividends payable and bank debt

The fair value of cash and cash equivalents, bank overdrafts, trade and other receivables, trade and other payables, dividends payable and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2014 and 2013, the fair value of cash and cash equivalents, trade and other receivables, trade and other payables and dividends payable approximated their carrying value due to their short term to maturity. The fair value of bank debt approximates its carrying value as it bears a floating rate of interest and the margin charged by the lenders are indicative of current credit spreads.

Derivatives

The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate. The fair value of costless collars is based on option models that use published information with respect to volatility, prices and interest rates. The Company classifies its derivatives as Level 2. Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Stock-based compensation

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, forfeiture rate and the risk-free interest rate (based on government bonds). Incentive shares and restricted and performance awards are fair valued based on the share price on the measurement date with a forfeiture rate applied.

5. Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks such as credit risk, liquidity risk and market risk that arise as a result of its exploration, development, production and financing activities.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and market conditions.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, and financial derivative contract assets represents the maximum credit exposure.

With respect to trade and other receivables, the Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Receivables from petroleum and natural gas marketers are collected on the 25th day of each month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with credit-worthy marketers, as well as to carefully assess the extent of credit granted to these parties.

Joint venture receivables are normally collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risks exist with joint venture partners as disagreements occasionally arise, increasing the risk of non-collection.

The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners. However, the Company does have the ability to withhold production from joint venture partners in the event of non-payment, as well as requiring prepayment (cash calls) for significant expenditures.

The Company does not anticipate any default as it transacts with credit-worthy customers and management does not expect any losses from non-performance by these customers. As such, a provision for doubtful accounts has not been recorded at December 31, 2014 or 2013.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	December 31, 2014	December 31, 2013
Petroleum and natural gas marketing companies	\$13,994	\$23,874
Joint venture partners	5,328	9,913
Other parties ⁽¹⁾	33	432
Bank ⁽²⁾	3,315	199
Total trade and other receivables	\$22,670	\$34,418

⁽¹⁾ Other parties is comprised of goods and services tax ("GST") receivable from the federal government.

⁽²⁾ Bank is comprised of commodity derivative contract settlements receivable from certain members of the Company's bank syndicate.

The Company's trade and other receivables are aged as follows:

	December 31, 2014	December 31, 2013
Current (less than 90 days)	\$22,670	\$34,013
Past due (greater than 90 days)	-	405
Total	\$22,670	\$34,418

(c) Liquidity risk

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of trade and other payables, dividends payable and bank debt. Trade and other payables and dividends payable are considered due within one year. The terms for bank debt are outlined in note 19. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities.

(d) Market risk

Market risk is the risk that changes in market prices relating to currency, commodity prices and interest rates will affect the Company's net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities. The objective of market risk management is to manage and control market risk exposure within acceptable parameters.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Although the Company generally does not sell or transact in foreign currency, the United States dollar influences the price of petroleum and natural gas sold in Canada. Furthermore, exchange rate fluctuations can affect the fair value and cash flow from derivative contracts. For the years ended December 31, 2014 and 2013, the Company did not enter into any foreign currency derivative contracts.

Commodity prices for crude oil, natural gas liquids and natural gas are also impacted by political events, meteorological conditions and changes in supply and demand. The Company may enter into commodity derivative contracts that provide downside price protection in order to provide some stability of cash flows for capital spending and planning purposes. The Company's risk management activities are conducted pursuant to its risk management policies approved by the Board of Directors.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rates. The Company's interest rate risk arises from its floating rate credit facility. For the years ended December 31, 2014 and 2013, the Company did not enter into any interest rate derivative contracts. Assuming all other variables remain constant, an increase or decrease of one percent in market interest rates in the year ended December 31, 2014 would have decreased or increased shareholders' equity and net income by \$1.3 million.

(e) Capital management

The Company's policy is to maintain a strong capital base in order to maintain financial flexibility and to sustain the future development of the business. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The Company considers its capital structure to include working capital, bank debt and shareholders' equity.

The same as in the prior year, in order to optimize capital and operating efficiency, the Company monitors its net debt. Net debt is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities), ii) bank debt, and iii) non-current deferred lease incentives. In times of net debt, the Company monitors debt levels based on a ratio of net debt to annualized funds flow from operations. The Company defines funds flow from operations as cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations.

6. Cardium and southeast Saskatchewan asset acquisitions

During the year ended December 31, 2014, the Company acquired various properties and working interests in its core Cardium and southeast Saskatchewan areas (together the "Asset Acquisitions").

The Company believes the nature and characteristics of the Asset Acquisitions are complementary to TORC's light oil focused strategy.

Transaction costs incurred by the Company totaling \$0.1 million related to the Asset Acquisitions were expensed.

The Asset Acquisitions have been accounted for using the acquisition method of accounting, with the operating results included in the Company's financial and operating results commencing on the respective closing dates of the acquisitions.

Consideration paid ⁽¹⁾	\$137,151
Net assets acquired, at estimated fair value	
Property, plant and equipment	\$145,080
Decommissioning obligations	(7,929)
	\$137,151

⁽¹⁾ Consideration paid includes \$131.6 million of cash paid and an additional \$5.5 million of estimated purchase price adjustments.
(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

The fair value of property, plant and equipment has been determined with reference to an independent reserve report with consideration also given for land and seismic values that have been included based on estimated market value.

Included in the statement of income and comprehensive income are the following amounts relating to the Asset Acquisitions, from their respective closing dates to December 31, 2014.

	Year ended Dec 31, 2014
Petroleum and natural gas sales	\$26,347
Net income and comprehensive income	\$7,904

If the Asset Acquisitions had occurred on January 1, 2014, the Company's pro forma results of petroleum and natural gas sales and net income and comprehensive income for the year ended December 31, 2014 would have been as follows:

Year ended December 31, 2014	TORC, as stated in the statement of income and comprehensive income	Asset Acquisitions (from Jan 1, 2014 to closing dates)	Pro forma (unaudited)
Petroleum and natural gas sales	\$321,329	\$24,557	\$345,886
Net income and comprehensive income	\$6,258	\$7,367	\$13,625

7. Southeast Saskatchewan asset acquisition

On September 9, 2013, the Company closed an acquisition of assets (the "Acquired Assets") located in southeast Saskatchewan (the "SE Saskatchewan Acquisition").

The Company believes the low decline, high netback, light oil producing characteristics of the Acquired Assets are complementary to TORC's strategy.

Transaction costs incurred by the Company totaling \$7.0 million related to the SE Saskatchewan Acquisition were expensed.

The SE Saskatchewan Acquisition has been accounted for using the acquisition method of accounting, with the results of the Acquired Assets' operations included in the Company's financial and operating results beginning September 9, 2013.

Consideration paid	\$492,287
Net assets acquired, at estimated fair value	
Property, plant and equipment	\$570,308
Working capital	1,029
Derivative contracts	(1,559)
Decommissioning obligations	(77,491)
	\$492,287

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Included in the statement of loss and comprehensive loss for the year ended December 31, 2013 are the following amounts relating to the Acquired Assets from September 9, 2013 to December 31, 2013:

Petroleum and natural gas sales	\$52,938
Net income and comprehensive income	\$31,795

If the SE Saskatchewan Acquisition had occurred on January 1, 2013, the Company's pro forma results of petroleum and natural gas sales and net income and comprehensive income for the year ended December 31, 2013 would have been as follows:

Year ended December 31, 2013	Acquired Assets		Pro forma (unaudited)
	As stated	Jan 1 to Sep 8, 2013	
Petroleum and natural gas sales	\$164,074	\$121,140	\$285,214
Net income and comprehensive income	(\$10,084)	\$34,763	\$24,679

8. Key management personnel compensation

	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Remuneration and short-term benefits	\$4,383	\$2,605
Stock-based compensation	10,804	3,596
	\$15,187	\$6,201
Capitalized portion of total compensation	(7,466)	(3,101)
	\$7,721	\$3,100

Key management personnel includes the officers and directors of the Company.

Short-term employee benefits and stock-based compensation include both the capitalized and non-capitalized portion of these expenditures. Stock-based compensation reflects amounts amortized during the respective periods.

9. Finance costs

	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Interest expense and financing charges	\$6,211	\$1,387
Accretion on decommissioning obligations	2,819	905
	\$9,030	\$2,292

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

10. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Source/(use) of cash:		
Trade and other receivables	\$11,748	(\$15,322)
Deposits and prepaid expenses	(60)	345
Trade and other payables	(20,752)	40,210
Deferred lease incentives	(176)	(176)
Non-cash working capital acquired	-	(3,971)
	(\$9,240)	\$21,086
Related to operating activities	\$10,752	(\$10,489)
Related to investing activities	(19,992)	31,575
Related to financing activities	-	-
	(\$9,240)	\$21,086

The following table summarizes interest and taxes paid:

	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Interest paid	\$5,715	\$1,135
Taxes paid	-	-
	\$5,715	\$1,135

11. Exploration and evaluation assets

Balance at December 31, 2012	\$151,111
Property acquisitions	2,097
Property dispositions	(2,666)
Capital expenditures	40,926
Impairment	(38,355)
Transferred to property, plant and equipment	(24,020)
Balance at December 31, 2013	\$129,093
Property acquisitions	707
Property dispositions	(100)
Capital expenditures	308
Impairment	(72,567)
Transferred to property, plant and equipment	(2,845)
Balance at December 31, 2014	\$54,596

Exploration and evaluation assets ("E&E assets") consist of the Company's exploration projects, including undeveloped land and development costs which are pending the determination of proven reserves. Property acquisitions and capital expenditures represent the Company's share of costs incurred on E&E assets during the period.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Impairment

For the year ended December 31, 2014, the Company recognized impairment of \$72.6 million (year ended December 31, 2013: \$38.4 million) on E&E assets related to certain southern Alberta projects with carrying values exceeding the recoverable amounts. As at December 31, 2014, the Company determined there to be a trigger regarding these E&E assets, based on the Company's near term plans to reduce capital allocated to these exploratory projects given the current depressed crude oil price environment. As a result the Company impaired these E&E assets principally comprised of historic land acquisition costs. In the prior year, for certain southern Alberta projects, the impairment expense related to the excess of carrying values compared to recoverable values when costs were transferred from E&E assets to PP&E upon technical feasibility and commercial viability being determined.

12. Property, plant and equipment

Cost:	
Balance at December 31, 2012	\$393,992
Property acquisitions	571,910
Capital expenditures	122,820
Change in decommissioning obligations	3,503
Transferred from exploration and evaluation assets	24,020
Balance at December 31, 2013	\$1,116,245
Property acquisitions	144,797
Property dispositions	(760)
Capital expenditures	152,207
Change in decommissioning obligations	2,224
Transferred from exploration and evaluation assets	2,845
Balance at December 31, 2014	\$1,417,558
Accumulated depletion and depreciation:	
Balance at December 31, 2012	\$20,352
Depletion and depreciation for the year	59,901
Balance at December 31, 2013	\$80,253
Depletion and depreciation for the year	114,360
Balance at December 31, 2014	\$194,613
Net amount:	
As at December 31, 2013	\$1,035,992
As at December 31, 2014	\$1,222,945

Included in the net amount of property, plant and equipment at December 31, 2014 is office equipment of \$0.3 million, net of accumulated depreciation of \$0.4 million (December 31, 2013: \$0.3 million, net of accumulated depreciation of \$0.2 million).

At December 31, 2014, the Company had \$104.2 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land (December 31, 2013: \$106.5 million). Estimated future development costs of \$406.4 million were included in the depletion calculation (December 31, 2013: \$307.4 million).

For the year ended December 31, 2014, the Company has capitalized \$6.4 million of general and administrative expenses and \$10.4 million of stock-based compensation, which are directly attributable to the acquisition or exploration activities of the Company (for the year ended December 31, 2013: \$4.0 million and \$3.4 million, respectively).

Based on the facts and circumstances in place at December 31, 2014, there was no impairment of the Company's property, plant and equipment.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

13. Decommissioning obligations

	As at December 31, 2014	As at December 31, 2013
Balance, beginning of year	\$93,045	\$11,408
Obligations incurred	2,224	2,699
Obligations acquired	7,929	77,491
Obligations settled	(347)	(262)
Change in estimated future cash outflows	-	804
Accretion	2,819	905
Balance, end of year	\$105,670	\$93,045

The total future decommissioning obligations are based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated an undiscounted total future liability of \$131.4 million as at December 31, 2014 (at December 31, 2013: \$118.4 million) to be incurred on average in 25 years. For the year ended December 31, 2014, the Company's risk-free rate of 2.85 percent and an inflation rate of 1.8 percent per annum were used to calculate the net present value of the decommissioning obligations (year ended December 31, 2013: risk-free rate of 2.85 percent and inflation rate of 1.8 percent per annum). Actual costs may differ from estimated costs due to changes in laws and regulations, timing of costs, changes in technology and market conditions.

14. Taxes

Tax expense

The combined provision for taxes in the statement of income (loss) and comprehensive income (loss) reflects an effective tax rate which differs from the expected statutory rate. The reasons for the difference are as follows:

	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Income (loss) before taxes	\$13,200	(\$8,207)
Statutory income tax rate	25.6%	25.3%
Expected income tax (recovery)	3,376	(2,078)
Add (deduct):		
Non-deductible stock-based compensation	2,672	859
Flow-through share liability	672	2,878
Permanent depletion	264	132
Rate adjustments	145	86
Other	(187)	-
Deferred income tax	\$6,942	\$1,877

As a result of the Company's full year of operations in the province of Saskatchewan (in connection with the SE Saskatchewan Acquisition), the corporate statutory income tax rate increased slightly in 2014, such that the combined Federal and Provincial statutory income tax rate increased from 25.3% in 2013 to 25.6% in 2014.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Deferred tax liability

The components of the deferred tax liability are as follows:

	As at December 31, 2014	As at December 31, 2013
E&E and PP&E	\$91,311	\$80,494
Decommissioning obligations	(27,030)	(23,554)
Loss carryforwards	(51,922)	(44,316)
Financial derivative asset (liability)	6,292	(56)
Deferred lease incentives	(72)	(116)
Share issue costs	(4,951)	(7,052)
	\$13,628	\$5,400

The following table summarizes the continuity of the deferred tax liability:

	As at Dec 31, 2012	Recognized in profit or loss	Recognized in equity	Asset acquisition (note 7)	Flow-through share premium	As at Dec 31, 2013
E&E and PP&E	\$39,762	\$15,596	-	\$20,011	\$5,125	\$80,494
Decommissioning obligations	(2,852)	(1,086)	-	(19,616)	-	(23,554)
Loss carryforwards	(29,486)	(14,830)	-	-	-	(44,316)
Financial derivatives	381	(42)	-	(395)	-	(56)
Deferred lease incentives	(158)	42	-	-	-	(116)
Share issue costs	(3,938)	2,197	(5,311)	-	-	(7,052)
	\$3,709	\$1,877	(\$5,311)	-	\$5,125	\$5,400

	As at Dec 31, 2013	Recognized in profit or loss	Recognized in equity	Asset acquisition (note 6)	Flow-through share premium	As at Dec 31, 2014
E&E and PP&E	\$80,494	\$7,226	-	\$2,028	\$1,563	\$91,311
Decommissioning obligations	(23,554)	(1,448)	-	(2,028)	-	(27,030)
Loss carryforwards	(44,316)	(7,606)	-	-	-	(51,922)
Financial derivatives	(56)	6,348	-	-	-	6,292
Deferred lease incentives	(116)	44	-	-	-	(72)
Share issue costs	(7,052)	2,378	(277)	-	-	(4,951)
	\$5,400	\$6,942	(\$277)	-	\$1,563	\$13,628

As at December 31, 2014, the Company has tax deductions of approximately \$1.1 billion (2013: \$1.0 billion) available to shelter future taxable income.

	As at December 31, 2014	As at December 31, 2013
CEE	\$73,187	\$98,753
CDE	170,202	151,975
COGPE	505,353	455,824
UCC	139,688	117,916
Share issue costs	19,356	27,859
Loss carry forwards (expiring between 2026 to 2033)	202,990	174,804
	\$1,110,776	\$1,027,131

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

15. Share capital

In September 2013, the Company consolidated its outstanding common shares, stock options, incentive shares and warrants on a 1 for 5 basis (the "Share Consolidation"). As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of five, in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

The Company has a significant investor, the CPP Investment Board ("CPPIB"). For so long as CPPIB owns greater than 10% of the outstanding common shares of the Company, it has the right to participate in future offerings of securities by the Company, whether by way of public offering or private placement. This includes any offering of common shares and securities convertible or exchangeable into common shares, up to its pro rata ownership interest immediately prior to such offering in the case of a public offering or a private placement to five or more investors, in order to maintain its pro rata percentage ownership interest in the Company, and up to all of the offering in the case of a private placement to less than five investors.

Share capital - authorized

At December 31, 2014, the Company was authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares and an unlimited number of preferred shares. The Company has not issued any Class B non-voting common shares nor any preferred shares.

Share capital - issued

In August 2013, in connection with the SE Saskatchewan Acquisition described in note 6, the Company completed two equity financings by issuing 52,434,000 subscription receipts at \$7.85 per subscription receipt for gross proceeds of \$411.6 million, before share issue costs. In September 2013, these subscription receipts were converted into common shares of TORC on a one-for-one basis.

On October 29, 2014, the Company completed an equity financing by issuing 1,441,900 common shares on a flow-through basis at a weighted average of \$13.67 per Common Share for gross proceeds of \$19.7 million, before share issue costs.

Warrants

On December 17, 2010, the Company closed a private placement to insiders and service providers whereby 5 million units ("Units") were issued at \$4.00 per Unit, for gross proceeds of \$20.0 million. Each Unit is comprised of 0.52 common shares, 0.17 common shares issued on a flow-through basis and 0.7 common share purchase warrants ("Warrants"). Each Warrant entitles the holder to acquire one common share at a price of \$7.18, subject to the following conditions:

- one-third of the Warrants may be exercised after the Company's stock price (the "Stock Price") exceeds \$11.49;
- one-third of the Warrants may be exercised after the Company's Stock Price exceeds \$14.37;
- one-third of the Warrants may be exercised after the Company's Stock Price exceeds \$17.24; and
- the Stock Price is defined as the weighted average price per share for the 20 consecutive trading days ending immediately before such date on the Toronto Stock Exchange on which the Company's shares are listed.

In the year ended December 31, 2014, 1,134,244 Warrants were exercised for total cash proceeds of \$8.1 million. At December 31, 2014, there were 2.3 million Warrants outstanding of which 1.2 million of the Warrants were exercisable. The Warrants expire on December 16, 2015, five years from the date of grant.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

16. Dividends

<i>(thousands, except per share amounts)</i>	Three months ended Dec 31, 2014	Three months ended Dec 31, 2013	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Dividends declared per share	\$0.135	\$0.128	\$0.54	\$0.17
Cash dividends paid	\$9,499	\$8,217	\$35,503	\$8,217
Dollar value of common shares issued under the Share Dividend Program	3,460	3,192	14,832	3,192
Total dividends	\$12,959	\$11,409	\$50,335	\$11,409

The Company's dividend plan enables common shareholders to elect to receive dividends in common shares rather than cash, calculated at 95% of the weighted average trading price for the five days immediately prior to the payment date (the "Share Dividend Program").

For the period between January 1, 2015 and March 5, 2015, \$9.4 million of dividends have been declared.

17. Stock-based compensation

In September 2013, the Company consolidated its outstanding common shares, stock options, incentive shares and warrants on a 1 for 5 basis (the "Share Consolidation"). As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of five, in order for the comparative common share, stock options, incentive shares and warrants to be equivalent.

In September 2013, the Company's shareholders approved an award plan (the "Share Award Plan") whereby restricted awards and performance awards (collectively, "Share Awards") may be granted to the directors, officers and employees of the Company. The maximum number of common shares issuable under the Share Award Plan, combined with the Company's existing stock option and incentive share plans, cannot exceed ten percent of the outstanding common shares. In addition, the combined number of restricted and performance awards cannot exceed 6.5 percent of the outstanding common shares. Share Awards are earned over various periods, up to three years from the date of grant. Upon being earned, the restricted awards are converted into common shares and issued from treasury at no cost to the recipient. The performance awards are converted into common shares using a multiplier between zero and two, dependent on the Company's performance on a set criteria as determined by the Board of Directors. In the case of both restricted and performance awards, the number of common shares to be issued on the applicable issue date is adjusted to account for the payment of dividends from the grant date to the applicable issue date.

Stock options

Stock options granted have a term of five years to expiry and have various vesting periods up to three years. The following table summarizes the Company's stock option activity:

<i>(thousands, except exercise prices)</i>	Number of stock options	Weighted average exercise price
Balance at December 31, 2012	1,581	\$16.75
Granted	119	10.65
Forfeited	(60)	14.56
Balance at December 31, 2013	1,640	\$16.38
Exercised	(8)	7.15
Balance at December 31, 2014	1,632	\$16.43
Exercisable at December 31, 2014	1,457	\$16.85

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

The following table summarizes stock options outstanding and exercisable at December 31, 2014:

<i>(thousands, unless otherwise noted)</i>	Number outstanding	Number exercisable	Weighted average remaining term (years)
Exercise price:			
\$7.15 to \$9.85	31	5	3.1
\$11.65 to \$13.05	155	99	2.8
\$14.94 to \$22.99	1,446	1,353	1.6
\$7.15 to \$22.99	1,632	1,457	1.8

There were no stock options granted in the year ended December 31, 2014. The fair value of each stock option granted in the year ended December 31, 2013 was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended Dec 31, 2013
Risk free interest rate	1.4%
Expected life (years)	3.0
Expected volatility (%)	40.0%
Forfeiture rate (%)	0.0%
Weighted average fair value of stock options	\$3.02

Incentive shares

The following table summarizes incentive share activity:

<i>(thousands)</i>	Number of incentive shares
Balance at December 31, 2012	177
Granted	17
Forfeited	(11)
Common shares issued upon vesting	(54)
Balance at December 31, 2013	129
Common shares issued upon vesting	(60)
Balance at December 31, 2014	69
Convertible into common shares at December 31, 2014	-

Incentive shares are earned over various periods, up to three years from the date of grant. Upon being earned, the incentive shares are converted into common shares and issued from treasury at no cost to the incentive shareholder. The fair value of incentive shares is deemed to equal the stock price on the date of grant.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Restricted awards

The following table summarizes restricted award activity:

<i>(thousands)</i>	Number of restricted awards
Balance at December 31, 2012	-
Granted	1,238
Adjustment for payment of dividends	11
Balance at December 31, 2013	1,249
Granted	268
Adjustment for payment of dividends	60
Forfeited	(31)
Common shares issued upon vesting	(424)
Balance at December 31, 2014	1,122
Convertible into common shares at December 31, 2014	-

Restricted awards are earned over various periods, up to three years from the date of grant. Upon being earned, the restricted awards are converted into common shares and issued from treasury at no cost to the restricted award holder. The fair value of restricted awards is deemed to equal the stock price on the date of grant. The number of common shares to be issued upon being earned is adjusted to account for the payment of dividends from the grant date to the earning date. For the year ended December 31, 2014, the weighted average fair value of restricted awards granted was \$12.07 per restricted award (year ended December 31, 2013: \$9.27 per restricted award). There is no forfeiture rate included in the calculation of fair values of restricted awards granted.

Performance awards

The following table summarizes performance award activity:

<i>(thousands)</i>	Number of performance awards
Balance at December 31, 2012	-
Granted	1,802
Adjustment for payment of dividends	16
Balance at December 31, 2013	1,818
Granted	474
Granted pursuant to performance multiplier ⁽¹⁾	299
Adjustment for payment of dividends	103
Forfeited	(52)
Common shares issued upon vesting	(931)
Balance at December 31, 2014	1,711
Convertible into common shares at December 31, 2014	-

⁽¹⁾ Performance awards granted pursuant to performance multipliers are not further increased or decreased by future performance multipliers.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

Performance awards are earned over various periods, up to three years from the date of grant. On the earning date, the performance awards are converted into common shares and issued from treasury at no cost to the performance award holder, using a multiplier between zero and two, dependent on the Company's relative performance on a set criteria as determined by the Board of Directors. The multiplier, which was determined during the earning period, is considered to have been applied at the grant date. The number of common shares to be issued upon being earned is adjusted to account for the payment of dividends from the grant date to the earning date. As performance multipliers are known, past grants are adjusted to reflect the multiplier. The fair value of performance awards is deemed to equal the stock price on the date of grant. For the year ended December 31, 2014, the weighted average fair value of performance awards granted was \$10.94 per performance award (year ended December 31, 2013: \$9.27 per performance award). There is no forfeiture rate included in the calculation of fair values of performance awards granted.

18. Earnings per share

Earnings per share amounts are calculated by dividing the net income for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

<i>(thousands, except number of common shares and per share amounts)</i>	Year ended Dec 31, 2014	Year ended Dec 31, 2013
Income (loss) for the year	\$6,258	(\$10,084)
Basic weighted average number of common shares	93,320,376	54,900,265
Diluted weighted average number of common shares	95,823,544	54,900,265
Basic income (loss) per common share	\$0.07	(\$0.18)
Diluted income (loss) per common share	\$0.07	(\$0.18)

In computing diluted earnings per share for the year ended December 31, 2014, 945,285 warrants, 127,144 stock options, 62,198 incentive shares, 824,772 performance awards and 543,769 restricted awards were added to the basic weighted average common shares outstanding.

For the year ended December 31, 2013, the diluted number of shares is equivalent to the basic number of shares due to 1,640,195 stock options, 129,183 incentive shares, 3,480,000 warrants, 1,818,018 performance awards and 1,249,373 restricted awards, all of which are outstanding and antidilutive. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

19. Credit facility

At December 31, 2014, the Company had a reserves-based revolving credit facility of \$425 million with a syndicate of banks (the "Credit Facility"), comprised of a \$40 million operating facility from the operating lender (the "Operating Facility") and a \$385 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). Advances under the Credit Facility are available by way of direct advances, bankers' acceptances and standby letters of credit/guarantees. Direct advances bear interest at the prime rate, U.S. base rate or Libor rate, as applicable, plus a margin which is dependent on the Company's debt to trailing funds flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing funds flow ratio.

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 28, 2015. On or before April 28, 2015, at TORC's request and subject to the approval of the lending syndicate, the Credit Facility may be extended for an additional 364 day period. In the event of non-extension, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding will convert to a 364 day non-revolving term facility with repayment of the Credit Facility due on April 28, 2016. The Credit Facility is secured by a fixed and floating charge debenture on all of the Company's assets.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The borrowing base of the Company's Credit Facility is subject to review and redetermination by the lenders on a semi-annual basis and in the event of a change in the Company's borrowing base properties (including due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders). In the normal course, the Company's next credit facility evaluation is due to be completed by April 28, 2015.

20. Financial derivatives

The following table presents a reconciliation of the change in the unrealized amounts for the year ended December 31, 2014:

	Fair value
Financial derivative asset at December 31, 2012	\$1,526
Additions (note 7)	(1,559)
Unrealized loss on financial derivatives	(187)
Financial derivative liability at December 31, 2013	(\$220)
Unrealized gain on financial derivatives	24,816
Financial derivative asset at December 31, 2014	\$24,596

Commodity contracts outstanding as at December 31, 2014:

Remaining term	Reference	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Fair value at Dec 31, 2014 (\$000s)
Jan 1, 2015 - Sept 30, 2015	C\$WTI	Costless Collar	500	\$95.00 - \$106.25	\$2,823
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$110.55	2,284
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$112.00	2,287
Jan 1, 2015 - Mar 31, 2015	C\$ Edm	Differential Swap	500	\$8.50	(27)
Jan 1, 2015 - Sept 30, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$108.00	1,199
Jan 1, 2015 - Sept 30, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$109.55	1,190
Jan 1, 2015 - Sept 30, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$111.00	1,200
Jan 1, 2015 - Sept 30, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$111.25	1,200
Jan 1, 2015 - Sept 30, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$112.75	1,192
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$108.15	2,279
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$111.75	2,246
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$111.75	2,236
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$113.75	2,242
Jan 1, 2015 - Dec 31, 2015	C\$WTI	Costless Collar	250	\$90.00 - \$115.85	2,245
					\$24,596

As at December 31, 2014, a 10% decrease in the market price detailed in the commodity contracts above would result in a \$6.3 million unrealized gain on financial derivatives and a corresponding increase in income.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2014 and December 31, 2013

(in \$000's of Canadian dollars, unless otherwise noted)

21. Commitments

Flow-through shares issued in October 2014

On October 29, 2014, the Company closed a private placement offering of 1,441,900 flow-through shares to raise gross proceeds of \$19.7 million (the "Financing"). The Financing was comprised of 772,000 flow-through shares at \$14.25 per share issued in respect of Canadian exploration expenses ("CEE") for gross proceeds of \$11.0 million, and 669,900 flow-through shares at \$13.00 per share issued in respect of Canadian development expenses ("CDE") for gross proceeds of \$8.7 million. As at December 31, 2014, the Company fully incurred the required \$8.7 million qualifying as CDE. The \$11.0 million of CEE must be incurred before December 31, 2015. All qualifying expenditures were renounced to shareholders as at December 31, 2014.

A flow-through share liability of \$3.5 million was recorded to reflect the opening fair value of the liability associated with these flow-through shares at that date. This flow-through share liability was reduced on a pro-rata basis as the Company incurred qualifying expenditures. As at December 31, 2014, the remaining flow-through share liability was \$1.9 million.

Operating lease commitment

(a) Deferred lease incentives

The Company has entered into a lease commitment for office space. The term of the lease is 64 months commencing April 1, 2011, totaling \$5.8 million. Under the terms of the lease, the period from April 1, 2011 until December 31, 2011 did not require any payments. However, the total expenditure will be amortized over the full term. This resulted in a liability being recorded and accumulated during the rent free period, which will then reverse and be amortized to income over the remaining term of the office space lease when payments are made. The short-term and long-term components of the deferred rent expense liability represent those portions of the accumulated liability that will be amortized within 12 months and beyond that, respectively.

(b) Future lease payments

Future minimum lease payments for the Company's office space as at December 31, 2014 are as follows:

2015	\$1,257
2016	733
Total	\$1,990

22. Subsequent events

Asset acquisitions

Subsequent to December 31, 2014, the Company entered into an agreement to acquire light oil assets which are complimentary to TORC's existing conventional assets in southeast Saskatchewan (the "Acquisition"). Total consideration for the Acquisition was the issuance of 16.0 million common shares of TORC, valued at \$9.17 per common share on the closing date, for a total value of \$146.7 million before customary adjustments.

Asset swap

Subsequent to December 31, 2014, the Company entered into a strategic asset swap of common working interests in the Company's non-operated working interest properties in southeast Saskatchewan (the "Asset Swap"). The Asset Swap involves approximately 500 Boe per day of production with similar amounts of production and reserves being swapped. The Asset Swap is expected to close in the first quarter of 2015.