



Management's Discussion and Analysis

For the three and six months ended

June 30, 2013 and 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("the MD&A") is dated August 12, 2013. The MD&A should be read in conjunction with TORC Oil & Gas Ltd.'s ("TORC" or the "Company") unaudited condensed interim financial statements as at and for the three and six months ended June 30, 2013 and the audited financial statements as at and for the year ended December 31, 2012. 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" 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 represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. 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, funds flow from operations and operating netback 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:

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| <i>(\$ thousands)</i> | | | | |
| Net cash from operating activities (defined by IFRS) | \$ 16,153 | \$ 2,550 | \$ 25,818 | \$ 5,610 |
| Settlement of decommissioning obligations | 3 | 98 | 177 | 98 |
| Changes in non-cash working capital | 424 | (220) | 5,860 | 514 |
| Funds flow from operations (as defined above) | \$ 16,580 | \$ 2,428 | \$ 31,855 | \$ 6,222 |

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 anticipated closing date of TORC's announced acquisition of light oil producing assets in southeast Saskatchewan, (ii) the expected increase in TORC's credit facility and the expected structure of the increased facility, (iii) TORC's expectation that it will continue to realize natural gas prices greater than AECO benchmarks, (iv) the anticipated sources of funding of the 2013 capital program, and (v) the sufficiency of liquidity and capital resources to fund the 2013 capital program.

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 satisfaction of the conditions to the completion of the announced acquisition, the successful finalization of the increased credit facility, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent Events

Asset acquisition, financing and credit facility

On July 16, 2013, the Company announced a \$510 million acquisition of light oil producing assets in southeast Saskatchewan (the "Acquisition") and a strategic transition of the Company's business model to an intermediate light oil producer paying a monthly dividend. In conjunction with the Acquisition, TORC secured an equity investment by the Canada Pension Plan Investment Board ("CPPIB") for \$170 million through a private placement of subscription receipts and also entered into an agreement for a \$241 million bought deal prospectus offering of subscription receipts offered through a syndicate of underwriters, for total gross proceeds of \$411 million (the "Financings"). The Financings closed on August 6, 2013 and the gross proceeds will be held in escrow until all conditions precedent to the completion of the Acquisition have been satisfied or waived. If the Acquisition is completed on or before November 12, 2013, the proceeds will be released to TORC and each subscription receipt will be exchanged for one common share of TORC for no additional consideration. If the Acquisition is not completed on or before November 12, 2013 or the Acquisition is terminated at an earlier time, holders of the subscription receipts will receive a cash payment equal to the offering price of the subscription receipts and any interest that was earned thereon during the time of escrow.

After the Financings, CPPIB will own approximately 24 percent of the outstanding common shares of TORC and will be entitled to two board of directors nominees as long as they own 20 percent or greater of the outstanding common shares of TORC.

In July 2013, as part of the Acquisition, the Company paid a \$40 million non-refundable deposit to the vendor using a combination of the Company's existing cash on hand and available credit facility.

As of August 12, 2013 (being the approval date of this MD&A), the Company has paid partial subscription receipt issue costs of \$14.5 million as part of the Financings.

Upon closing of the Acquisition (anticipated to be September 2013), the Company's credit facility is expected to increase to \$350 million. It is expected that the structure of the revised credit facility will be similar to the Company's existing facility.

Financial derivatives

Subsequent to June 30, 2013, the Company entered into the following financial derivatives:

| Term | Type | Volume (Bbl/d) | Price (per Bbl in Canadian dollars) | Reference |
|--|-----------------|-------------------|--|-----------|
| August 1, 2013 to December 31, 2014 | Costless Collar | 500 | \$95.00 - \$104.60 | C\$WTI |
| August 1, 2013 to December 31, 2014 | Costless Collar | 250 | \$90.00 - \$107.55 | C\$WTI |
| August 1, 2013 to December 31, 2014 | Costless Collar | 250 | \$90.00 - \$107.25 | C\$WTI |
| August 1, 2013 to June 30, 2014 ⁽¹⁾ | Costless Collar | 500 | \$100.00 - \$107.00 | C\$WTI |
| August 1, 2013 to June 30, 2014 ⁽¹⁾ | Costless Collar | 500 | \$95.00 - \$109.30 | C\$WTI |
| January 1, 2014 to June 30, 2014 ⁽¹⁾ | Costless Collar | 1,000 | \$90.00 - \$107.00 | C\$WTI |
| August 1, 2013 to December 31, 2013 | Swap | 500 | \$107.50 | C\$WTI |
| August 1, 2013 to December 31, 2013 ⁽¹⁾ | Swap | 1,000 | \$106.35 | C\$WTI |
| August 1, 2013 to June 30, 2014 | Swap | 500 | \$103.75 | C\$WTI |

⁽¹⁾ At the request of TORC, these financial derivatives were entered into by the vendor as part of the Acquisition. At the close of the Acquisition, these financial derivatives will be novated over to TORC. If the Acquisition does not close, and these financial derivatives are in-the-money, the vendor retains these financial derivatives. If the Acquisition does not close, and these financial derivatives are out-of-the-money, TORC assumes these financial derivatives and the related liability.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Production

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| Crude oil and NGL (Bbl per day) ^{(1) (2)} | 3,363 | 737 | 3,329 | 774 |
| Natural gas (Mcf per day) ⁽³⁾ | 5,696 | 399 | 5,686 | 419 |
| Total (Boe per day) | 4,312 | 804 | 4,276 | 844 |

⁽¹⁾ "NGL" refers to natural gas liquids.

⁽²⁾ "Bbl" refers to barrels.

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

Production in the three and six months ended June 30, 2013 increased compared to the three and six months ended June 30, 2012 (the "Corresponding Periods"). In addition to the Company's on-going drilling success, the increase includes production from the acquisition of Vero Energy Inc. ("Vero") which closed on November 19, 2012. This acquisition was accounted for as a reverse takeover.

In the three and six months ended June 30, 2013, the Company drilled four (4.0 net) wells and 13 (9.6 net) wells, respectively. In the Corresponding Periods, the Company drilled four (4.0 net) wells and 13 (11.2 net) wells, respectively.

The Company's production mix for both the three and six months ended June 30, 2013 was 78% oil and NGL and 22% natural gas. In the Corresponding Periods, the production mix was 92% oil and NGL and 8% natural gas. The proportionate increase in natural gas production is largely the result of higher natural gas weighting associated with the Vero acquisition.

Pricing

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---------------------------------|---|--|---|--------------------------------------|
| Average realized prices: | | | | |
| Crude oil and NGL (\$ per Bbl) | \$ 85.45 | \$ 78.75 | \$ 83.78 | \$ 83.45 |
| Natural gas (\$ per Mcf) | 3.71 | 1.82 | 3.48 | 1.89 |
| Boe (\$ per Boe) | \$ 71.65 | \$ 73.14 | \$ 69.96 | \$ 77.56 |

In the three and six months ended June 30, 2013, the Company realized prices of \$71.65 per Boe and \$69.96 per Boe, respectively. This represents a decrease as compared to the Corresponding Periods, largely reflecting the Company's increase in natural gas weighting.

During the three and six months ended June 30, 2013, TORC's discount to WTI converted to Canadian dollars approximated \$9 per Bbl and \$10 per Bbl, respectively (Corresponding Periods: \$15 per Bbl and \$14 per Bbl, respectively). In both the three and six months ended June 30, 2013, TORC's discount to Edmonton Par averaged approximately \$5 per Bbl (Corresponding Periods: \$5 per Bbl and \$8 per Bbl, respectively). The pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the three and six months ended June 30, 2013, the Company realized gas prices of \$3.71 per Mcf and \$3.48 per Mcf, respectively (Corresponding Periods: realized \$1.82 per Mcf and \$1.89 per Mcf, respectively). In the three and six months ended June 30, 2013, the Company's realized gas prices were 16% and 15% above AECO benchmarks, respectively (Corresponding Periods: 6% and 4% above AECO benchmarks, respectively). TORC expects to continue to realize natural gas prices greater than AECO benchmarks due to the heat content of its natural gas.

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|--|---|--------------------------------------|
| Average Benchmark Prices: | | | | |
| Crude oil – WTI (<i>US\$ per Bbl</i>) | 94.22 | 93.49 | 94.30 | 98.21 |
| Crude oil – Edmonton Par (<i>CDN\$ per Bbl</i>) | 93.03 | 84.42 | 90.84 | 88.56 |
| Natural gas – AECO Daily Spot (<i>\$ per Mcf</i>) | 3.19 | 1.71 | 3.03 | 1.82 |
| Natural gas – AECO Monthly Spot (<i>\$ per Mcf</i>) | 3.23 | 1.65 | 3.00 | 1.96 |
| Exchange rate – (<i>CDN\$/US\$</i>) | 1.02 | 1.01 | 1.02 | 1.01 |

Revenues

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|-----------------------|---|--|---|--------------------------------------|
| <i>(\$ thousands)</i> | | | | |
| Crude oil and NGL | \$ 26,149 | \$ 5,284 | \$ 50,478 | \$ 11,751 |
| Natural gas | 1,968 | 66 | 3,673 | 156 |
| | \$ 28,117 | \$ 5,350 | \$ 54,151 | \$ 11,907 |

Revenues in the three and six months ended June 30, 2013 increased compared to the Corresponding Periods due to the Company's on-going drilling success and the addition of production from the acquisition of Vero which closed on November 19, 2012.

Royalties

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|--|---|--------------------------------------|
| <i>(\$ thousands, unless otherwise noted)</i> | | | | |
| Royalties | \$ 3,966 | \$ 489 | \$ 7,546 | \$ 990 |
| Percentage of revenue | 14.1% | 9.2% | 13.9% | 8.3% |

The Company receives certain Crown royalty incentives on qualifying wells that meet the Crown's depth and other criteria, which results in reduced Crown royalty rates until certain time and volume thresholds are met. Compared to the Corresponding Periods, the Company's corporate royalty rate increased in the three and six months ended June 30, 2013 because Crown royalty incentives expired for certain wells and certain wells that were drilled did not qualify for these incentives.

Operating Expenses

For the three and six months ended June 30, 2013, the Company's operating expenses were \$3.8 million (\$9.64 per Boe) and \$7.5 million (\$9.69 per Boe), respectively, compared to the Corresponding Periods of \$1.1 million (\$14.69 per Boe) and \$2.1 million (\$13.85 per Boe), respectively. The decrease on a per Boe basis, compared to the Corresponding Periods, largely reflects the benefits associated with further development of infrastructure, along with economies of scale associated with greater volumes.

Transportation Expenses

For the three and six months ended June 30, 2013, the Company's transportation expenses were \$2.2 million (\$5.60 per Boe) and \$4.3 million (\$5.57 per Boe), respectively, compared to the Corresponding Periods of \$0.6 million (\$8.57 per Boe) and \$1.1 million (\$7.47 per Boe), respectively. Similar to operating expenses, the decrease on a per Boe basis, compared to the Corresponding Periods, largely reflects the benefits associated with further development of infrastructure, along with economies of scale associated with greater volumes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Netbacks

| <i>(\$ per Boe, unless otherwise noted)</i> | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| Average daily production (Boepd) | 4,312 | 804 | 4,276 | 844 |
| Crude oil and NGL (\$ per Bbl) | \$ 85.45 | \$ 78.75 | \$ 83.78 | \$ 83.45 |
| Realized hedging gains (\$ per Bbl) | 0.05 | - | 0.04 | - |
| Natural gas (\$ per Mcf) | \$ 3.71 | \$ 1.82 | \$ 3.48 | \$ 1.89 |
| Average price prior to hedging | \$ 71.65 | \$ 73.14 | \$ 69.96 | \$ 77.56 |
| Realized gain on financial derivatives (hedging) | \$ 0.05 | \$ - | \$ 0.04 | \$ - |
| Royalties | (10.11) | (6.70) | (9.75) | (6.45) |
| Operating | (9.64) | (14.69) | (9.69) | (13.85) |
| Transportation | (5.60) | (8.57) | (5.57) | (7.47) |
| Operating netback | \$ 46.35 | \$ 43.18 | \$ 44.99 | \$ 49.79 |
| Operating netback (prior to hedging) | \$ 46.30 | \$ 43.18 | \$ 44.95 | \$ 49.79 |

General and Administrative Expenses

During the three and six months ended June 30, 2013, the Company incurred the following general and administrative expenses ("G&A"):

| <i>(\$ thousands)</i> | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| Gross general and administrative expenses | \$ 2,828 | \$ 1,743 | \$ 5,535 | \$ 3,600 |
| Recoveries ⁽¹⁾ | (496) | (391) | (1,180) | (875) |
| Capitalized general and administrative expenses ⁽²⁾ | (876) | (529) | (1,453) | (1,006) |
| Total general and administrative | \$ 1,456 | \$ 823 | \$ 2,902 | \$ 1,719 |
| G&A per Boe – (\$ per Boe) | \$ 4.17 | \$ 11.26 | \$ 3.75 | \$ 11.20 |

⁽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 and six months ended June 30, 2013 increased 77% and 69%, respectively, compared to the Corresponding Periods. This increase was due to additional employee compensation and other administrative costs resulting from the acquisition of Vero in November 2012, including greater drilling activity and production operations. However, for the three and six months ended June 30, 2013, G&A per Boe decreased 63% and 67%, respectively, compared to the Corresponding Periods due to production increasing faster on a percentage basis relative to total G&A expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Finance Costs (Income)

| <i>(\$ thousands)</i> | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| Interest income | \$ (167) | \$ (111) | \$ (390) | \$ (318) |
| Financing charges | 317 | 20 | 463 | 20 |
| | 150 | (91) | 73 | (298) |
| Accretion on decommissioning obligations | 90 | 6 | 159 | 11 |
| | \$ 240 | \$ (85) | \$ 232 | \$ (287) |

Interest income arises from the interest earned on the Company's cash balance.

In the second quarter of 2013, the financing charges arose from standby fees associated with the undrawn portion of the credit facility as well as renegotiation fees.

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

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).

| <i>(\$ thousands)</i> | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|--|---|--------------------------------------|
| Stock-based compensation expenses | \$ 826 | \$ 843 | \$ 1,806 | \$ 2,074 |
| Capitalized stock-based compensation expenses | (412) | (461) | (901) | (1,139) |
| | \$ 414 | \$ 382 | \$ 905 | \$ 935 |

For the three and six months ended June 30, 2013, stock-based compensation expenses, net of capitalized amounts, increased 8% and decreased 3%, respectively, compared to the Corresponding Periods. The changes are the result of vested Stock Options and Incentive Shares that are no longer being expensed, offset to varying degrees by new grants of Stock Options and Incentive Shares.

Depletion and Depreciation Expenses

For the three and six months ended June 30, 2013, the Company's depletion and depreciation expenses totaled \$10.2 million (\$26.07 per Boe) and \$20.4 million (\$26.35 per Boe), respectively. This compares to the Corresponding Periods of \$3.0 million (\$41.25 per Boe) and \$7.0 million (\$45.70 per Boe), respectively. The decrease on a per Boe basis is the result of lower cost of reserve additions related to wells drilled in 2013 as well as the Vero acquisition.

Taxes

For the three and six months ended June 30, 2013, the Company recorded a deferred income tax expense of \$2.4 million and \$4.2 million, respectively (Corresponding Periods: deferred income tax recovery of \$0.1 million and deferred income tax expense of \$1.7 million, respectively).

Net Income (Loss)

The net income for the three and six months ended June 30, 2013 was \$3.3 million and \$4.5 million, respectively (Corresponding Periods: net loss of \$0.8 million and net loss \$3.4 million, respectively).

Basic and diluted net income per share for both the three and six months ended June 30, 2013 was \$0.02 (Corresponding Periods: basic and diluted net loss per share of \$0.01 and \$0.03, respectively).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Funds Flow from Operations

Funds flow from operations for the three and six months ended June 30, 2013 was \$16.6 million and \$31.9 million, respectively (Corresponding Periods: \$2.4 million and \$6.2 million, respectively).

Basic funds flow from operations per share for the three and six months ended June 30, 2013 was \$0.09 and \$0.17, respectively (Corresponding Periods: \$0.02 and \$0.06, respectively). Diluted funds flow from operations per share for the three and six months ended June 30, 2013 was \$0.08 and \$0.16, respectively (Corresponding Periods: \$0.02 and \$0.06, respectively).

Net Cash from Operating Activities

Net cash from operating activities for the three and six months ended June 30, 2013 was \$16.2 million and \$25.8 million, respectively (Corresponding Periods: \$2.6 million and \$5.6 million, respectively).

Basic net cash from operating activities per share for the three and six months ended June 30, 2013 was \$0.08 and \$0.13, respectively (Corresponding Periods: \$0.02 and \$0.05, respectively). Diluted net cash from operating activities per share for the three and six months ended June 30, 2013 was \$0.08 and \$0.13, respectively (Corresponding Periods: \$0.02 and \$0.05, respectively).

Capital Expenditures

Capital expenditures are summarized as follows:

| <i>(\$ thousands)</i> | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| Cash: | | | | |
| Land retention costs | \$ 161 | \$ 88 | \$ 359 | \$ 206 |
| Geological and geophysical | 259 | 250 | 278 | 1,304 |
| Drilling and completions | 14,383 | 19,490 | 52,247 | 59,945 |
| Equipment and facilities | 3,554 | 3,464 | 14,939 | 5,774 |
| Administrative assets | 27 | 6 | 42 | 9 |
| Exploration and development expenditures | 18,384 | 23,298 | 67,865 | 67,238 |
| Capitalized general and administrative expenses | 876 | 529 | 1,453 | 1,006 |
| Exploration and development expenditures, including capitalized G&A | 19,260 | 23,827 | 69,318 | 68,244 |
| Property acquisitions, net of dispositions | (556) | 191 | (324) | 5,627 |
| Total capital expenditures - cash items | \$ 18,704 | \$ 24,018 | \$ 68,994 | \$ 73,871 |
| Non-cash: | | | | |
| Decommissioning obligations | 613 | 293 | 4,151 | 2,227 |
| Capitalized stock-based compensation | 411 | 460 | 900 | 1,139 |
| Total capital expenditures | \$ 19,728 | \$ 24,771 | \$ 74,045 | \$ 77,237 |

In the three and six months ended June 30, 2013, the Company drilled four (4.0 net) wells and 13 (9.6 net) wells, respectively. In the Corresponding Periods, the Company drilled four (4.0 net) wells and 13 (11.2 net) wells, respectively.

The Company anticipates that its 2013 exploration and development capital program (excluding acquisitions and dispositions) will be financed primarily through cash on hand, funds flow from operations, proceeds from equity issuances and bank debt.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share Capital

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|---|--|---|--------------------------------------|
| Weighted average outstanding common shares: | | | | |
| Basic | 193,104,143 | 105,818,326 | 193,019,504 | 105,651,379 |
| Diluted | 195,340,700 | 105,818,326 | 197,379,916 | 105,651,379 |
| Outstanding Securities: | | | | |
| Common shares | 193,177,515 | 105,892,384 | 193,177,515 | 105,892,384 |
| Stock options | 8,501,367 | 5,614,284 | 8,501,367 | 5,614,284 |
| Incentive shares | 715,242 | 556,047 | 715,242 | 556,047 |
| Warrants | 17,400,000 | 17,400,000 | 17,400,000 | 17,400,000 |

The corporate acquisition of Vero has been accounted for as a reverse takeover. 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 0.87 in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

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

As at August 12, 2013, the Company had 193,177,515 common shares issued and outstanding, 8,501,367 stock options outstanding, 715,242 incentive shares outstanding and 17,400,000 warrants outstanding.

Liquidity and Capital Resources

At June 30, 2013, the Company had available a \$125.0 million syndicated reserves-based revolving credit facility. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent on the Company's debt to trailing cash flow ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus a stamping fee, based on the Company's debt to trailing cash flow ratio.

The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the bank syndicate. As at June 30, 2013, the credit facility was undrawn. The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. In the normal course, the Company's next credit facility evaluation is due to be completed by October 31, 2013.

The credit facility is expected to be increased to \$350 million with the closing of the Acquisition. It is expected that the structure of the revised credit facility will be similar to the Company's existing facility.

Management is confident that there is sufficient liquidity and capital resources to fund its 2013 capital program and its day-to-day operations.

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 June 30, 2013, the Company had the following financial derivatives outstanding:

| Term | Type | Volume (Bbl/d) | Price (per Bbl in Canadian dollars) | Reference |
|-----------------------------|-----------------|-------------------|--|-----------|
| Apr 1, 2013 to Dec 31, 2013 | Costless Collar | 500 | \$95.00 - \$106.00 | WTI |
| Apr 1, 2013 to Dec 31, 2013 | Costless Collar | 500 | \$90.00 - \$100.00 | WTI |

At June 30, 2013, the mark-to-market value of these hedges totaled \$(0.2) million.

Contractual Obligations

The following table lists the Company's contractual obligations as at June 30, 2013 and the expected timing of these obligations:

| <i>(\$ thousands)</i> | Total | Less than 1 year | 1-2 years | 3-5 years | Thereafter |
|--------------------------------|------------------|---------------------|-----------------|-----------------|-------------|
| Trade and other payables | \$ 34,422 | \$ 34,422 | \$ - | \$ - | \$ - |
| Operating leases (office rent) | 3,330 | 1,080 | 1,080 | 1,170 | - |
| Farm-in transactions | 3,700 | 3,700 | - | - | - |
| Flow-through obligation | 12,395 | 12,395 | - | - | - |
| Total | \$ 53,847 | \$ 51,597 | \$ 1,080 | \$ 1,170 | \$ - |

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 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.

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.

Farm-in transactions

The Company has entered into a number of farm-in agreements with third parties to earn interests in additional prospective acreage. At June 30, 2013, the Company's required future commitments are estimated to be \$3.7 million, which are expected to be completed by the end of 2013 and form part of the Company's on-going capital program.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Flow-through obligation

In November 2012, the Company issued 11,231,700 flow-through shares at a price of \$3.56 per share for gross proceeds of \$40.0 million. As a result, the Company must incur qualifying resource expenditures amounting to \$40.0 million before December 31, 2013. The qualifying expenditures were renounced to shareholders as at December 31, 2012. The obligation remaining for this flow-through share issue was \$12.4 million as at June 30, 2013.

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 calculation of stock-based compensation includes estimates for interest rates, forfeiture rates, stock price volatility and the expected timing of exercise of stock options. 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

Adopted Accounting Pronouncements

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

Disclosure Controls and Internal Controls Over Financial Reporting

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.

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 or by email at info@torcoil.com. 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> | Q2 2013 | Q1 2013 | Q4 2012 (1) | Q3 2012 (1) | Q2 2012 (1) | Q1 2012 (1) | Q4 2011 (1) | Q3 2011 (1) |
|--|----------------|---------|----------------|----------------|----------------|----------------|----------------|----------------|
| Petroleum and natural gas sales | 28,117 | 26,034 | 14,567 | 6,237 | 5,350 | 6,557 | 3,049 | 220 |
| Net income (loss) | 3,340 | 1,130 | (13,677) | (1,659) | (840) | (2,591) | (1,982) | (974) |
| Per share – basic (2) | 0.02 | 0.01 | (0.09) | (0.02) | (0.02) | (0.03) | (0.02) | (0.01) |
| Per share – diluted (2) | 0.02 | 0.01 | (0.09) | (0.02) | (0.02) | (0.03) | (0.02) | (0.01) |
| Funds flow from (used in) operations (3) | 16,580 | 15,275 | 4,241 | 2,932 | 2,428 | 3,794 | 1,731 | (336) |
| Per share – basic (2) | 0.09 | 0.08 | 0.03 | 0.03 | 0.02 | 0.04 | 0.02 | - |
| Per share – diluted (2) | 0.08 | 0.08 | 0.03 | 0.03 | 0.02 | 0.04 | 0.02 | - |
| Net cash from (used in) operating activities (4) | 16,153 | 9,665 | 3,076 | (172) | 2,550 | 3,060 | (396) | 422 |
| Per share – basic (2) | 0.08 | 0.05 | 0.02 | - | 0.02 | 0.03 | - | - |
| Per share – diluted (2) | 0.08 | 0.05 | 0.02 | - | 0.02 | 0.03 | - | - |
| Total assets | 611,283 | 627,989 | 627,457 | 361,755 | 356,919 | 376,184 | 368,462 | 349,853 |
| Net working capital (net debt) (5) | (2,088) | 38 | 35,077 | (3,392) | 13,396 | 35,089 | 81,138 | 116,305 |

| <i>(in \$000's of dollars, except per share amounts)</i> | Year ended Dec 2012 (1) | Year ended Dec 2011 (1) | For the period from incorporation on Mar 23, 2010 to Dec 31, 2010 (1) |
|--|----------------------------|----------------------------|--|
| Petroleum and natural gas sales | 32,711 | 3,369 | - |
| Net loss | (18,767) | (4,667) | (357) |
| Per share – basic (2) | (0.16) | (0.06) | (0.05) |
| Per share – diluted (2) | (0.16) | (0.06) | (0.05) |
| Funds flow from (used in) operations (3) | 13,395 | 521 | (442) |
| Per share – basic (2) | 0.12 | - | (0.06) |
| Per share – diluted (2) | 0.12 | - | (0.06) |
| Net cash from (used in) operating activities (4) | 8,514 | (600) | (134) |
| Per share – basic (2) | 0.07 | (0.01) | (0.02) |
| Per share – diluted (2) | 0.07 | (0.01) | (0.02) |
| Total assets | 627,457 | 368,462 | 26,789 |
| Net working capital (5) | 35,077 | 81,138 | 6,344 |

(1) The diluted number of shares is equivalent to the basic number of shares due to stock options, incentive shares and/or warrants being antidilutive in periods where the Company has a net loss or funds flow used in operations 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) The corporate acquisition of Vero has been accounted for as a reverse takeover. 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 0.87 (the arrangement exchange ratio), 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 (used in) operations 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 (used in) operations represents net cash from (used in) operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. TORC also presents funds flow from (used in) operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

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

(5) Net working capital is calculated as current assets (excluding financial derivative asset) less current liabilities and 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. These events 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.



Condensed Interim Financial Statements

As at June 30, 2013

and for the three and six months ended

June 30, 2013 and 2012

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Condensed Interim Statements of Financial Position

(unaudited)

(in \$000's of Canadian dollars)

| | Note | As at June 30, 2013 | As at December 31, 2012 |
|---|------|------------------------|----------------------------|
| Assets | | | |
| Cash and cash equivalents | | \$ 19,910 | \$ 79,715 |
| Trade and other receivables | | 11,910 | 19,096 |
| Deposits and prepaid expenses | | 1,059 | 2,369 |
| Financial derivative asset | | - | 1,526 |
| Total current assets | | 32,879 | 102,706 |
| Exploration and evaluation assets | 3 | 174,729 | 151,111 |
| Property, plant and equipment | 4 | 403,675 | 373,640 |
| Total non-current assets | | 578,404 | 524,751 |
| Total assets | | \$ 611,283 | \$ 627,457 |
| Liabilities | | | |
| Trade and other payables | | \$ 34,422 | \$ 65,470 |
| Deferred lease incentives | | 177 | 177 |
| Financial derivative liability | 9 | 205 | - |
| Total current liabilities | | 34,804 | 65,647 |
| Deferred premium on flow-through shares | 10 | 1,999 | 5,233 |
| Deferred lease incentives | | 368 | 456 |
| Decommissioning obligations | 5 | 15,542 | 11,408 |
| Deferred tax liability | | 11,097 | 3,709 |
| Total non-current liabilities | | 29,006 | 20,806 |
| Total liabilities | | \$ 63,810 | \$ 86,453 |
| Equity | | | |
| Share capital | | \$ 559,692 | \$ 558,630 |
| Contributed surplus | | 7,102 | 6,165 |
| Deficit | | (19,321) | (23,791) |
| Total equity | | 547,473 | 541,004 |
| Total liabilities and equity | | \$ 611,283 | \$ 627,457 |

Commitments (note 10)

Subsequent events (note 11)

See accompanying notes to the condensed interim financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(unaudited)

(in \$000's of Canadian dollars, except per share amounts)

| | Note | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|------|--|--|--------------------------------------|--------------------------------------|
| Revenues | | | | | |
| Petroleum and natural gas sales | | \$ 28,117 | \$ 5,350 | \$ 54,151 | \$ 11,907 |
| Royalties | | (3,966) | (489) | (7,546) | (990) |
| | | 24,151 | 4,861 | 46,605 | 10,917 |
| Realized gain on financial derivatives | | 19 | - | 36 | - |
| Unrealized loss on financial derivatives | | (150) | - | (1,731) | - |
| | | 24,020 | 4,861 | 44,910 | 10,917 |
| Expenses | | | | | |
| Operating | | 3,784 | 1,074 | 7,502 | 2,126 |
| Transportation | | 2,200 | 627 | 4,309 | 1,148 |
| General and administrative | | 1,456 | 823 | 2,902 | 1,719 |
| Finance costs (income) | | 240 | (85) | 232 | (287) |
| Stock-based compensation | 6 | 414 | 382 | 905 | 935 |
| Depletion and depreciation | | 10,231 | 3,017 | 20,392 | 7,016 |
| | | 18,325 | 5,838 | 36,242 | 12,657 |
| Income (loss) before income taxes | | 5,695 | (977) | 8,668 | (1,740) |
| Deferred income tax (recovery) | | 2,355 | (137) | 4,198 | 1,691 |
| Income (loss) and comprehensive income (loss) | | \$ 3,340 | \$ (840) | \$ 4,470 | \$ (3,431) |
| Income (loss) per share: | | | | | |
| Basic | 7 | \$ 0.02 | \$ (0.01) | \$ 0.02 | \$ (0.03) |
| Diluted | 7 | \$ 0.02 | \$ (0.01) | \$ 0.02 | \$ (0.03) |

See accompanying notes to the condensed interim financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Condensed Interim Statements of Changes in Equity

(unaudited)

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

| | Number of common shares | Number of warrants | Share capital | Contributed surplus | Deficit | Total equity |
|---|-------------------------------|-----------------------|-------------------|------------------------|--------------------|-------------------|
| Balance at December 31, 2011 | 105,647 | 17,400 | \$ 329,836 | \$ 3,106 | \$ (5,024) | \$ 327,918 |
| Stock-based compensation | - | - | - | 2,074 | - | 2,074 |
| Issued on vesting of incentive shares | 245 | - | - | - | - | - |
| Transfer of stock-based compensation on vesting of incentive shares | - | - | 848 | (848) | - | - |
| Share issue cost recovery, net of tax of \$0.002 million | - | - | 3 | - | - | 3 |
| Loss for the period | - | - | - | - | (3,431) | (3,431) |
| Balance at June 30, 2012 | 105,892 | 17,400 | \$ 330,687 | \$ 4,332 | \$ (8,455) | \$ 326,564 |
| Balance at December 31, 2012 | 192,928 | 17,400 | \$ 558,630 | \$ 6,165 | \$ (23,791) | \$ 541,004 |
| Stock-based compensation | - | - | - | 1,806 | - | 1,806 |
| Issued on vesting of incentive shares | 250 | - | - | - | - | - |
| Transfer of stock-based compensation on vesting of incentive shares | - | - | 869 | (869) | - | - |
| Share issue cost recovery, net of tax of \$0.1 million | - | - | 193 | - | - | 193 |
| Income for the period | - | - | - | - | 4,470 | 4,470 |
| Balance at June 30, 2013 | 193,178 | 17,400 | \$ 559,692 | \$ 7,102 | \$ (19,321) | \$ 547,473 |

See accompanying notes to the condensed interim financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Condensed Interim Statements of Cash Flows

(unaudited)

(in \$000's of Canadian dollars)

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|--|--|--------------------------------------|--------------------------------------|
| Cash flows from (used in) operating activities: | | | | |
| Income (loss) for the period | \$ 3,340 | \$ (840) | \$ 4,470 | \$ (3,431) |
| Depletion and depreciation | 10,231 | 3,017 | 20,392 | 7,016 |
| Stock-based compensation | 414 | 382 | 905 | 935 |
| Deferred income tax (recovery) | 2,355 | (137) | 4,198 | 1,691 |
| Accretion on decommissioning obligations | 90 | 6 | 159 | 11 |
| Unrealized loss on financial derivatives | 150 | - | 1,731 | - |
| Settlement of decommissioning obligations | (3) | (98) | (177) | (98) |
| Change in non-cash working capital | (424) | 220 | (5,860) | (514) |
| Net cash from operating activities | 16,153 | 2,550 | 25,818 | 5,610 |
| Cash flows from investing activities: | | | | |
| Additions to exploration and evaluation assets | (13,245) | (12,896) | (25,612) | (53,267) |
| Additions to property, plant and equipment | (6,058) | (11,122) | (44,238) | (20,604) |
| Disposal of exploration and evaluation assets | 602 | - | 752 | - |
| Change in non-cash working capital | (11,054) | (18,513) | (16,780) | (13,764) |
| Net cash used in investing activities | (29,755) | (42,531) | (85,878) | (87,635) |
| Cash flows from financing activities: | | | | |
| Share issue costs | (2) | (5) | 255 | 5 |
| Net cash from (used in) financing activities | (2) | (5) | 255 | 5 |
| Change in cash and cash equivalents | (13,604) | (39,986) | (59,805) | (82,020) |
| Cash and cash equivalents, beginning of period | 33,514 | 68,713 | 79,715 | 110,747 |
| Cash and cash equivalents, end of period | \$ 19,910 | \$ 28,727 | \$ 19,910 | \$ 28,727 |

See accompanying notes to the condensed interim financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

(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

The corporate acquisition of Vero Energy Inc. ("Vero") in November 2012 has been accounted for as a reverse takeover. 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 0.87 (the Arrangement exchange ratio), in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

These condensed interim financial statements and the notes thereto should be read in conjunction with TORC's audited financial statements as at and for the year ended December 31, 2012, and do not include all of the information required for full annual financial statements.

These condensed interim financial statements are unaudited and have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies applied for the condensed interim financial statements as at and for the three and six months ended June 30, 2013 do not differ significantly from those applied for the financial statements as at and for the year ended December 31, 2012 which have been prepared on the basis of IFRS issued by the IASB and interpretations of the IFRIC, except as noted below.

These condensed interim financial statements were approved by the Company's Board of Directors on August 12, 2013.

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

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

3. Exploration and evaluation assets

| | | |
|--|-----------|----------------|
| Balance at December 31, 2011 | \$ | 120,708 |
| Property acquisitions | | 5,496 |
| Property dispositions | | (1,721) |
| Capital expenditures | | 90,205 |
| Exploration and evaluation assets expensed, previously capitalized | | (13,306) |
| Transferred to property, plant and equipment | | (50,271) |
| Balance at December 31, 2012 | \$ | 151,111 |
| Property acquisitions | | 793 |
| Property dispositions | | (2,250) |
| Capital expenditures | | 25,075 |
| Balance at June 30, 2013 | \$ | 174,729 |

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.

4. Property, plant and equipment

| | | |
|--|-----------|----------------|
| Cost: | | |
| Balance at December 31, 2011 | \$ | 134,619 |
| Property acquisitions | | 4,289 |
| Capital expenditures | | 38,279 |
| Corporate acquisition | | 164,726 |
| Change in decommissioning obligations | | 1,808 |
| Transferred from exploration and evaluation assets | | 50,271 |
| Balance at December 31, 2012 | | 393,992 |
| Property acquisitions (dispositions) | | 1,133 |
| Capital expenditures | | 45,142 |
| Change in decommissioning obligations | | 4,152 |
| Balance at June 30, 2013 | \$ | 444,419 |
| Accumulated depletion and depreciation: | | |
| Balance at December 31, 2011 | | 1,979 |
| Depletion and depreciation for the year | | 18,373 |
| Balance at December 31, 2012 | | 20,352 |
| Depletion and depreciation for the period | | 20,392 |
| Balance at June 30, 2013 | \$ | 40,744 |
| Net amount: | | |
| As at December 31, 2012 | \$ | 373,640 |
| As at June 30, 2013 | \$ | 403,675 |

Included in the net amount of property, plant and equipment at June 30, 2013 is office equipment of \$0.2 million, net of accumulated depreciation of \$0.2 million (December 31, 2012: \$0.2 million, net of accumulated depreciation of \$0.1 million).

At June 30, 2013, the Company had \$102.3 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land. Estimated future development costs of \$172.3 million were included in the depletion calculation.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

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

5. Decommissioning obligations

| | As at June 30, 2013 | As at December 31, 2012 |
|--|------------------------|----------------------------|
| Balance, beginning of period | \$ 11,408 | \$ 877 |
| Obligations incurred | 1,311 | 1,808 |
| Obligations acquired | - | 8,762 |
| Obligations settled | (177) | (98) |
| Change in estimated future cash outflows | 2,841 | - |
| Accretion | 159 | 59 |
| Balance, end of period | \$ 15,542 | \$ 11,408 |

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 \$17.1 million as at June 30, 2013 (at December 31, 2012: \$15.3 million) to be incurred over the next 25 years. For the period ended June 30, 2013, the Company's risk-free rate of 2.4 percent and an inflation rate of 2.0 percent per annum were used to calculate the net present value of the decommissioning obligations (year ended December 31, 2012: risk-free rate of 2.4 percent and inflation rate of 2.0 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.

In 2013, the Company recorded a change in estimated future cash outflows totaling \$2.8 million relating to a change in the Company's well abandonment and reclamation cost estimates. These estimates were revised using industry parameters that estimate regional abandonment and reclamation costs established by regulatory organizations.

6. Stock-based compensation

The Company has an employee stock option plan under which employees and directors are eligible to receive option grants ("Stock Options") and Common Share incentives ("Incentive Shares"). The total aggregate amount of Stock Options and Incentive Shares that can be issued cannot exceed ten percent of the outstanding Common Shares. Stock Options granted under the plan have a term of five years to expiry and have various vesting periods up to three years.

The corporate acquisition of Vero has been accounted for as a reverse takeover. As a result, the number of Stock Options and Incentive Shares related to periods before November 19, 2012 have been reduced by a factor of 0.87 and the corresponding Stock Option exercise prices have been increased by a factor of 0.87, in order for comparative amounts to be equivalent.

The following table summarizes Stock Option activity:

| <i>(thousands, except exercise prices)</i> | Number of Stock Options | Weighted average exercise price |
|--|----------------------------|---------------------------------------|
| Balance at December 31, 2011 | 5,479 | \$ 3.52 |
| Granted | 2,474 | 3.00 |
| Forfeited | (49) | 3.45 |
| Balance at December 31, 2012 | 7,904 | \$ 3.35 |
| Granted | 597 | 2.13 |
| Balance at June 30, 2013 | 8,501 | \$ 3.26 |
| Exercisable at June 30, 2013 | 3,592 | \$ 3.50 |

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

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

The fair value of each Stock Option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|--|--|--------------------------------------|--------------------------------------|
| Risk free interest rate | 1.4% | 1.4% | 1.4% | 1.4% |
| Expected life (years) | 3.0 | 3.0 | 3.0 | 3.0 |
| Expected volatility (%) | 40.0% | 40.0% | 40.0% | 40.0% |
| Forfeiture rate (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| Weighted average fair value of options | \$ 0.42 | \$ 0.98 | \$ 0.60 | \$ 0.98 |

The following table summarizes Incentive Share activity:

| <i>(thousands)</i> | Number of Incentive Shares |
|--|----------------------------------|
| Balance at December 31, 2011 | 783 |
| Granted | 363 |
| Forfeited | (5) |
| Common shares issued upon vesting | (261) |
| Balance at December 31, 2012 | 880 |
| Granted | 85 |
| Common shares issued upon vesting | (250) |
| Balance at June 30, 2013 | 715 |
| Convertible into Common Shares at June 30, 2013 | - |

7. Earnings per share

Earnings per share amounts are calculated by dividing the net income (loss) 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> | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|--|--|--|--------------------------------------|--------------------------------------|
| Income (loss) for the period | \$ 3,340 | \$ (840) | \$ 4,470 | \$ (3,431) |
| Basic weighted average number of Common Shares | 193,104,143 | 105,818,326 | 193,019,504 | 105,651,379 |
| Diluted weighted average number of Common Shares | 195,340,700 | 105,818,326 | 197,379,916 | 105,651,379 |
| Basic income (loss) per Common Share | \$ 0.02 | \$ (0.01) | \$ 0.02 | \$ (0.03) |
| Diluted income (loss) per Common Share | \$ 0.02 | \$ (0.01) | \$ 0.02 | \$ (0.03) |

In computing diluted earnings per share for the three months ended June 30, 2013, 1,768,894 warrants, 113,305 stock options and 354,358 Incentive Shares were added to the basic weighted average Common Shares outstanding. In computing diluted earnings per share for the six months ended June 30, 2013, 3,843,693 warrants, 118,290 stock options and 398,429 Incentive Shares were added to the basic weighted average Common Shares outstanding.

For the three and six months ended June 30, 2012, the diluted number of shares is equivalent to the basic number of shares due to antidilutive stock options, incentive shares and warrants. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

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

8. Credit facility

At June 30, 2013, the Company had available a \$125 million syndicated reserves-based revolving credit facility. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent on the Company's debt to trailing cash flow ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus a stamping fee, based on the Company's debt to trailing cash flow ratio.

The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the bank syndicate. As at June 30, 2013, the credit facility was undrawn. The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. In the normal course, the Company's next credit facility evaluation is due to be completed by October 31, 2013.

9. Financial derivatives

Commodity contracts outstanding as at June 30, 2013:

| Remaining term | Reference | Type | Volume (Bbl/d) | Price (per Bbl in Canadian dollars) | Fair value at June 30, 2013 |
|-----------------------------|-----------|-----------------|-------------------|--|--------------------------------|
| Jul 1, 2013 to Dec 31, 2013 | WTI | Costless Collar | 500 | \$95.00 - \$106.00 | \$ 43 |
| Jul 1, 2013 to Dec 31, 2013 | WTI | Costless Collar | 500 | \$90.00 - \$100.00 | (248) |
| | | | | | \$ (205) |

For the three and six months ended June 30, 2013, a 10% decrease in the WTI price would have resulted in an additional realized gain on financial derivatives of \$0.5 million and \$1.6 million, respectively.

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.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

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

10. Commitments

Flow-through shares issued in November 2012

In November 2012, the Company issued 11,231,700 flow-through shares at a price of \$3.56 per share for gross proceeds of \$40.0 million. As a result, the Company must incur qualifying resource expenditures amounting to \$40.0 million before December 31, 2013. The qualifying expenditures were renounced to shareholders as at December 31, 2012. The obligation remaining for this flow-through share issue was \$12.4 million as at June 30, 2013.

A flow-through share liability of \$6.5 million was recorded which reflected the fair value of the liability associated with these shares at that date. This flow-through share liability was reduced on a pro-rata basis as the Company incurred qualifying expenditures. As at June 30, 2013, the remaining flow-through share liability was \$2.0 million.

Farm-in transactions

The Company has entered into a number of farm-in agreements with third parties to earn interests in additional prospective acreage. At June 30, 2013, the Company's required future commitments are estimated to be \$3.7 million, which are expected to be completed by the end of 2013 and form part of the Company's on-going capital program.

11. Subsequent events

Asset acquisition, financing and credit facility

On July 16, 2013, the Company announced a \$510 million acquisition of light oil producing assets in southeast Saskatchewan (the "Acquisition") and a strategic transition of the Company's business model to an intermediate light oil producer paying a monthly dividend. In conjunction with the Acquisition, TORC secured an equity investment by the Canada Pension Plan Investment Board ("CPPIB") for \$170 million through a private placement of subscription receipts and also entered into an agreement for a \$241 million bought deal prospectus offering of subscription receipts offered through a syndicate of underwriters, for total gross proceeds of \$411 million (the "Financings"). The Financings closed on August 6, 2013 and the gross proceeds will be held in escrow until all conditions precedent to the completion of the Acquisition have been satisfied or waived. If the Acquisition is completed on or before November 12, 2013, the proceeds will be released to TORC and each subscription receipt will be exchanged for one common share of TORC for no additional consideration. If the Acquisition is not completed on or before November 12, 2013 or the Acquisition is terminated at an earlier time, holders of the subscription receipts will receive a cash payment equal to the offering price of the subscription receipts and any interest that was earned thereon during the time of escrow.

After the Financings, CPPIB will own approximately 24 percent of the outstanding common shares of TORC and will be entitled to two board of directors nominees as long as they own 20 percent or greater of the outstanding common shares of TORC.

In July 2013, as part of the Acquisition, the Company paid a \$40 million non-refundable deposit to the vendor using a combination of the Company's existing cash on hand and available credit facility.

As of August 12, 2013 (being the approval date of these condensed interim financial statements), the Company has paid partial subscription receipt issue costs of \$14.5 million as part of the Financings.

Upon closing of the Acquisition (anticipated to be September 2013), the Company's credit facility is expected to increase to \$350 million. It is expected that the structure of the revised credit facility will be similar to the Company's existing facility.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements

As at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012

(unaudited)

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

Financial derivatives

Subsequent to June 30, 2013, the Company entered into the following financial derivatives:

| Term | Type | Volume (Bbl/d) | Price (per Bbl in Canadian dollars) | Reference |
|--|-----------------|-------------------|--|-----------|
| August 1, 2013 to December 31, 2014 | Costless Collar | 500 | \$95.00 - \$104.60 | C\$WTI |
| August 1, 2013 to December 31, 2014 | Costless Collar | 250 | \$90.00 - \$107.55 | C\$WTI |
| August 1, 2013 to December 31, 2014 | Costless Collar | 250 | \$90.00 - \$107.25 | C\$WTI |
| August 1, 2013 to June 30, 2014 ⁽¹⁾ | Costless Collar | 500 | \$100.00 - \$107.00 | C\$WTI |
| August 1, 2013 to June 30, 2014 ⁽¹⁾ | Costless Collar | 500 | \$95.00 - \$109.30 | C\$WTI |
| January 1, 2014 to June 30, 2014 ⁽¹⁾ | Costless Collar | 1,000 | \$90.00 - \$107.00 | C\$WTI |
| August 1, 2013 to December 31, 2013 | Swap | 500 | \$107.50 | C\$WTI |
| August 1, 2013 to December 31, 2013 ⁽¹⁾ | Swap | 1,000 | \$106.35 | C\$WTI |
| August 1, 2013 to June 30, 2014 | Swap | 500 | \$103.75 | C\$WTI |

⁽¹⁾ At the request of TORC, these financial derivatives were entered into by the vendor as part of the Acquisition. At the close of the Acquisition, these financial derivatives will be novated over to TORC. If the Acquisition does not close, and these financial derivatives are in-the-money, the vendor retains these financial derivatives. If the Acquisition does not close, and these financial derivatives are out-of-the-money, TORC assumes these financial derivatives and the related liability.