TORC Oil & Gas Ltd

Management's Discussion and Analysis

For the three months ended

March 31, 2014 and 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("the MD&A") is dated May 13, 2014. 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 months ended March 31, 2014 and the audited financial statements as at and for the year ended 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/recovery", "funds flow from operations, excluding transaction related costs/recovery", "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/recovery 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/recovery represents cash flow from operating activities prior to changes in non-cash working capital, settlement of decommissioning obligations and transaction related costs/recovery. Working capital (net debt) is calculated as current assets (excluding financial derivative assets) less current liabilities (excluding financial derivative liabilities), bank debt and 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:

($ thousands)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Net cash from operating activities (defined by IFRS)	**$ 38,119**	$ 9,665
Settlement of decommissioning obligations	**42**	174
Changes in non-cash working capital	**9,046**	5,436
Funds flow from operations, including and excluding transaction related costs/recovery	**$ 47,207**	$ 15,275

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

	As at Mar 31, 2014	As at Dec 31, 2013
Current assets (excluding financial derivative assets)	**$ 33,050**	$ 50,068
Less: current liabilities (excluding financial derivative liabilities)	**(83,818)**	(109,971)
Less: bank debt	**(94,523)**	(85,000)
Less: non-current deferred lease incentives	**(237)**	(280)
Net debt	**$ (145,528)**	$ (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.

Forward-Looking Statements

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

Subsequent Events

<u>Asset acquisitions subsequent to March 31, 2014</u>

Subsequent to March 31, 2014, the Company acquired properties and working interests in its core Cardium areas and also in southeast Saskatchewan. The total cash consideration paid was approximately $70 million after customary purchase price adjustments.

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

Results of Operations

Production

	Three months ended Mar 31, 2014	Three months ended Mar 31, 2013
Crude oil and NGL (Bbl per day) [(1) (2)]	**8,924**	3,294
Natural gas (Mcf per day) [(3)]	**9,630**	5,677
Total (Boe per day)	**10,529**	4,240
% liquids	**85%**	78%

(1) "NGL" refers to natural gas liquids.
(2) "Bbl" refers to barrels.
(3) "Mcf" refers to thousand cubic feet.

Production in the three months ended March 31, 2014 increased compared to the three months ended March 31, 2013 (the "Corresponding Period"). In addition to the Company's on-going drilling success, the increase includes production from the acquisition of crude oil and natural gas assets located in southeast Saskatchewan which closed on September 9, 2013 (the "SE Saskatchewan Acquisition").

Pricing

	Three months ended Mar 31, 2014	Three months ended Mar 31, 2013
Average realized prices:		
Crude oil ($ per Bbl)	**$ 93.90**	$ 83.63
NGL ($ per Bbl)	**66.40**	58.77
Natural gas ($ per Mcf)	**5.54**	3.34
Boe ($ per Boe)	**$ 83.55**	$ 68.22

During the three months ended March 31, 2014, TORC realized oil prices of $93.90 per Bbl (Corresponding period: $83.63 per Bbl). TORC's discount to WTI converted to Canadian dollars approximated $15 per Bbl (Corresponding Period: $12 per Bbl). In the three months ended March 31, 2014, TORC's discount to Edmonton Par averaged approximately $6 per Bbl (Corresponding Period: $5 per Bbl). The pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

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In the three months ended March 31, 2014, the Company realized gas prices of $5.54 per Mcf (Corresponding Period: $3.34 per Mcf). In the three months ended March 31, 2014, the Company's realized gas prices were 9% above AECO benchmarks (Corresponding Period: 16%). TORC expects to continue to realize natural gas prices greater than AECO benchmarks due to the higher heat content of its natural gas.

In the three months ended March 31, 2014, the average realized price across all products was $83.55 per Boe. For the three months ended March 31, 2014, the average realized price was higher by $15.33 per Boe compared to the Corresponding Period, owing largely to a higher commodity price environment across all products.

	Three months ended Mar 31, 2014	Three months ended Mar 31, 2013
Average Benchmark Prices:		
Crude oil – WTI *(US$ per Bbl)*	**98.61**	94.37
Crude oil – Edmonton Par *(CDN$ per Bbl)*	**100.03**	88.65
Natural gas – AECO Daily Spot *($ per Mcf)*	**5.09**	2.88
Natural gas – AECO Monthly Spot *($ per Mcf)*	**4.29**	2.77
Exchange rate – *(CDN$/US$)*	**1.10**	1.01

Revenues

($ thousands)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Crude oil and NGL	**$ 74,370**	$ 24,329
Natural gas	**4,798**	1,705
	$ 79,168	$ 26,034

Revenues in the three months ended March 31, 2014 increased compared to the Corresponding Period due to the Company's on-going drilling success, increased realized prices for all commodities, and the addition of production from the SE Saskatchewan Acquisition which closed on September 9, 2013.

Royalties

($ thousands, unless otherwise noted)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Royalties	**$ 12,372**	$ 3,580
$ per Boe	**$ 13.06**	$ 9.38
Percentage of revenue	**15.6%**	13.8%

Compared to the Corresponding Period, the Company's corporate royalty rate increased in the three months ended March 31, 2014. The increase in royalties is primarily due to higher royalty rates related to the assets from the SE Saskatchewan Acquisition (which includes the Saskatchewan Resource Tax), Crown royalty incentives that expired for certain wells, and certain wells that were drilled which did not qualify for the Crown royalty incentives.

Operating Expenses

($ thousands, unless otherwise noted)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Operating expenses	**$ 12,277**	$ 3,718
$ per Boe	**$ 12.96**	$ 9.74

For the three months ended March 31, 2014, the increase on a per Boe basis compared to the Corresponding Period, largely reflects increased costs associated with the properties acquired in the SE Saskatchewan Acquisition.

Transportation Expenses

($ thousands, unless otherwise noted)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Transportation expenses	**$ 2,401**	$ 2,109
$ per Boe	**$ 2.53**	$ 5.53

For the three months ended March 31, 2014, the Company's transportation expenses decreased significantly on a per Boe basis, compared to the Corresponding Period. 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 assets acquired in the SE Saskatchewan Acquisition which closed on September 9, 2013.

Operating Netbacks

($ per Boe, unless otherwise noted)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Average daily production *(Boepd)*	**10,529**	4,240
Crude oil ($ per Bbl)	**$ 93.90**	$ 83.63
NGL ($ per Bbl)	**$ 66.40**	$ 58.77
Natural gas *($ per Mcf)*	**$ 5.54**	$ 3.34
Average price prior to hedging	**$ 83.55**	$ 68.22
Realized gain (loss) on financial derivatives (hedging)	**$ (1.51)**	$ 0.04
Royalties	**(13.06)**	(9.38)
Operating	**(12.96)**	(9.74)
Transportation	**(2.53)**	(5.53)
Operating netback	**$ 53.49**	$ 43.61
Operating netback (prior to hedging)	**$ 55.00**	$ 43.57

General and Administrative Expenses

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

($ thousands)		**Three months ended Mar 31, 2014**		Three months ended Mar 31, 2013
Gross general and administrative expenses	**$**	**4,476**	$	2,707
Recoveries [1]		**(669)**		(684)
Capitalized general and administrative expenses [2]		**(1,390)**		(577)
Total general and administrative	**$**	**2,417**	$	1,446
$ per Boe	**$**	**2.55**	$	3.79

(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 ended March 31, 2014 increased 67% compared to the Corresponding Period. This increase was due to the increase in the number of employees resulting in additional employee compensation and other administrative costs resulting from the SE Saskatchewan Acquisition, as well as greater drilling activity and production operations consistent with a growing company. However, for the three months ended March 31, 2014, G&A per Boe decreased 33% compared to the Corresponding Period reflecting improving G&A efficiencies on a Boe basis due to the Company's growth.

Finance Costs (Income)

($ thousands)		**Three months ended Mar 31, 2014**		Three months ended Mar 31, 2013
Interest expense (income) and financing charges	**$**	**1,064**	$	(77)
Accretion on decommissioning obligations		**665**		69
Total	**$**	**1,729**	$	(8)
$ per Boe	**$**	**1.82**	$	(0.02)

For the three months ended March 31, 2014, interest expense and financing charges increased compared to the Corresponding Period due to the Company's bank debt incurred largely in connection with the SE Saskatchewan Acquisition as well as general ongoing business activities.

For the three months ended March 31, 2014, accretion on decommissioning obligations increased compared to the Corresponding Period due to the additional decommissioning obligations assumed by the Company largely in connection with 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.

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).

($ thousands)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Stock-based compensation expenses	**$ 6,183**	$ 980
Capitalized stock-based compensation expenses	**(3,048)**	(489)
Total	**$ 3,135**	$ 491
$ per Boe	**$ 3.31**	$ 1.28

For the three months ended March 31, 2014, the dollar amounts of stock-based compensation expenses, net of capitalized amounts, increased compared to the Corresponding Period, largely due to the grants of restricted awards and performance awards which were made in October 2013 to the Company's directors, officers and employees, as part of the Company's business model transition to an intermediate dividend plus growth company.

Depletion and Depreciation Expenses

For the three months ended March 31, 2014, the Company's depletion and depreciation expenses totaled $26.2 million ($27.67 per Boe) compared to the Corresponding Period of $10.2 million ($26.63 per Boe).

Taxes

For the three months ended March 31, 2014, the Company recorded a deferred income tax expense of $3.9 million (Corresponding Period: deferred income tax expense of $1.8 million).

Net Income

The net income for the three months ended March 31, 2014 was $8.0 million (Corresponding Period: $1.1 million).

Basic and diluted net income per share for the three months ended March 31, 2014 was $0.09 and $0.09, respectively (Corresponding Period: net income per share of $0.03 and $0.03, respectively).

Funds Flow from Operations

Funds flow from operations for the three months ended March 31, 2014 was $47.2 million (Corresponding Period: $15.3 million).

Basic and diluted funds flow from operations per share for the three months ended March 31, 2014 was $0.52 and $0.50, respectively (Corresponding Period: $0.40 and $0.38, respectively).

Net Cash from Operating Activities

Net cash from operating activities for the three months ended March 31, 2014 was $38.1 million (Corresponding Period: $9.7 million).

Basic and diluted net cash from operating activities per share for the three months ended March 31, 2014 was $0.42 and $0.40, respectively (Corresponding Period: $0.25 and $0.24, respectively).

Capital Expenditures

Capital expenditures are summarized as follows:

($ thousands)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Cash:		
Land retention costs	**$ 200**	$ 198
Geological and geophysical	**190**	19
Drilling and completions	**32,723**	37,864
Equipment and facilities	**4,562**	11,385
Administrative assets	**65**	15
Exploration and development expenditures	**37,740**	49,481
Capitalized general and administrative expenses	**1,390**	577
Exploration and development expenditures, including capitalized G&A	**39,130**	50,058
Property acquisitions, net of dispositions	**(27)**	232
Total capital expenditures - cash items	**$ 39,103**	$ 50,290
Non-cash:		
Decommissioning obligations	**506**	3,538
Capitalized stock-based compensation	**3,048**	489
Total capital expenditures	**$ 42,657**	$ 54,317

In the three months ended March 31, 2014, the Company drilled 13 (8.5 net) wells. In the Corresponding Period, the Company drilled nine (5.6 net) wells.

The Company anticipates that the remainder of its 2014 exploration and development capital program (excluding acquisitions and dispositions) will be financed primarily through funds flow from operations, bank debt and proceeds from equity issuances, if any.

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 Mar 31, 2014	Three months ended Mar 31, 2013
Weighted average outstanding common shares:		
Basic	**91,620,342**	38,586,785
Diluted	**94,158,525**	39,754,959
Outstanding Securities:		
Common shares	**91,822,974**	38,586,799
Stock options	**1,640,195**	1,670,101
Incentive shares	**123,823**	187,436
Restricted awards	**1,264,285**	-
Performance awards	**2,140,452**	-
Warrants	**3,475,650**	3,480,000

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.

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

As at May 13, 2014, the Company had 91,988,119 common shares issued and outstanding, 1,640,195 stock options outstanding, 55,828 incentive shares outstanding, 2,198,744 performance awards outstanding, 1,307,876 restricted awards outstanding, and 3,472,267 warrants outstanding.

Liquidity and Capital Resources

At March 31, 2014, the Company had a reserves-based revolving credit facility of $350 million with a syndicate of banks (the "Credit Facility"), comprised of a $30 million operating facility from our operating lender (the "Operating Facility") and a $320 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). The Credit Facility was increased to $375 million on April 23, 2014. 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 29, 2015. On or before April 29, 2015, at our 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 Syndicated 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 29, 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 semi-annual credit facility evaluation is due to be completed by October 31, 2014.

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 shall have 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 is confident that there is sufficient liquidity and capital resources to fund its 2014 capital program and its day-to-day operations.

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.

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

Remaining term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Apr 1, 2014 - Jun 30, 2014	Costless Collar	500	$100.00 - $107.00	C$WTI
Apr 1, 2014 - Jun 30, 2014	Costless Collar	500	$95.00 - $109.30	C$WTI
Apr 1, 2014 - Jun 30, 2014	Oil Swap	500	$103.75	C$WTI
Apr 1, 2014 - Jun 30, 2014	Costless Collar	1,000	$90.00 - $107.00	C$WTI
Apr 1, 2014 - Dec 31, 2014	Costless Collar	500	$95.00 - $104.60	C$WTI
Apr 1, 2014 - Dec 31, 2014	Costless Collar	250	$90.00 - $107.25	C$WTI
Apr 1, 2014 - Dec 31, 2014	Costless Collar	250	$90.00 - $107.55	C$WTI
Apr 1, 2014 - Dec 31, 2014	Costless Collar	500	$95.00 - $108.50	C$WTI
Apr 1, 2014 - Dec 31, 2014	Costless Collar	250	$95.00 - $105.00	C$WTI
Apr 1, 2014 - Dec 31, 2014	Costless Collar	250	$95.00 - $106.00	C$WTI
Jul 1, 2014 - Dec 31, 2014	Costless Collar	250	$90.00 - $104.03	C$WTI
Jul 1, 2014 - Dec 31, 2014	Costless Collar	500	$95.00 - $105.00	C$WTI
Jul 1, 2014 - Dec 31, 2014	Costless Collar	500	$95.00 - $105.00	C$WTI
Apr 1, 2014 - Jun 30, 2015	Costless Collar	500	$95.00 - $106.25	C$WTI
Jan 1, 2015 - Jun 30, 2015	Costless Collar	250	$90.00 - $108.00	C$WTI
Jan 1, 2015 - Jun 30, 2015	Costless Collar	250	$90.00 - $109.55	C$WTI

At March 31, 2014, the mark-to-market value of these commodity contracts totaled a liability of $5.5 million.

Subsequent to March 31, 2014, the Company entered into the following commodity contracts:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jan 1, 2015 - Jun 30, 2015	Costless Collar	250	$90.00 - $112.75	C$WTI
Jan 1, 2015 - Jun 30, 2015	Costless Collar	250	$90.00 - $111.25	C$WTI
Jul 1, 2014 - Dec 31, 2015	Costless Collar	250	$90.00 - $110.55	C$WTI
Jul 1, 2014 - Dec 31, 2015	Costless Collar	250	$90.00 - $112.00	C$WTI

Contractual Obligations

The following table lists the Company's contractual obligations as at March 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	$ 79,509	$ 79,509	$ -	$ -	$ -
Dividends payable	4,132	4,132	-	-	-
Operating leases (office rent)	2,933	1,257	1,257	419	-
Bank debt	94,523	-	94,523	-	-
Total	$ 181,097	$ 84,898	$ 95,780	$ 419	$ -

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.

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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.

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.

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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.

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.

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

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.

Summary of Quarterly and Annual Results

(in $000's of dollars, except per share amounts)	Q1 2014	Q4 2013 (1)	Q3 2013	Q2 2013	Q1 2013	Q4 2012 (1)	Q3 2012 (1)	Q2 2012 (1)
Petroleum and natural gas sales	**79,168**	68,206	41,717	28,117	26,034	14,567	6,237	5,350
Net income (loss)	**8,029**	(17,841)	3,287	3,340	1,130	(13,677)	(1,659)	(840)
Per share – basic (2)	**0.09**	(0.20)	0.06	0.09	0.03	(0.47)	(0.08)	(0.04)
Per share – diluted (2)	**0.09**	(0.20)	0.06	0.09	0.03	(0.47)	(0.08)	(0.04)
Funds flow from operations, including transaction related costs/recovery (3)	**47,207**	41,458	16,223	16,580	15,274	4,241	2,932	2,428
Per share – basic (2)	**0.52**	0.45	0.32	0.43	0.40	0.15	0.14	0.11
Per share – diluted (2)	**0.50**	0.45	0.32	0.42	0.38	0.14	0.14	0.11
Funds flow from operations, excluding transaction related costs/recovery (3)	**47,207**	40,769	24,163	16,397	15,274	8,039	2,932	2,428
Per share – basic (2)	**0.52**	0.45	0.48	0.42	0.40	0.28	0.14	0.11
Per share – diluted (2)	**0.50**	0.44	0.47	0.42	0.38	0.26	0.14	0.11
Net cash from (used in) operating activities (4)	**38,119**	46,912	6,055	16,153	9,665	3,076	(172)	2,550
Per share – basic (2)	**0.42**	0.51	0.12	0.42	0.25	0.11	(0.01)	0.12
Per share – diluted (2)	**0.40**	0.50	0.12	0.41	0.24	0.11	(0.01)	0.12
Total assets	**1,214,575**	1,215,153	1,200,628	611,283	627,989	627,457	361,755	356,919
Total long-term financial liabilities	**198,189**	183,725	194,647	29,006	25,995	20,806	10,865	10,946
Dividends declared per share	**0.1350**	0.1283	0.0417	-	-	-	-	-
Net working capital (net debt) (5)	**(145,528)**	(145,183)	(121,486)	(2,088)	38	35,077	(3,392)	13,396

(footnotes on next page)

(in $000's of dollars, except per share amounts)	Year ended Dec 2013 (1)	Year ended Dec 2012 (1)	Year ended Dec 2011 (1)
Petroleum and natural gas sales	164,074	32,711	3,369
Net loss	(10,084)	(18,767)	(4,667)
Per share – basic (2)	(0.18)	(0.81)	(0.28)
Per share – diluted (2)	(0.18)	(0.81)	(0.28)
Funds flow from operations, including transaction related costs/recovery (3)	89,536	13,396	521
Per share – basic (2)	1.63	0.58	0.03
Per share – diluted (2)	1.60	0.54	0.03
Funds flow from operations, excluding transaction related costs/recovery (3)	96,512	17,193	521
Per share – basic (2)	1.76	0.74	0.03
Per share – diluted (2)	1.72	0.69	0.03
Net cash from (used in) operating activities (4)	78,785	8,514	(600)
Per share – basic (2)	1.44	0.37	(0.04)
Per share – diluted (2)	1.40	0.34	(0.04)
Total assets	1,215,153	627,457	368,462
Total long-term financial liabilities	183,725	20,806	7,201
Dividends declared per share	0.1700	-	-
Net working capital (net debt) (5)	(145,183)	35,077	81,138

(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) *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. In addition, 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/recovery" and "funds flow from operations, excluding transaction related costs/recovery" 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/recovery" 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/recovery" 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/recovery" and "funds flow from operations, excluding transaction related costs/recovery" 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 (used in) 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 current liabilities (excluding financial derivative liabilities), bank debt 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. In September 2013, the Company acquired significant assets in southeast Saskatchewan, along with another 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.

TORC
Oil & Gas Ltd

Condensed Interim Financial Statements

As at March 31, 2014

and for the three months ended

March 31, 2014 and 2013

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Condensed Interim Statements of Financial Position
(unaudited)
(in $000's of Canadian dollars)

	Note	**As at March 31, 2014**	As at December 31, 2013
Assets			
Cash and cash equivalents		**$ -**	$ 13,626
Trade and other receivables		**31,166**	34,418
Deposits and prepaid expenses		**1,884**	2,024
Total current assets		**33,050**	50,068
Exploration and evaluation assets	3	**126,739**	129,093
Property, plant and equipment	4	**1,054,786**	1,035,992
Total non-current assets		**1,181,525**	1,165,085
Total assets		**$ 1,214,575**	$ 1,215,153
Liabilities			
Trade and other payables		**$ 79,509**	$ 105,680
Dividends payable		**4,132**	4,114
Deferred lease incentives		**177**	177
Financial derivative liability	11	**5,524**	220
Total current liabilities		**89,342**	110,191
Bank debt	10	**94,523**	85,000
Deferred lease incentives		**237**	280
Decommissioning obligations	5	**94,174**	93,045
Deferred tax liability		**9,255**	5,400
Total non-current liabilities		**198,189**	183,725
Total liabilities		**$ 287,531**	$ 293,916
Equity			
Share capital		**$ 962,810**	$ 958,754
Contributed surplus		**17,982**	11,881
Deficit		**(53,748)**	(49,398)
Total equity		**927,044**	921,237
Total liabilities and equity		**$ 1,214,575**	$ 1,215,153

Subsequent events (note 12)

See accompanying notes to the condensed interim financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Condensed Interim Statements of Income and Comprehensive Income
(unaudited)
(in $000's of Canadian dollars, except per share amounts)

	Note	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Revenues			
Petroleum and natural gas sales		**$ 79,168**	$ 26,034
Royalties		**(12,372)**	(3,580)
		66,796	22,454
Realized gain (loss) on financial derivatives		**(1,430)**	17
Unrealized loss on financial derivatives		**(5,304)**	(1,581)
		60,062	20,890
Expenses			
Operating		**12,277**	3,718
Transportation		**2,401**	2,109
General and administrative		**2,417**	1,446
Finance costs (income)		**1,729**	(8)
Stock-based compensation		**3,135**	491
Depletion and depreciation		**26,217**	10,161
		48,176	17,917
Income before income taxes		**11,886**	2,973
Deferred income tax		**3,857**	1,843
Income and comprehensive income		**$ 8,029**	$ 1,130
Income per share:			
Basic	9	**$ 0.09**	$ 0.03
Diluted	9	**$ 0.09**	$ 0.03

See accompanying notes to the condensed interim 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, 2012	38,585	3,480	$	558,630	$	6,165	$	(23,791)	$	541,004
Stock-based compensation	-	-		-		980		-		980
Issued on vesting of incentive shares	1	-		-		-		-		-
Transfer of stock-based compensation on vesting of incentive shares	-	-		29		(29)		-		-
Share issue cost recovery, net of tax of $0.1 million	-	-		193		-		-		193
Income for the period	-	-		-		-		1,130		1,130
Balance at March 31, 2013	**38,586**	**3,480**	**$**	**558,852**	**$**	**7,116**	**$**	**(22,661)**	**$**	**543,307**
Balance at December 31, 2013	91,423	3,480	$	958,754	$	11,881	$	(49,398)	$	921,237
Stock-based compensation	-	-		-		6,183		-		6,183
Issued on vesting of incentive shares	5	-		-		-		-		-
Transfer of stock-based compensation on vesting of incentive shares	-	-		82		(82)		-		-
Issued on exercise of warrants	4	(4)		31		-		-		31
Share issue costs, net of tax of $0.002 million	-	-		(7)		-		-		(7)
Dividends to shareholders	-	-		-		-		(12,379)		(12,379)
Issued pursuant to the share dividend program	391	-		3,950		-		-		3,950
Income for the period	-	-		-		-		8,029		8,029
Balance at March 31, 2014	**91,823**	**3,476**	**$**	**962,810**	**$**	**17,982**	**$**	**(53,748)**	**$**	**927,044**

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 Mar 31, 2014	Three months ended Mar 31, 2013
Cash flows from (used in) operating activities:		
Income for the period	$ 8,029	$ 1,130
Depletion and depreciation	26,217	10,161
Stock-based compensation	3,135	491
Deferred income tax (recovery)	3,857	1,843
Accretion on decommissioning obligations	665	69
Unrealized loss on financial derivatives	5,304	1,581
Settlement of decommissioning obligations	(42)	(174)
Change in non-cash working capital	(9,046)	(5,436)
Net cash from operating activities	38,119	9,665
Cash flows from (used in) investing activities:		
Additions to exploration and evaluation assets	(125)	(12,367)
Additions to property, plant and equipment	(39,005)	(38,180)
Property acquisitions	(466)	-
Proceeds from disposition of oil and gas properties	493	150
Change in non-cash working capital	(13,776)	(5,726)
Net cash used in investing activities	(52,879)	(56,123)
Cash flows from (used in) financing activities:		
Proceeds from bank debt	9,523	-
Proceeds from issue of share capital	31	-
Share issue costs (recovery)	(9)	257
Dividends	(8,411)	-
Net cash from financing activities	1,134	257
Change in cash and cash equivalents	(13,626)	(46,201)
Cash and cash equivalents, beginning of period	13,626	79,715
Cash and cash equivalents, end of period	$ -	$ 33,514

See accompanying notes to the condensed interim financial statements.

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements
As at March 31, 2014 and for the three months ended March 31, 2014 and 2013
(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

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.

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, 2013, 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 months ended March 31, 2014 do not differ significantly from those applied for the financial statements as at and for the year ended December 31, 2013 which have been prepared on the basis of IFRS issued by the IASB and interpretations of the IFRIC.

These condensed interim financial statements were approved by the Company's Board of Directors on May 13, 2014.

3. Exploration and evaluation assets

Balance at December 31, 2012	$	151,111
Property acquisitions		2,097
Property dispositions		(2,666)
Capital expenditures		40,926
Exploration and evaluation assets expensed, previously capitalized		(38,355)
Transferred to property, plant and equipment		(24,020)
Balance at December 31, 2013	$	129,093
Property acquisitions		466
Property dispositions		(100)
Capital expenditures		125
Transferred to property, plant and equipment		(2,845)
Balance at March 31, 2014	**$**	**126,739**

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.

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements
As at March 31, 2014 and for the three months ended March 31, 2014 and 2013
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

4. 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 dispositions, net of property acqusitions		(393)
Capital expenditures		42,053
Change in decommissioning obligations		506
Transferred from exploration and evaluation assets		2,845
Balance at March 31, 2014	**$**	**1,161,256**

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 period		26,217
Balance at March 31, 2014	**$**	**106,470**

Net amount:		
As at December 31, 2013	$	1,035,992
As at March 31, 2014	**$**	**1,054,786**

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

At March 31, 2014, the Company had $101.3 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 $292.9 million were included in the depletion calculation (December 31, 2013: $307.4 million).

5. Decommissioning obligations

		As at March 31, 2014		As at December 31, 2013
Balance, beginning of period	**$**	**93,045**	$	11,408
Obligations incurred		**506**		2,699
Obligations acquired		**-**		77,491
Obligations settled		**(42)**		(262)
Change in estimated future cash outflows		**-**		804
Accretion		**665**		905
Balance, end of period	**$**	**94,174**	$	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 $119.0 million as at March 31, 2014 (at December 31, 2013: $118.4 million) to be incurred over an average of 25 years. For the period ended March 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.

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements
As at March 31, 2014 and for the three months ended March 31, 2014 and 2013
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

6. 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 shall have 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.

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 three months ended March 31, 2014, 4,350 Warrants were exercised. At March 31, 2014, there were 3.5 million Warrants outstanding of which 1.2 million of the Warrants were exercisable. The Warrants expire on December 17, 2015, which is five years from the date of grant.

7. Dividends

(thousands, except number of common shares and per share amounts)		**Three months ended Mar 31, 2014**		Three months ended Mar 31, 2013
Dividends declared per share	**$**	**0.135**	$	-
Cash dividends paid	**$**	**8,411**	$	-
Common shares issued under the Share Dividend Program		**3,950**		-
Total dividends	**$**	**12,361**	$	-

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 April 1, 2014 and May 13, 2014, $4.1 million of dividends have been declared.

TORC Oil & Gas Ltd.

Notes to the Condensed Interim Financial Statements
As at March 31, 2014 and for the three months ended March 31, 2014 and 2013
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

8. 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:

(thousands, except exercise prices)	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 and March 31, 2014	**1,640**	**$ 16.38**
Exercisable at March 31, 2014	**934**	**$ 16.97**

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

(thousands, unless otherwise noted)	Number outstanding	Number exercisable	Weighted average remaining term (years)
Exercise price:			
$7.15 to $9.85	39	3	4.1
$11.65 to $13.05	155	63	3.5
$14.94 to $22.99	1,446	868	2.4
$7.15 to $22.99	1,640	934	2.5

(continued)

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

Incentive shares

The following table summarizes incentive share activity:

(thousands)	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	(5)
Balance at March 31, 2014	**124**
Convertible into common shares at March 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.

Restricted awards

The following table summarizes restricted award activity:

(thousands)	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
Adjustment for payment of dividends	17
Forfeited	(2)
Balance at March 31, 2014	**1,264**
Convertible into common shares at March 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.

(continued)

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Performance awards

The following table summarizes performance award activity:

(thousands)	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 pursuant to performance multiplier [1]	299
Adjustment for payment of dividends	31
Forfeited	(8)
Balance at March 31, 2014	**2,140**
Convertible into common shares at March 31, 2014	**-**

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

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.

9. 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.

(thousands, except number of common shares and per share amounts)	**Three months ended Mar 31, 2014**	Three months ended Mar 31, 2013
Income for the period	**$ 8,029**	$ 1,130
Weighted average number of common shares	**91,620,342**	38,586,785
Diluted weighted average number of common shares	**94,158,525**	39,754,959
Basic income per common share	**$ 0.09**	$ 0.03
Diluted income per common share	**$ 0.09**	$ 0.03

In computing diluted earnings per share for the period ended March 31, 2014, 1,127,023 warrants, 27,071 stock options, 62,812 incentive shares, 850,181 performance awards and 471,096 restricted awards were added to the basic weighted average common shares outstanding.

In computing diluted earnings per share for the three months ended March 31, 2013, 1,099,048 warrants and 69,126 Incentive Shares were added to the basic weighted average common shares outstanding.

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10. Credit facility

At March 31, 2014, the Company had a reserves-based revolving credit facility of $350 million with a syndicate of banks (the "Credit Facility"), comprised of a $30 million operating facility from our operating lender (the "Operating Facility") and a $320 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). The Credit Facility was increased to $375 million on April 23, 2014. 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 29, 2015. On or before April 29, 2015, at our 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 Syndicated 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 29, 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 semi-annual credit facility evaluation is due to be completed by October 31, 2014.

11. Financial derivatives

Commodity contracts outstanding as at March 31, 2014:

Remaining term	Reference	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)		Fair value at March 31, 2014 ($000s)
Apr 1, 2014 - Jun 30, 2014	C$WTI	Costless Collar	500	$100.00 - $107.00	$	(224)
Apr 1, 2014 - Jun 30, 2014	C$WTI	Costless Collar	500	$95.00 - $109.30		(151)
Apr 1, 2014 - Jun 30, 2014	C$WTI	Oil Swap	500	$103.75		(339)
Apr 1, 2014 - Jun 30, 2014	C$WTI	Costless Collar	1,000	$90.00 - $107.00		(466)
Apr 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	500	$95.00 - $104.60		(755)
Apr 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	250	$90.00 - $107.25		(287)
Apr 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	250	$90.00 - $107.55		(275)
Apr 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	500	$95.00 - $108.50		(417)
Apr 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	250	$95.00 - $105.00		(407)
Apr 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	250	$95.00 - $106.00		(312)
Jul 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	250	$90.00 - $104.03		(288)
Jul 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	500	$95.00 - $105.00		(411)
Jul 1, 2014 - Dec 31, 2014	C$WTI	Costless Collar	500	$95.00 - $105.00		(447)
Apr 1, 2014 - Jun 30, 2015	C$WTI	Costless Collar	500	$95.00 - $106.25		(658)
Jan 1, 2015 - Jun 30, 2015	C$WTI	Costless Collar	250	$90.00 - $108.00		(60)
Jan 1, 2015 - Jun 30, 2015	C$WTI	Costless Collar	250	$90.00 - $109.55		(27)
					$	(5,524)

As at March 31, 2014, a 10% decrease in the market price detailed in the commodity contracts above would result in a $7.5 million increase in income.

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12. Subsequent events

Financial derivatives

Subsequent to March 31, 2014, the Company entered into the following commodity contracts:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jan 1, 2015 - Jun 30, 2015	Costless Collar	250	$90.00 - $112.75	C$WTI
Jan 1, 2015 - Jun 30, 2015	Costless Collar	250	$90.00 - $111.25	C$WTI
Jul 1, 2014 - Dec 31, 2015	Costless Collar	250	$90.00 - $110.55	C$WTI
Jul 1, 2014 - Dec 31, 2015	Costless Collar	250	$90.00 - $112.00	C$WTI

Asset acquisitions

Subsequent to March 31, 2014, the Company acquired properties and working interests in its core Cardium areas and also in southeast Saskatchewan. The total cash consideration paid was approximately $70 million after customary purchase price adjustments.