



## **Management's Discussion and Analysis**

For the three and nine months ended

September 30, 2016 and 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("the MD&A") is dated November 7, 2016. The MD&A should be read in conjunction with TORC Oil & Gas Ltd.'s ("TORC" or the "Company") unaudited financial statements as at and for the three and nine months ended September 30, 2016 and the audited financial statements as at and for the year ended December 31, 2015. The reader should be aware that historical results are not necessarily indicative of future performance.

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

### Barrel of Oil Equivalent

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

### Non-IFRS Measurements

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

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

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<i>(\$ thousands)</i>				
Net cash from operating activities (defined by IFRS)	<b>\$29,910</b>	\$45,937	<b>\$84,159</b>	\$100,338
Settlement of decommissioning obligations	<b>18</b>	4	<b>28</b>	73
Changes in non-cash working capital	<b>1,678</b>	(10,721)	<b>(10,978)</b>	(6,244)
Funds flow from operations, including transaction related costs	<b>\$31,606</b>	\$35,220	<b>\$73,209</b>	\$94,167
Transaction related costs	<b>673</b>	-	<b>673</b>	4,855
Funds flow from operations, excluding transaction related costs	<b>\$32,279</b>	\$35,220	<b>\$73,882</b>	\$99,022

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

	<b>As at September 30, 2016</b>	As at December 31, 2015
Current assets (excluding financial derivative assets)	<b>\$32,128</b>	\$32,552
Less: current liabilities (excluding financial derivative liabilities)	<b>(94,392)</b>	(99,545)
Less: bank debt	<b>(225,000)</b>	(230,087)
Net debt	<b>(\$287,264)</b>	(\$297,080)

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 sources of funding for the Company's capital program, (ii) the sufficiency of liquidity and capital resources to fund the Company's capital program, ongoing operations, and execution of its business plan, (iii) planned 2016 annual exploration and development expenditures and the allocation thereof, 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 and transportation 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, changes in royalty rates and other governmental regulations, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value 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](http://www.sedar.com)) or at the Company's website ([www.torcoil.com](http://www.torcoil.com)). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

### Asset Transactions

#### Southeast Saskatchewan asset acquisition

On September 1, 2016, the Company closed an acquisition of various properties and working interests in and around its core southeast Saskatchewan area. The strategic acquisition included 1,120 boepd (approximately 95% light oil and liquids) of low decline, high netback, light oil producing assets in southeast Saskatchewan (the "September Acquisition"). Net consideration paid was \$90.1 million (including customary adjustments).

The acquisition of these assets increased and consolidated the Company's exposure to light oil in southeast Saskatchewan where the Company continues to achieve drilling and operational success.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Results of Operations

#### Production

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Crude oil (Bbl per day) <sup>(1)</sup>	<b>15,314</b>	15,181	<b>15,301</b>	12,385
NGL (Bbl per day) <sup>(1)(2)</sup>	<b>781</b>	466	<b>596</b>	480
Natural gas (Mcf per day) <sup>(3)</sup>	<b>15,124</b>	12,371	<b>14,591</b>	11,240
<b>Total (Boe per day)</b>	<b>18,616</b>	17,709	<b>18,329</b>	14,738
Production mix:				
Crude oil	<b>82%</b>	86%	<b>83%</b>	84%
NGL	<b>4%</b>	2%	<b>4%</b>	3%
Crude oil and NGL ("Liquids")	<b>86%</b>	88%	<b>87%</b>	87%
Natural gas	<b>14%</b>	12%	<b>13%</b>	13%

<sup>(1)</sup> "Bbl" refers to barrels.

<sup>(2)</sup> "NGL" refers to natural gas liquids.

<sup>(3)</sup> "Mcf" refers to thousand cubic feet.

Production in the three and nine months ended September 30, 2016 increased 5% and 24%, respectively, compared to the three and nine months ended September 30, 2015 (the "Corresponding Periods"). In addition to the Company's ongoing drilling activities, the increase includes production from acquisitions of various properties and working interests in and around the Company's core southeast Saskatchewan area, including approximately 1,550 boepd in February 2015 (the "February Acquisition"), approximately 4,750 boepd in June 2015 (the "June Acquisition") and approximately 1,120 boepd in September 2016 (the September Acquisition previously described in Asset Transactions).

#### Pricing

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<i>Average realized prices:</i>				
Crude oil (\$ per Bbl)	<b>\$50.63</b>	\$50.88	<b>\$44.85</b>	\$53.30
NGL (\$ per Bbl)	<b>11.23</b>	12.31	<b>13.48</b>	17.79
Crude oil and NGL (\$ per Bbl)	<b>\$48.72</b>	\$49.74	<b>\$43.68</b>	\$51.98
Natural gas (\$ per Mcf)	<b>2.03</b>	2.47	<b>1.60</b>	2.64
Boe (\$ per Boe)	<b>\$43.77</b>	\$45.67	<b>\$39.15</b>	\$47.38

During the three and nine months ended September 30, 2016, TORC realized oil prices of \$50.63 per Bbl and \$44.85 per Bbl, respectively (Corresponding Periods: \$50.88 per Bbl and \$53.30 per Bbl, respectively).

During the three and nine months ended September 30, 2016, TORC's crude oil discount to WTI converted to Canadian dollars approximated \$8.01 per Bbl and \$9.86 per Bbl, respectively (Corresponding Periods: \$9.95 per Bbl and \$10.94 per Bbl, respectively). In the three and nine months ended September 30, 2016, TORC's crude oil discount to Edmonton Par averaged approximately \$4.08 per Bbl and \$5.23 per Bbl, respectively (Corresponding Periods: \$5.34 per Bbl and \$5.24 per Bbl, respectively). The crude oil pricing differentials are largely a function of North American refinery supply/demand fundamentals.

*(continued)*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In the three and nine months ended September 30, 2016, the Company realized gas prices of \$2.03 per Mcf and \$1.60 per Mcf, respectively (Corresponding Periods: \$2.47 per Mcf and \$2.64 per Mcf, respectively). In the three and nine months ended September 30, 2016, the Company's realized gas prices were 12% and 13% below AECO benchmarks, respectively (Corresponding Periods: 15% and 4% below AECO benchmarks, respectively). Similar to crude oil price differentials, gas price differentials are a function of North American supply/demand fundamentals, heat content of gas as well as available pipeline capacity.

In the three and nine months ended September 30, 2016, the average realized price across all products was \$43.77 per Boe and \$39.15 per Boe, respectively. For the three and nine months ended September 30, 2016, the average realized price was lower by \$1.90 per Boe and \$8.23 per Boe, respectively, compared to the Corresponding Periods.

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<b>Average Benchmark Prices:</b>				
Crude oil – WTI ( <i>US\$ per Bbl</i> )	<b>\$44.94</b>	\$46.47	<b>\$41.37</b>	\$50.99
Crude oil – Edmonton Par ( <i>CDN\$ per Bbl</i> )	<b>\$54.71</b>	\$56.23	<b>\$50.08</b>	\$58.55
Natural gas – AECO Daily Spot ( <i>\$ per Mcf</i> )	<b>\$2.31</b>	\$2.90	<b>\$1.85</b>	\$2.76
Natural gas – AECO Monthly Spot ( <i>\$ per Mcf</i> )	<b>\$2.19</b>	\$2.79	<b>\$1.85</b>	\$2.80
Exchange rate – ( <i>CDN\$/US\$</i> )	<b>1.31</b>	1.31	<b>1.32</b>	1.26

### Revenues

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<i>(\$ thousands)</i>				
Crude oil	<b>\$71,391</b>	\$71,084	<b>\$188,190</b>	\$180,266
NGL	<b>780</b>	523	<b>2,132</b>	2,318
Natural gas	<b>2,795</b>	2,806	<b>6,313</b>	8,069
	<b>\$74,966</b>	\$74,413	<b>\$196,635</b>	\$190,653

Revenues in the three and nine months ended September 30, 2016 increased 1% and 3%, respectively, compared to the Corresponding Periods, due to increased production volumes from drilling activity and asset acquisitions, offset by decreases in commodity prices.

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

### Royalties

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<i>(\$ thousands, unless otherwise noted)</i>				
Royalties	<b>\$13,315</b>	\$13,624	<b>\$35,089</b>	\$34,576
\$ per Boe	<b>\$7.77</b>	\$8.36	<b>\$6.99</b>	\$8.59
Percentage of revenue	<b>18%</b>	18%	<b>18%</b>	18%

Compared to the Corresponding Periods, the Company's corporate royalty rate (as a percentage of revenue) for the three and nine months ended September 30, 2016, remained consistent. Royalty rates associated with properties in Saskatchewan include the Saskatchewan Resource Tax.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating and Transportation Expenses

<i>(\$ thousands, unless otherwise noted)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Operating expenses	<b>\$21,860</b>	\$21,974	<b>\$64,533</b>	\$54,732
\$ per Boe	<b>\$12.76</b>	\$13.49	<b>\$12.85</b>	\$13.60
Transportation expenses	<b>\$2,944</b>	\$3,430	<b>\$8,837</b>	\$8,007
\$ per Boe	<b>\$1.72</b>	\$2.11	<b>\$1.76</b>	\$1.99
Operating and transportation expenses	<b>\$24,804</b>	\$25,404	<b>\$73,370</b>	\$62,739
\$ per Boe	<b>\$14.48</b>	\$15.60	<b>\$14.61</b>	\$15.59

For the three and nine months ended September 30, 2016, the Company's operating expenses on a per Boe basis decreased 5% and 6%, respectively, compared to the Corresponding Periods. This decrease primarily reflects improving efficiencies and service cost reductions.

For the three and nine months ended September 30, 2016, the Company's transportation expenses on a per Boe basis decreased 18% and 12%, respectively, compared to the Corresponding Periods. This decrease largely reflects the benefits associated with further development of infrastructure, economies of scale associated with greater volumes and lower transportation costs associated with certain recently acquired southeast Saskatchewan properties.

For the three and nine months ended September 30, 2016, the Company's combined operating and transportation expenses on a per Boe basis decreased 7% and 6%, respectively, compared to the Corresponding Periods.

### Operating Netbacks

<i>(\$ per Boe, unless otherwise noted)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Average daily production ( <i>Boepd</i> )	<b>18,616</b>	17,709	<b>18,329</b>	14,738
Crude oil (\$ per Bbl)	<b>\$50.63</b>	\$50.88	<b>\$44.85</b>	\$53.30
NGL (\$ per Bbl)	<b>\$11.23</b>	\$12.31	<b>\$13.48</b>	\$17.79
Natural gas ( <i>\$ per Mcf</i> )	<b>\$2.03</b>	\$2.47	<b>\$1.60</b>	\$2.64
Average price prior to hedging	<b>\$43.77</b>	\$45.67	<b>\$39.15</b>	\$47.38
Realized gain on financial derivatives (hedging)	-	\$2.89	-	\$5.10
Royalties	<b>(\$7.77)</b>	(\$8.36)	<b>(\$6.99)</b>	(\$8.59)
Operating	<b>(\$12.76)</b>	(\$13.49)	<b>(\$12.85)</b>	(\$13.60)
Transportation	<b>(\$1.72)</b>	(\$2.11)	<b>(\$1.76)</b>	(\$1.99)
Operating netback	<b>\$21.52</b>	\$24.60	<b>\$17.55</b>	\$28.30
Operating netback (prior to hedging)	<b>\$21.52</b>	\$21.71	<b>\$17.55</b>	\$23.20

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### General and Administrative Expenses

During the three and nine months ended September 30, 2016, the Company incurred the following general and administrative expenses ("G&A"):

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
General and administrative expenses	<b>\$2,899</b>	\$4,028	<b>\$9,849</b>	\$13,607
Capitalized general and administrative expenses <sup>(1)</sup>	<b>(689)</b>	(1,212)	<b>(3,010)</b>	(5,081)
Total general and administrative	<b>\$2,210</b>	\$2,816	<b>\$6,839</b>	\$8,526
\$ per Boe	<b>\$1.29</b>	\$1.73	<b>\$1.36</b>	\$2.12

<sup>(1)</sup> 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 property, plant and equipment, dependent on their nature.

In the three and nine months ended September 30, 2016, total general and administrative expenses decreased 22% and 20%, respectively, compared to the Corresponding Periods. The decreases in the three and nine months ended September 30, 2016 were primarily due to the Company's focused efforts to reduce administrative costs and drive administrative efficiencies across the organization.

On a per Boe basis in the three and nine months ended September 30, 2016, G&A decreased 25% and 36%, respectively, compared to the Corresponding Periods. This cost reduction reflects administrative efficiencies as production volumes associated with organic drilling activity and asset acquisitions are fully reflected.

### Transaction Related Costs

<i>(\$ thousands, unless otherwise noted)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Transaction related costs	<b>\$673</b>	-	<b>\$673</b>	\$4,855
\$ per Boe	<b>\$0.39</b>	-	<b>\$0.13</b>	\$1.21

Transaction related expenses are those costs related to acquisitions that cannot be capitalized as part of the cost of such transactions under IFRS. These costs generally include, but are not limited to, legal fees, advisory fees, regulatory and administrative integration expenses.

The transaction related costs in the three and nine months ended September 30, 2016 are primarily associated with the September Acquisition (described above) and reflect less than 1% of the total acquisition costs of this acquisition.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Finance Costs

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Interest expense and financing charges	<b>\$2,358</b>	\$2,063	<b>\$7,455</b>	\$6,310
\$ per Boe	<b>\$1.38</b>	\$1.27	<b>\$1.48</b>	\$1.57
Accretion on decommissioning obligations	<b>\$1,110</b>	\$1,371	<b>\$3,299</b>	\$2,714
\$ per Boe	<b>\$0.65</b>	\$0.84	<b>\$0.66</b>	\$0.67
Total	<b>\$3,468</b>	\$3,434	<b>\$10,754</b>	\$9,024
\$ per Boe	<b>\$2.03</b>	\$2.11	<b>\$2.14</b>	\$2.24

For the three and nine months ended September 30, 2016, interest expense and financing charges increased 14% and 18%, respectively, compared to the Corresponding Periods due to a combination of higher financing charges and higher outstanding bank debt levels associated with ongoing business operations. On a per Boe basis, interest expense and financing charges for the three and nine months ended September 30, 2016 increased 9% and decreased 6%, respectively, compared to the Corresponding Periods.

For the three and nine months ended September 30, 2016, the dollar values of accretion on decommissioning obligations decreased 19% and increased 22%, respectively, compared to the Corresponding Periods. On a per Boe basis, accretion on decommissioning obligations decreased 23% and 1%, respectively, compared to the Corresponding Periods. The decreases in both the dollar values of accretion and on a per Boe basis for the three months ended September 30, 2016 are largely due to the impact of the risk-free rate decrease on decommissioning obligations as compared to the Corresponding Period. The increase in dollar value of accretion for the nine months ended September 30, 2016, is largely due to the addition of decommissioning liabilities associated with asset acquisitions.

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

Average bank debt was as follows:

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Average bank debt	<b>\$232,333</b>	\$224,566	<b>\$242,420</b>	\$226,960

### Stock-Based Compensation Expenses

Stock-based compensation expenses reflect the value ascribed to the non-cash compensation provided by the Company, and are calculated utilizing a fair value assessment methodology. These amounts are net of stock-based compensation costs capitalized to 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>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Stock-based compensation expenses	<b>\$3,395</b>	\$4,463	<b>\$13,951</b>	\$13,583
Capitalized stock-based compensation expenses	<b>(1,594)</b>	(2,097)	<b>(6,569)</b>	(6,384)
Total	<b>\$1,801</b>	\$2,366	<b>\$7,382</b>	\$7,199
\$ per Boe	<b>\$1.05</b>	\$1.45	<b>\$1.47</b>	\$1.79

For the three and nine months ended September 30, 2016, stock-based compensation expenses per Boe decreased 28% and 18%, respectively, compared to the Corresponding Periods, primarily due to similar administrative efficiencies realized in general and administrative expenses.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Depletion and Depreciation Expenses

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Depletion and depreciation expenses	<b>\$44,231</b>	\$42,566	<b>\$129,879</b>	\$108,197
\$ per Boe	<b>\$25.83</b>	\$26.13	<b>\$25.86</b>	\$26.89

For the three and nine months ended September 30, 2016, depletion and depreciation expenses on a total dollar basis increased 4% and 20%, respectively, compared to the Corresponding Periods. This increase is largely due to depletable base additions from the June Acquisition and September Acquisition, as well as ongoing drilling operations. On a per Boe basis, for the three and nine months ended September 30, 2016, depletion and depreciation expenses decreased 1% and 4%, respectively, compared to the Corresponding Periods.

### Taxes

For the three and nine months ended September 30, 2016, the Company recorded deferred income tax recoveries of \$3.6 million and \$14.5 million, respectively (Corresponding Periods: deferred income tax recoveries of \$17.4 million and \$19.8 million, respectively), which is consistent with the Company's pre-tax losses in the same periods.

### Net Loss

Net loss for the three and nine months ended September 30, 2016 were \$12.0 million and \$53.0 million, respectively (Corresponding Periods: net loss of \$52.9 million and \$83.1 million, respectively), largely due to significantly reduced crude oil prices.

Basic and diluted net loss per share for the three and nine months ended September 30, 2016 were \$0.07 and \$0.32, respectively (Corresponding Periods: basic and diluted net loss per share of \$0.33 and \$0.65, respectively).

### Funds Flow from Operations

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Funds flow from operations, including transaction related costs	<b>\$31,606</b>	\$35,220	<b>\$73,209</b>	\$94,167
Transaction related costs	<b>673</b>	-	<b>673</b>	4,855
Funds flow from operations, excluding transaction related costs	<b>\$32,279</b>	\$35,220	<b>\$73,882</b>	\$99,022

*On a weighted average basic common share basis:*

Funds flow from operations, including transaction related costs	<b>\$0.18</b>	\$0.22	<b>\$0.44</b>	\$0.74
Funds flow from operations, excluding transaction related costs	<b>\$0.19</b>	\$0.22	<b>\$0.45</b>	\$0.78

*On a weighted average diluted common share basis:*

Funds flow from operations, including transaction related costs	<b>\$0.18</b>	\$0.22	<b>\$0.44</b>	\$0.73
Funds flow from operations, excluding transaction related costs	<b>\$0.19</b>	\$0.22	<b>\$0.44</b>	\$0.76

In the three and nine months ended September 30, 2016, funds flow from operations, excluding transaction related costs decreased 8% and 25%, respectively, compared to the Corresponding Periods. This decrease reflects the lower commodity price environment, offset by funds flow gained from increased production related to ongoing drilling operations and asset acquisitions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net Cash from Operating Activities

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Net cash from operating activities	<b>\$29,910</b>	\$45,937	<b>\$84,159</b>	\$100,338
Basic net cash from operating activities per share	<b>\$0.17</b>	\$0.29	<b>\$0.51</b>	\$0.78
Diluted net cash from operating activities per share	<b>\$0.17</b>	\$0.29	<b>\$0.50</b>	\$0.77

In the three and nine months ended September 30, 2016, basic and diluted net cash from operating activities per share decreased compared to the Corresponding Periods. This decrease largely reflects the lower commodity price environment, compared to the Corresponding Periods.

### Capital Expenditures

Capital expenditures are summarized as follows:

<i>(\$ thousands)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<b>Cash:</b>				
Land retention costs	<b>\$77</b>	\$117	<b>\$311</b>	\$444
Geological and geophysical	<b>1</b>	626	<b>297</b>	1,064
Drilling and completions	<b>22,822</b>	19,558	<b>42,853</b>	58,071
Equipment and facilities	<b>7,382</b>	6,835	<b>10,859</b>	14,059
Administrative assets	<b>55</b>	62	<b>91</b>	257
Exploration and development expenditures	<b>30,337</b>	27,198	<b>54,411</b>	73,895
Capitalized general and administrative expenses	<b>689</b>	1,212	<b>3,010</b>	5,081
Exploration and development expenditures, including capitalized G&A	<b>31,026</b>	28,410	<b>57,421</b>	78,976
Property acquisitions, net of dispositions	<b>90,462</b>	8,003	<b>94,778</b>	439,015
Total capital expenditures - cash items	<b>\$121,488</b>	\$36,413	<b>\$152,199</b>	\$517,991
<b>Non-cash:</b>				
Property acquisitions, net of dispositions	<b>-</b>	-	<b>-</b>	187,045
Decommissioning obligations	<b>30,406</b>	1,804	<b>55,507</b>	145,756
Capitalized stock-based compensation	<b>1,594</b>	2,097	<b>6,569</b>	6,384
Total capital expenditures	<b>\$153,488</b>	\$40,314	<b>\$214,275</b>	\$857,176

In the three and nine months ended September 30, 2016, the Company drilled 13 (12.5 net) wells and 28 (25.8 net) wells, respectively, compared to 19 (14.4 net) and 28 (22.4 net) wells, respectively, in the Corresponding Periods. Operational efficiency improvements and cost reductions were realized during the three and nine months ended September 30, 2016, resulting in capital expenditure savings.

The Company anticipates that the remainder of its 2016 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. Operational efficiencies and cost reductions continued to be realized during the three months ended September 30, 2016. As a result of these savings, the Company now expects its 2016 annual exploration and development expenditures to be less than \$85 million. The 2016 planned exploration and development expenditures remain concentrated on the Company's primary core areas in SE Saskatchewan, focused on both conventional opportunities and the emerging Torquay/Three Forks play and the Cardium play in central Alberta.

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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>Weighted average outstanding common shares:</b>				
Basic	171,720,409	157,857,132	165,634,066	127,387,211
Diluted	171,720,409	157,857,132	165,634,066	127,387,211
<b>Outstanding Securities:</b>				
Common shares	182,278,711	159,789,809	182,278,711	159,789,809
Stock options	575,696	1,531,555	575,696	1,531,555
Incentive shares	602	9,640	602	9,640
Restricted awards	669,062	1,270,509	669,062	1,270,509
Performance awards	976,190	2,182,545	976,190	2,182,545
Warrants	-	2,341,116	-	2,341,116

In conjunction with the September Acquisition, TORC secured an equity investment by the Canada Pension Plan Investment Board ("CPPIB") for gross proceeds of \$25.0 million through a private placement of 3.55 million common shares. In addition, TORC also closed a bought deal prospectus offering of 12.24 million common shares for gross proceeds of \$86.3 million. The combined gross proceeds were \$111.3 million.

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

As at November 7, 2016, the Company had 182,567,985 common shares issued and outstanding, 501,804 stock options outstanding, 602 incentive shares outstanding, 933,615 performance awards outstanding and 641,216 restricted awards outstanding.

### Liquidity and Capital Resources

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

	As at September 30, 2016	As at December 31, 2015
Current assets (excluding financial derivative assets)	\$32,128	\$32,552
Less: current liabilities (excluding financial derivative liabilities)	(94,392)	(99,545)
Less: bank debt	(225,000)	(230,087)
Net debt	(\$287,264)	(\$297,080)

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

*(continued)*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company may access the following capital resources:

### Credit facility

At September 30, 2016, the Company had a reserves-based revolving credit facility of \$400 million with a syndicate of banks (the "Credit Facility"), comprised of a \$55 million operating facility from the operating lender (the "Operating Facility") and a \$345 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). As at September 30, 2016 the amount drawn from the Credit Facility was \$225.0 million. On October 31, 2016, the Credit Facility was renewed at the same amount, being \$400 million. 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 27, 2017. On or before April 27, 2017, at TORC's request and subject to the approval of the lending syndicate, the Credit Facility may be extended for an additional 364 day period. In the event of non-extension, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding will convert to a 364 day non-revolving term facility with repayment of the Credit Facility due on April 28, 2018. The Credit Facility is secured by a fixed and floating charge debenture on all of the Company's assets.

The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The borrowing base of the Company's Credit Facility is subject to review and redetermination by the lenders on a semi-annual basis and in the event of a change in the Company's borrowing base properties (including due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders). In the normal course, the Company's next credit facility evaluation is due to be completed by April 27, 2017.

### Significant investor

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

## 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.

Commodity contracts outstanding as at September 30, 2016:

Remaining term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Oct 1, 2016 - Dec 31, 2016	Costless Collar	250	\$55.00 - \$75.75	C\$WTI
Oct 1, 2016 - Dec 31, 2016	Costless Collar	250	\$55.00 - \$71.20	C\$WTI
Oct 1, 2016 - Dec 31, 2016	Costless Collar	250	\$55.00 - \$65.10	C\$WTI
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$77.50	C\$WTI

At September 30, 2016, the mark-to-market value of these commodity contracts totalled a liability of \$0.1 million.

*(continued)*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent to September 30, 2016, the Company entered into the following commodity contracts:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$80.25	C\$WTI
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$83.10	C\$WTI
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$84.00	C\$WTI

### Contractual Obligations

The following table lists the Company's contractual obligations as at September 30, 2016 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	<b>\$90,746</b>	\$90,746	-	-	-
Dividends payable	<b>3,646</b>	3,646	-	-	-
Operating leases (office rent)	<b>7,157</b>	1,621	1,914	3,622	-
Bank debt	<b>225,000</b>	-	225,000	-	-
<b>Total</b>	<b>\$326,549</b>	\$96,013	\$226,914	\$3,622	-

#### 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 and mineral lease rentals and royalties on mineral rights to various landowners, abandonment and reclamation costs, farm-in commitments and office leases. These costs are highly dependent on the future operating environment and are subject to changes in commodity prices, ownership, production volumes and government policies.

#### Working capital

The Company manages the pace of its capital spending related to drilling operations by continuously monitoring production, commodity prices and resulting cash flows. When 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.

*(continued)*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

#### Reserves

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

#### Decommissioning obligations

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

#### Stock-based compensation

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

#### Financial derivatives

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

#### Deferred income taxes

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

### Environmental Regulation and Risk

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Disclosure Controls and Internal Controls Over Financial Reporting

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

In accordance with National Instrument NI 52-109, the Chief Executive Officer and Chief Financial Officer have filed certifications that DCP and ICFR have been adequately designed, and that there have been no changes in ICFR that materially affected, or are reasonably likely to materially affect ICFR, during the quarter ended September 30, 2016.

### 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](http://www.sedar.com) and on the Company's website [www.torcoil.com](http://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>	<b>Q3 2016</b> <small>(1)</small>	Q2 2016 <small>(1)</small>	Q1 2016 <small>(1)</small>	Q4 2015 <small>(1)</small>	Q3 2015 <small>(1)</small>	Q2 2015 <small>(1)</small>	Q1 2015 <small>(1)</small>	Q4 2014 <small>(1)</small>
Petroleum and natural gas sales	<b>74,966</b>	69,551	52,118	71,935	74,413	68,964	47,276	70,854
Net income (loss)	<b>(11,963)</b>	(15,750)	(25,260)	(89,590)	(52,882)	(14,925)	(15,258)	(30,411)
Per share – basic	<b>(0.07)</b>	(0.10)	(0.16)	(0.56)	(0.33)	(0.12)	(0.15)	(0.32)
Per share – diluted	<b>(0.07)</b>	(0.10)	(0.16)	(0.56)	(0.33)	(0.12)	(0.15)	(0.32)
Funds flow from operations, including transaction related costs <sup>(2)</sup>	<b>31,606</b>	27,521	14,082	33,961	35,220	33,332	25,615	41,710
Per share – basic	<b>0.18</b>	0.17	0.09	0.21	0.22	0.28	0.25	0.43
Per share – diluted	<b>0.18</b>	0.17	0.09	0.21	0.22	0.27	0.24	0.43
Funds flow from operations, excluding transaction related costs <sup>(2)</sup>	<b>32,279</b>	27,521	14,082	33,961	35,220	37,434	26,368	41,748
Per share – basic	<b>0.19</b>	0.17	0.09	0.21	0.22	0.31	0.26	0.43
Per share – diluted	<b>0.19</b>	0.17	0.09	0.21	0.22	0.30	0.25	0.43
Net cash from operating activities <sup>(3)</sup>	<b>29,910</b>	33,506	20,743	37,224	45,937	30,346	24,055	72,191
Per share – basic	<b>0.21</b>	0.21	0.13	0.23	0.29	0.25	0.23	0.50
Per share – diluted	<b>0.20</b>	0.20	0.13	0.23	0.29	0.25	0.23	0.48
Total assets	<b>1,993,631</b>	1,881,093	1,880,672	1,894,082	2,006,363	2,070,641	1,568,736	1,326,891
Dividends declared per share	<b>0.0600</b>	0.0600	0.0850	0.1350	0.1350	0.1350	0.1350	0.1350
Net debt <sup>(4)</sup>	<b>287,264</b>	298,613	305,824	297,080	285,681	269,933	266,581	244,658

*(footnotes on next page)*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>(in \$000's of dollars, except per share amounts)</i>	Year ended Dec 2015 <sup>(1)</sup>	Year ended Dec 2014	Year ended Dec 2013 <sup>(1)</sup>
Petroleum and natural gas sales	262,588	321,329	164,074
Net income (loss)	(172,655)	6,258	(10,084)
Per share – basic	(1.27)	0.07	(0.18)
Per share – diluted	(1.27)	0.07	(0.18)
Funds flow from operations, including transaction related costs <sup>(2)</sup>	128,128	188,577	89,536
Per share – basic	0.94	2.02	1.63
Per share – diluted	0.93	1.97	1.60
Funds flow from operations, excluding transaction related costs <sup>(2)</sup>	132,983	188,719	96,512
Per share – basic	0.98	2.02	1.76
Per share – diluted	0.96	1.97	1.72
Net cash from operating activities <sup>(3)</sup>	137,562	198,982	78,785
Per share – basic	1.01	2.13	1.44
Per share – diluted	1.00	2.08	1.40
Total assets	1,894,082	1,326,891	1,215,153
Total long-term financial liabilities	230,087	179,849	85,000
Dividends declared per share	0.5400	0.5400	0.1700
Net debt <sup>(4)</sup>	297,080	244,658	145,183

<sup>(1)</sup> 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.

<sup>(2)</sup> "Funds flow from operations, including transaction related costs" and "funds flow from operations, excluding transaction related costs" should not be considered an alternative to, or more meaningful than, "net cash from (used in) operating activities" as determined in accordance with International Financial Reporting Standards ("IFRS") as an indicator of TORC's performance. "Funds flow from operations, including transaction related costs" represents net cash from (used in) operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. "Funds flow from operations, excluding transaction related costs" represents net cash from (used in) operating activities prior to changes in non-cash working capital, settlement of decommissioning obligations and transaction related costs. TORC also presents "funds flow from operations, including transaction related costs" and "funds flow from operations, excluding transaction related costs" on a per share basis, whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

<sup>(3)</sup> Net cash from operating activities is determined in accordance with IFRS and includes changes in non-cash working capital.

<sup>(4)</sup> Net debt is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities), ii) bank debt, and iii) non-current deferred lease incentives.

Since its incorporation on March 23, 2010, the Company has accumulated light oil resource prone acreage and is delineating and developing its resource base. In November 2012, the Company acquired Vero Energy Inc. and completed an equity financing. In September 2013, the Company acquired significant assets in southeast Saskatchewan, along with another equity financing. In the second, third and fourth quarters of 2014, the Company acquired various properties and working interests in its core Cardium and southeast Saskatchewan areas. In the fourth quarters of 2013 and 2014, the Company recorded impairment charges of \$38.4 million, and \$72.6 million, respectively, related to its exploration and evaluation assets, contributing to a net loss for these periods. In February 2015, the Company issued 16 million common shares to acquire assets in southeast Saskatchewan. In June 2015, the Company acquired additional assets in southeast Saskatchewan and southwest Manitoba for net consideration of \$428.5 million; concurrently, the Company issued 43.4 million common shares for gross proceeds of \$438.0 million. In the third quarter of 2015, the Company recorded impairment charges of \$16.0 million and \$43.0 million related to its E&E and PP&E assets, respectively, contributing to a net loss in this period. Similarly, in the fourth quarter of 2015, the Company recorded impairment charges of \$38.2 million and \$71.0 million related to its E&E and PP&E assets, respectively. In September 2016, the Company acquired assets in southeast Saskatchewan for net consideration of \$90.1 million; concurrently, the Company issued 15.8 million common shares for gross proceeds of \$111.3 million. These events, along with organic drilling growth, have resulted in an increase in total assets, comprised largely of land and wells, as well as increased petroleum and natural gas sales, influenced by commodity prices and commodity mix.



## **Financial Statements**

As at September 30, 2016

and for the three and nine months ended

September 30, 2016 and 2015

## FINANCIAL STATEMENTS

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

	Note	As at September 30, 2016	As at December 31, 2015
<b>Assets</b>			
Cash and cash equivalents		\$3,175	-
Trade and other receivables		28,025	30,027
Deposits and prepaid expenses		928	2,525
Total current assets		32,128	32,552
Property, plant and equipment	4	1,942,960	1,858,745
Deferred tax asset		18,543	2,785
Total non-current assets		1,961,503	1,861,530
Total assets		\$1,993,631	\$1,894,082
<b>Liabilities</b>			
Trade and other payables		\$90,746	\$92,186
Dividends payable	7	3,646	7,256
Deferred lease incentives		-	103
Financial derivative liability	11	108	-
Total current liabilities		94,500	99,545
Bank debt	10	225,000	230,087
Decommissioning obligations	5	323,480	264,703
Total non-current liabilities		548,480	494,790
Total liabilities		\$642,980	\$594,335
<b>Equity</b>			
Share capital	6	\$1,765,236	\$1,621,035
Contributed surplus		13,751	19,992
Deficit		(428,336)	(341,280)
Total equity		1,350,651	1,299,747
Total liabilities and equity		\$1,993,631	\$1,894,082

Subsequent event (note 12)

See accompanying notes to the condensed interim financial statements.

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Statements of Loss and Comprehensive Loss

(unaudited)

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

Note	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>Revenues</b>				
	<b>\$74,966</b>	\$74,413	<b>\$196,635</b>	\$190,653
	<b>(13,315)</b>	(13,624)	<b>(35,089)</b>	(34,576)
	<b>61,651</b>	60,789	<b>161,546</b>	156,077
	-	4,714	-	20,520
	<b>18</b>	(171)	<b>(108)</b>	(19,953)
	<b>61,669</b>	65,332	<b>161,438</b>	156,644
<b>Expenses</b>				
	<b>21,860</b>	21,974	<b>64,533</b>	54,732
	<b>2,944</b>	3,430	<b>8,837</b>	8,007
	<b>2,210</b>	2,816	<b>6,839</b>	8,526
3	<b>673</b>	-	<b>673</b>	4,855
	<b>3,468</b>	3,434	<b>10,754</b>	9,024
8	<b>1,801</b>	2,366	<b>7,382</b>	7,199
4	<b>44,231</b>	42,566	<b>129,879</b>	108,197
	-	59,000	-	59,000
	<b>77,187</b>	135,586	<b>228,897</b>	259,540
	<b>(15,518)</b>	(70,254)	<b>(67,459)</b>	(102,896)
	<b>(3,555)</b>	(17,372)	<b>(14,486)</b>	(19,831)
	<b>(\$11,963)</b>	(\$52,882)	<b>(\$52,973)</b>	(\$83,065)
Loss per share:				
9	<b>(\$0.07)</b>	(\$0.33)	<b>(\$0.32)</b>	(\$0.65)
9	<b>(\$0.07)</b>	(\$0.33)	<b>(\$0.32)</b>	(\$0.65)

See accompanying notes to the condensed interim financial statements.

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Statements of Changes in Equity

(unaudited)

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

	Number of common shares (000's)	Number of warrants (000's)	Share capital	Contributed surplus	Deficit	Total equity
Balance at December 31, 2014	96,765	2,346	\$1,010,428	\$19,543	(\$93,715)	\$936,256
Common shares issued	59,370	-	582,805	-	-	582,805
Stock-based compensation	-	-	-	13,583	-	13,583
Issued on vesting/exercise of:						
Share Awards and incentive shares	1,657	-	-	-	-	-
Warrants	5	(5)	33	-	-	33
Transfer of stock-based compensation on vesting of:						
Share Awards and incentive shares	-	-	13,205	(13,205)	-	-
Share issue costs, net of tax of \$3.9 million	-	-	(11,417)	-	-	(11,417)
Dividends to shareholders	-	-	-	-	(53,213)	(53,213)
Issued pursuant to the share dividend program	1,993	-	14,999	-	-	14,999
Loss for the period	-	-	-	-	(83,065)	(83,065)
<b>Balance at September 30, 2015</b>	<b>159,790</b>	<b>2,341</b>	<b>\$1,610,053</b>	<b>\$19,921</b>	<b>(\$229,993)</b>	<b>\$1,399,981</b>
Balance at December 31, 2015	161,242	-	\$1,621,035	\$19,992	(\$341,280)	\$1,299,747
Common shares issued (note 6)	15,782	-	111,264	-	-	111,264
Stock-based compensation	-	-	-	13,951	-	13,951
Issued on vesting of:						
Share Awards and incentive shares	2,611	-	-	-	-	-
Transfer of stock-based compensation on vesting of:						
Share Awards and incentive shares	-	-	20,192	(20,192)	-	-
Share issue costs, net of tax of \$1.3 million	-	-	(3,435)	-	-	(3,435)
Dividends to shareholders (note 7)	-	-	-	-	(34,083)	(34,083)
Issued pursuant to the share dividend program (note 7)	2,644	-	16,180	-	-	16,180
Loss for the period	-	-	-	-	(52,973)	(52,973)
<b>Balance at September 30, 2016</b>	<b>182,279</b>	<b>-</b>	<b>\$1,765,236</b>	<b>\$13,751</b>	<b>(\$428,336)</b>	<b>\$1,350,651</b>

See accompanying notes to the condensed interim financial statements.

## FINANCIAL STATEMENTS

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

	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
<b>Cash flows from (used in) operating activities:</b>				
Loss for the period	(\$11,963)	(\$52,882)	(\$52,973)	(\$83,065)
Depletion and depreciation	44,231	42,566	129,879	108,197
Stock-based compensation	1,801	2,366	7,382	7,199
Deferred income tax recovery	(3,555)	(17,372)	(14,486)	(19,831)
Accretion on decommissioning obligations	1,110	1,371	3,299	2,714
Unrealized loss (gain) on financial derivatives	(18)	171	108	19,953
Impairment	-	59,000	-	59,000
Settlement of decommissioning obligations	(18)	(4)	(28)	(73)
Change in non-cash working capital	(1,678)	10,721	10,978	6,244
Net cash from operating activities	<b>29,910</b>	45,937	<b>84,159</b>	100,338
<b>Cash flows from (used in) investing activities:</b>				
Additions to exploration and evaluation assets	-	(17)	-	(56)
Additions to property, plant and equipment	(30,846)	(28,515)	(57,241)	(79,036)
Property acquisitions, net of dispositions	(90,463)	(8,002)	(94,778)	(441,468)
Change in non-cash working capital	8,965	8,544	(8,922)	(9,670)
Net cash used in investing activities	<b>(112,344)</b>	(27,990)	<b>(160,941)</b>	(530,230)
<b>Cash flows from (used in) financing activities:</b>				
Proceeds from (repayment of) bank debt	(22,000)	(3,517)	(5,087)	44,459
Proceeds from issue of share capital	111,264	-	111,264	436,118
Share issue costs	(4,707)	(64)	(4,707)	(15,306)
Dividends	(5,108)	(14,366)	(21,513)	(35,379)
Net cash from (used in) financing activities	<b>79,449</b>	(17,947)	<b>79,957</b>	429,892
Change in cash and cash equivalents	<b>(2,985)</b>	-	<b>3,175</b>	-
Cash and cash equivalents, beginning of period	<b>6,160</b>	-	-	-
Cash and cash equivalents, end of period	<b>\$3,175</b>	-	<b>\$3,175</b>	-

See accompanying notes to the condensed interim financial statements.

## FINANCIAL STATEMENTS

### **TORC Oil & Gas Ltd.**

#### **Notes to the Financial Statements**

**As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015**

**(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**

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, 2015, 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 nine months ended September 30, 2016 are consistent with those applied in the financial statements as at and for the year ended December 31, 2015 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 November 7, 2016.



## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Notes to the Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

#### 3. Southeast Saskatchewan asset acquisition

On September 1, 2016, the Company closed an acquisition of various properties and working interests in and around its core southeast Saskatchewan area (the "September Acquisition"). Cash consideration paid was \$90.1 million (including customary adjustments).

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

Transaction costs incurred by the Company totaling \$0.7 million related to the September Acquisition were expensed.

The September Acquisition has been accounted for using the acquisition method of accounting, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition.

Consideration paid	\$90,122
Net assets acquired, at estimated fair value	
Property, plant and equipment	\$98,694
Decommissioning obligations	(8,572)
	<u>\$90,122</u>

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

The fair value of property, plant and equipment has been determined with reference to a reserve report. The fair value of decommissioning obligations was initially estimated using a credit adjusted rate of 7%.

Included in the statement of loss and comprehensive loss are the following amounts relating to the September Acquisition, from the September 1, 2016 closing date to September 30, 2016:

Petroleum and natural gas sales	\$1,552
Net income and comprehensive income	<u>\$466</u>

If the September Acquisition had occurred on January 1, 2016, the Company's pro forma results of petroleum and natural gas sales and net loss and comprehensive loss for the nine months ended September 30, 2016 would have been as follows:

	TORC, as stated in the statement of income and comprehensive income	September Acquisition (from Jan 1, 2016 to closing date)	Pro forma (unaudited)
Petroleum and natural gas sales	\$196,635	\$11,280	\$207,915
Net income (loss) and comprehensive income (loss)	(\$52,973)	\$3,384	(\$49,589)

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Notes to the Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

#### 4. Property, plant and equipment

<b>Cost:</b>	
Balance at December 31, 2014	\$1,417,558
Property acquisitions	724,159
Property dispositions	(58,624)
Capital expenditures	113,551
Change in decommissioning obligations	112,790
Balance at December 31, 2015	\$2,309,434
Property acquisitions, net of dispositions	104,432
Capital expenditures	63,808
Change in decommissioning obligations	45,854
<b>Balance at September 30, 2016</b>	<b>\$2,523,528</b>
<b>Accumulated depletion and depreciation:</b>	
Balance at December 31, 2014	\$194,613
Depletion and depreciation	142,076
Impairment	114,000
Balance at December 31, 2015	\$450,689
Depletion and depreciation	129,879
<b>Balance at September 30, 2016</b>	<b>\$580,568</b>
<b>Net amount:</b>	
As at December 31, 2015	\$1,858,745
<b>As at September 30, 2016</b>	<b>\$1,942,960</b>

Included in the net amount of property, plant and equipment ("PP&E assets") at September 30, 2016 is office equipment of \$0.4 million, net of accumulated depreciation of \$0.6 million (December 31, 2015: \$0.4 million, net of accumulated depreciation of \$0.5 million).

At September 30, 2016, the Company had \$128.9 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land (December 31, 2015: \$185.1 million). Estimated future development costs of \$535.2 million were included in the depletion calculation (December 31, 2015: \$529.6 million).

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Notes to the Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

#### 5. Decommissioning obligations

	As at September 30, 2016	As at December 31, 2015
Balance, beginning of period	\$264,703	\$105,670
Obligations incurred	2,531	3,979
Obligations acquired	9,652	42,619
Obligations settled	(28)	(205)
Change in discount rate, pursuant to asset acquisitions	20,479	87,574
Change in estimates, due to discount rate	22,844	21,237
Accretion	3,299	3,829
Balance, end of period	<b>\$323,480</b>	<b>\$264,703</b>

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 and uninflated total future liability of \$312.8 million as at September 30, 2016 (at December 31, 2015: \$280.1 million) to be incurred on average in 25 years.

For the period ended September 30, 2016, the Company used a risk free rate of 1.8 percent and an inflation rate of 1.8 percent to calculate the net present value of the decommissioning obligations, compared to the year ended December 31, 2015 when the risk free rate was 2.15 percent and the inflation rate was 1.8 percent, resulting in a change in estimate of \$22.8 million. Actual costs may differ from estimated costs due to changes in laws and regulations, timing of costs, changes in technology and market conditions.

The decommissioning obligations acquired pursuant to the September Acquisition, during the nine months ended September 30, 2016, were initially recognized using a fair value interest rate of 7 percent. They were subsequently revalued using the risk free rate of 1.8 percent, resulting in a combined change of \$20.5 million.

#### 6. Share capital

##### Share capital - issued

In conjunction with the September Acquisition described in note 3, TORC secured an equity investment by the Canada Pension Plan Investment Board ("CPPIB") for gross proceeds of \$25.0 million through a private placement of 3.55 million common shares. In addition, TORC also closed a bought deal prospectus offering of 12.24 million common shares for gross proceeds of \$86.3 million. The combined gross proceeds were \$111.3 million.

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Notes to the Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

#### 7. Dividends

<i>(thousands, except per share amounts)</i>	<b>Three months ended September 30, 2016</b>	Three months ended September 30, 2015	<b>Nine months ended September 30, 2016</b>	Nine months ended September 30, 2015
Dividends declared per share	<b>\$0.060</b>	\$0.135	<b>\$0.205</b>	\$0.405
Cash dividends paid	<b>\$5,108</b>	\$14,366	<b>\$21,513</b>	\$35,379
Dollar value of common shares issued under the Share Dividend Program	<b>5,023</b>	6,893	<b>16,180</b>	14,999
<b>Total dividends</b>	<b>\$10,131</b>	\$21,259	<b>\$37,693</b>	\$50,378

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").

During the period between October 1, 2016 and November 7, 2016, \$3.6 million of dividends have been declared.

As a result of continued volatility and uncertainty in commodity prices, on February 16, 2016, the Company announced a reduction of its monthly dividend from \$0.045 per common share to \$0.02 per common share, commencing with the dividend paid on March 15, 2016 to common shareholders.

#### 8. Stock-based compensation

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 3.75 percent of the outstanding common shares. Share Awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, the restricted awards are converted into common shares and issued from treasury at no cost to the recipient. The performance awards are converted into common shares using a multiplier between zero and two, dependent on the Company's performance on a set criteria as determined by the Board of Directors. In the case of both restricted and performance awards, the number of common shares to be issued on the applicable issue date is adjusted to account for the payment of dividends from the grant date to the applicable issue date.

##### Stock options

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

<i>(thousands, except exercise prices)</i>	Number of stock options	Weighted average exercise price
Balance at December 31, 2014	1,632	\$16.43
Forfeited	(100)	16.66
<b>Balance at December 31, 2015</b>	<b>1,532</b>	<b>\$16.42</b>
Expired	(931)	17.24
Forfeited	(25)	13.73
<b>Balance and Exercisable at September 30, 2016</b>	<b>576</b>	<b>\$15.20</b>

*(continued)*

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Notes to the Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

The following table summarizes stock options outstanding and exercisable at September 30, 2016:

<i>(thousands, unless otherwise noted)</i>	Number outstanding	Number exercisable	Weighted average remaining term (years)
Exercise price:			
\$7.15 to \$9.85	30	30	1.6
\$11.65 to \$13.05	140	140	1.2
\$14.94 to \$22.99	406	406	0.8
\$7.15 to \$22.99	576	576	1.0

#### Incentive shares

The following table summarizes incentive share activity:

<i>(thousands)</i>	Number of incentive shares
Balance at December 31, 2014	69
Common shares issued upon vesting	(63)
Balance at December 31, 2015	6
Common shares issued upon vesting	(5)
<b>Balance at September 30, 2016</b>	<b>1</b>

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:

<i>(thousands)</i>	Number of restricted awards
Balance at December 31, 2014	1,122
Granted	622
Adjustment for payment of dividends	90
Forfeited	(51)
Vested	(519)
Balance at December 31, 2015	1,264
Granted	202
Adjustment for payment of dividends	40
Forfeited	(11)
Vested	(826)
<b>Balance at September 30, 2016</b>	<b>669</b>

Restricted awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, the restricted awards are converted into common shares and issued from treasury at no cost to the restricted award holder. The fair value of restricted awards is deemed to equal the stock price on the date of grant. The number of common shares to be issued upon being earned is adjusted to account for the payment of dividends from the grant date to the earning date. For the period ended September 30, 2016, the weighted average fair value of restricted awards granted was \$7.13 per restricted award. There is no forfeiture rate included in the calculation of fair values of restricted awards granted.

*(continued)*

## FINANCIAL STATEMENTS

### TORC Oil & Gas Ltd.

#### Notes to the Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

#### Performance awards

The following table summarizes performance award activity:

<i>(thousands)</i>	Number of performance awards
Balance at December 31, 2014	1,711
Granted	1,190
Granted pursuant to performance multiplier <sup>(1)</sup>	388
Adjustment for payment of dividends	144
Forfeited	(86)
Vested	(1,188)
Balance at December 31, 2015	2,159
Granted pursuant to performance multiplier <sup>(1)</sup>	565
Adjustment for payment of dividends	63
Forfeited	(31)
Vested	(1,780)
<b>Balance at September 30, 2016</b>	<b>976</b>

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

Performance awards are earned over various periods, generally up to three years from the date of grant. On the earning date, the performance awards are converted into common shares and issued from treasury at no cost to the performance award holder, using a multiplier between zero and two, dependent on the Company's relative performance on a set criteria as determined by the Board of Directors. The multiplier, which was determined during the earning period, is considered to have been applied at the grant date. The number of common shares to be issued upon being earned is adjusted to account for the payment of dividends from the grant date to the earning date. As performance multipliers are known, past grants are adjusted to reflect the multiplier. The fair value of performance awards is deemed to equal the stock price on the date of grant. For the period ended September 30, 2016, the weighted average fair value of performance awards granted was \$8.65 per performance award. There is no forfeiture rate included in the calculation of fair values of performance awards granted.

## 9. Earnings per share

Earnings per share amounts are calculated by dividing the net 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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Loss for the period	(\$11,963)	(\$52,882)	(\$52,973)	(\$83,065)
Basic weighted average number of common shares	171,720,409	157,857,132	165,634,066	127,387,211
Diluted weighted average number of common shares	171,720,409	157,857,132	165,634,066	127,387,211
Basic loss per common share	(\$0.07)	(\$0.33)	(\$0.32)	(\$0.65)
Diluted loss per common share	(\$0.07)	(\$0.33)	(\$0.32)	(\$0.65)

For the three and nine months ended September 30, 2016 and September 30, 2015, the diluted number of shares is equivalent to the basic number of shares due to antidilutive stock options, incentive shares, performance and restricted awards. 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 Financial Statements

As at September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015

(unaudited)

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

#### 10. Credit facility

At September 30, 2016, the Company had a reserves-based revolving credit facility of \$400 million with a syndicate of banks (the "Credit Facility"), comprised of a \$55 million operating facility from the operating lender (the "Operating Facility") and a \$345 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). As at September 30, 2016 the amount drawn from the Credit Facility was \$225.0 million. On October 31, 2016, the Credit Facility was renewed at the same amount, being \$400 million. 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 27, 2017. On or before April 27, 2017, at TORC's request and subject to the approval of the lending syndicate, the Credit Facility may be extended for an additional 364 day period. In the event of non-extension, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding will convert to a 364 day non-revolving term facility with repayment of the Credit Facility due on April 28, 2018. The Credit Facility is secured by a fixed and floating charge debenture on all of the Company's assets.

The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The borrowing base of the Company's Credit Facility is subject to review and redetermination by the lenders on a semi-annual basis and in the event of a change in the Company's borrowing base properties (including due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders). In the normal course, the Company's next credit facility evaluation is due to be completed by April 27, 2017.

#### 11. Financial derivatives

Commodity contracts outstanding as at September 30, 2016:

Remaining term	Reference	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Fair value at September 30, 2016 (\$000s)
Oct 1, 2016 - Dec 31, 2016	C\$WTI	Costless Collar	250	\$55.00 - \$75.75	\$3
Oct 1, 2016 - Dec 31, 2016	C\$WTI	Costless Collar	250	\$55.00 - \$71.20	(6)
Oct 1, 2016 - Dec 31, 2016	C\$WTI	Costless Collar	250	\$55.00 - \$65.10	(44)
Jan 1, 2017 - Dec 31, 2017	C\$WTI	Costless Collar	250	\$55.00 - \$77.50	(61)
					(\$108)

#### 12. Subsequent event

Subsequent to September 30, 2016, the Company entered into the following commodity contracts:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$80.25	C\$WTI
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$83.10	C\$WTI
Jan 1, 2017 - Dec 31, 2017	Costless Collar	250	\$55.00 - \$84.00	C\$WTI