TORC Oil & Gas Ltd

Management's Discussion and Analysis

For the three and six months ended

June 30, 2017 and 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("the MD&A") is dated August 2, 2017. 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 six months ended June 30, 2017 and the audited financial statements as at and for the year ended December 31, 2016. 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.

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

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", "adjusted funds flow from operations", "adjusted funds flow from operations, including transaction related costs"*, *"adjusted 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 represents cash flow from operating activities prior to change in non-cash operating working capital. Adjusted funds flow from operations, including transaction related costs represents cash flow from operating activities prior to changes in non-cash operating working capital and settlement of decommissioning obligations. Adjusted funds flow from operations, excluding transaction related costs represents cash flow from operating activities prior to changes in non-cash operating working capital, settlement of decommissioning obligations and transaction related costs. Net debt is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities) and ii) bank debt. 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 adjusted funds flow from operations, as defined above, and net cash from operating activities, as defined by IFRS, is as follows:

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Net cash from operating activities (defined by IFRS)	**$56,955**	$33,506	**$96,351**	$54,249
Changes in non-cash operating working capital	**(4,665)**	(5,995)	**7,247**	(12,656)
Funds flow	**$52,290**	$27,511	**$103,598**	$41,593
Settlement of decommissioning obligations	**181**	10	**356**	10
Adjusted funds flow from operations	**$52,471**	$27,521	**$103,954**	$41,603

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

	As at June 30, 2017	As at December 31, 2016
Current assets (excluding financial derivative assets)	**$33,725**	$36,794
Less: current liabilities (excluding financial derivative liabilities)	**(77,637)**	(88,951)
Less: bank debt	**(198,000)**	(218,743)
Net debt	**($241,912)**	($270,900)

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

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 2017 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) or at the Company's website (www.torcoil.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Asset Transactions

During the three months ended June 30, 2017, the Company closed two acquisitions of complementary light oil assets, as well as disposed of certain non-core assets within TORC's existing southeast Saskatchewan area (together, the "Net Asset Acquisitions"). Total consideration paid for the Net Asset Acquisitions (net of the proceeds from the non-core disposition) included cash of $9.8 million as well as the issuance of 2.8 million common shares of TORC, valued at $6.88 per common share on the closing date of April 4, 2017, for total net consideration of $28.9 million before 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.

Results of Operations

Production

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Crude oil (Bbl per day) [(1)]	**17,677**	15,255	**17,200**	15,295
NGL (Bbl per day) [(1) (2)]	**739**	542	**663**	502
Natural gas (Mcf per day) [(3)]	**14,156**	14,446	**14,586**	14,321
Total (Boe per day)	**20,775**	18,205	**20,294**	18,184
Production mix:				
Crude oil	**85%**	84%	**85%**	84%
NGL	**4%**	3%	**3%**	3%
Crude oil and NGL ("Liquids")	**89%**	87%	**88%**	87%
Natural gas	**11%**	13%	**12%**	13%

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

Production in the three and six months ended June 30, 2017 increased 14% and 12%, respectively, compared to the three and six months ended June 30, 2016 (the "Corresponding Periods"). In addition to the Company's ongoing drilling activities, the increase largely includes production from acquisitions of various properties and working interests in and around the Company's core southeast Saskatchewan area, which added approximately 1,120 boepd in September 2016 (the "September 2016 Acquisition").

Pricing

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Average realized prices:				
Crude oil ($ per Bbl)	**$57.32**	$48.44	**$58.15**	$41.92
NGL ($ per Bbl)	**18.20**	14.69	**23.20**	15.25
Crude oil and NGL ($ per Bbl)	**$55.75**	$47.28	**$56.86**	$41.08
Natural gas ($ per Mcf)	**2.33**	1.21	**2.36**	1.37
Boe ($ per Boe)	**$51.01**	$41.98	**$51.74**	$36.76

During the three and six months ended June 30, 2017, TORC realized crude oil prices of $57.32 per Bbl and $58.15 per Bbl, respectively (Corresponding Periods: $48.44 per Bbl and $41.92 per Bbl, respectively).

During the three and six months ended June 30, 2017, TORC's crude oil discount to WTI converted to Canadian dollars approximated $7.62 per Bbl and $8.64 per Bbl, respectively (Corresponding Periods: $10.33 per Bbl and $10.76 per Bbl, respectively). In the three and six months ended June 30, 2017, TORC's crude oil discount to Edmonton Par averaged approximately $4.58 per Bbl and $4.71 per Bbl, respectively (Corresponding Periods: $6.27 per Bbl and $5.82 per Bbl, respectively). The crude oil pricing differentials are largely a function of North American refinery supply/demand fundamentals.

(continued)

In the three and six months ended June 30, 2017, the Company realized gas prices of $2.33 per Mcf and $2.36 per Mcf, respectively (Corresponding Periods: $1.21 per Mcf and $1.37 per Mcf, respectively). In the three and six months ended June 30, 2017, the Company's realized gas prices were 16% and 14% below AECO benchmarks, respectively (Corresponding Periods: 13% and 15% below AECO benchmarks, respectively). 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 six months ended June 30, 2017, the average realized price across all products was $51.01 per Boe and $51.74 per Boe, respectively. For the three and six months ended June 30, 2017, the average realized price was higher by $9.03 per Boe and $14.98 per Boe, respectively, compared to the Corresponding Periods.

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Average Benchmark Prices:				
Crude oil – WTI *(US$ per Bbl)*	**$48.29**	$45.60	**$50.07**	$39.56
Crude oil – Edmonton Par *(CDN$ per Bbl)*	**$61.90**	$54.71	**$62.87**	$47.74
Natural gas – AECO Daily Spot *($ per Mcf)*	**$2.78**	$1.40	**$2.74**	$1.61
Natural gas – AECO Monthly Spot *($ per Mcf)*	**$2.77**	$1.24	**$2.85**	$1.67
Exchange rate – *(CDN$/US$)*	**1.34**	1.29	**1.33**	1.33

Revenues

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Crude oil	**$92,271**	$67,280	**$181,212**	$116,799
NGL	**1,181**	705	**2,688**	1,352
Natural gas	**2,980**	1,566	**6,161**	3,518
	$96,432	$69,551	**$190,061**	$121,669

Revenues in the three and six months ended June 30, 2017 increased 39% and 56%, respectively, compared to the Corresponding Periods, primarily due to increased commodity prices and increased production volumes from drilling activity and asset acquisitions (the September 2016 Acquisition and Net Asset Acquisitions, previously described).

Revenues from the sale of crude oil and NGL continued to be greater than 95% of all revenues.

Royalties

($ thousands, unless otherwise noted)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Royalties	**$15,912**	$12,639	**$31,557**	$21,774
$ per Boe	**$8.42**	$7.63	**$8.59**	$6.58
Percentage of revenue	**17%**	18%	**17%**	18%

The Company's corporate royalty rate (as a percentage of revenue) for the three and six months ended June 30, 2017 remained relatively consistent, compared to the Corresponding Periods.

Operating and Transportation Expenses

($ thousands, unless otherwise noted)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Operating expenses	**$21,070**	$21,353	**$40,985**	$42,673
$ per Boe	**$11.14**	$12.89	**$11.16**	$12.89
Transportation expenses	**$2,101**	$2,934	**$4,213**	$5,893
$ per Boe	**$1.11**	$1.77	**$1.15**	$1.78
Operating and transportation expenses	**$23,171**	$24,287	**$45,198**	$48,566
$ per Boe	**$12.25**	$14.66	**$12.31**	$14.67

For the three and six months ended June 30, 2017, the Company's operating expenses on a per Boe basis decreased 14% and 13%, respectively, compared to the Corresponding Periods. These decreases reflect the Company's continuing cost reduction efforts, improvements in efficiencies and economies of scale associated with greater volumes.

For the three and six months ended June 30, 2017, the Company's transportation expenses on a per Boe basis decreased 37% and 35%, respectively, compared to the Corresponding Periods. Similar to operating expenses, the decreases largely reflect the benefits of cost reduction efforts, benefits associated with further development of infrastructure, and economies of scale associated with greater volumes.

For both the three and six months ended June 30, 2017, the Company's combined operating and transportation expenses on a per Boe basis decreased 16%, compared to the Corresponding Periods.

Operating Netbacks

($ per Boe, unless otherwise noted)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Average daily production *(Boepd)*	**20,775**	18,205	**20,294**	18,184
Crude oil ($ per Bbl)	**$57.32**	$48.44	**$58.15**	$41.92
NGL ($ per Bbl)	**$18.20**	$14.69	**$23.20**	$15.25
Natural gas *($ per Mcf)*	**$2.33**	$1.21	**$2.36**	$1.37
Average price	**$51.01**	$41.98	**$51.74**	$36.76
Royalties	**($8.42)**	($7.63)	**($8.59)**	($6.58)
Operating	**($11.14)**	($12.89)	**($11.16)**	($12.89)
Transportation	**($1.11)**	($1.77)	**($1.15)**	($1.78)
Operating netback	**$30.34**	$19.69	**$30.84**	$15.51

General and Administrative Expenses

During the three and six months ended June 30, 2017, the Company incurred the following general and administrative expenses ("G&A"):

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
General and administrative expenses	**$3,155**	$3,509	**$5,942**	$6,950
Capitalized general and administrative expenses [1]	**(1,014)**	(1,296)	**(1,504)**	(2,321)
Total general and administrative	**$2,141**	$2,213	**$4,438**	$4,629
$ per Boe	**$1.13**	$1.33	**$1.21**	$1.40

[1] 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 six months ended June 30, 2017, total general and administrative expenses decreased 3% and 4%, respectively, compared to the Corresponding Periods. The decreases in the three and six months ended June 30, 2017 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 six months ended June 30, 2017, G&A decreased 15% and 14%, respectively, compared to the Corresponding Periods. In addition to the focus on absolute cost reduction described above, this cost reduction on a per boe basis reflects administrative efficiencies as increasing production volumes associated with organic drilling activity and asset acquisitions are fully reflected.

Finance Costs

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Interest expense and financing charges	**$2,737**	$2,891	**$4,914**	$5,097
$ per Boe	**$1.45**	$1.75	**$1.34**	$1.54
Accretion on decommissioning obligations	**$1,582**	$976	**$3,202**	$2,189
$ per Boe	**$0.84**	$0.59	**$0.87**	$0.66
Total	**$4,319**	$3,867	**$8,116**	$7,286
$ per Boe	**$2.29**	$2.34	**$2.21**	$2.20

For the three and six months ended June 30, 2017, interest expense and financing charges were relatively consistent, compared to the Corresponding Periods. On a per Boe basis, interest expense and financing charges for the three and six months ended June 30, 2017 decreased 17% and 13%, respectively, compared to the Corresponding Periods, as a result of higher production volumes.

For the three and six months ended June 30, 2017, accretion on decommissioning obligations increased 62% and 46%, respectively, compared to the Corresponding Periods. On a per Boe basis, accretion on decommissioning obligations increased 42% and 32%, respectively, compared to the Corresponding Periods. The increases are largely due to the additional decommissioning liabilities associated with the September 2016 Acquisition and Net Asset Acquisitions, as well as an increase to the estimated discount rate used to present value the Company's decommissioning obligations.

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 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).

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Stock-based compensation expenses	**$4,228**	$3,826	**$9,461**	$10,556
Capitalized stock-based compensation expenses	**(1,986)**	(1,794)	**(4,451)**	(4,975)
Total	**$2,242**	$2,032	**$5,010**	$5,581
$ per Boe	**$1.19**	$1.23	**$1.36**	$1.69

For the three and six months ended June 30, 2017, stock-based compensation expenses per boe decreased 3% and 20%, respectively, compared to the Corresponding Periods, primarily due to similar administrative efficiencies realized in general and administrative expenses.

Depletion and Depreciation Expenses

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Depletion and depreciation expenses	**$47,238**	$43,076	**$91,052**	$85,648
$ per Boe	**$24.99**	$26.00	**$24.79**	$25.88

For the three and six months ended June 30, 2017, depletion and depreciation expenses on a total dollar basis increased 10% and 6%, respectively, compared to the Corresponding Periods. This increase is largely due to depletable base additions from the September 2016 Acquisition and Net Asset Acquisitions, as well as ongoing drilling operations. On a per Boe basis, for both the three and six months ended June 30, 2017, depletion and depreciation expenses decreased 4%, compared to the Corresponding Periods.

Taxes

For the three and six months ended June 30, 2017, the Company recorded deferred income tax expense of $1.6 million and $3.4 million, respectively (Corresponding Periods: deferred income tax recovery of $2.9 million and $10.9 million, respectively), which is consistent with the Company's pre-tax incomes and losses in the three and six months ended June 30, 2017 and 2016, respectively.

Net Income (Loss)

Net income for the three and six months ended June 30, 2017 was $2.5 million and $5.3 million, respectively (Corresponding Periods: net losses of $15.8 million and $41.0 million, respectively). The net income in the three and six months ended June 30, 2017 is largely due to recovering crude oil prices.

Basic and diluted net incomes per share for the three and six months ended June 30, 2017 were $0.01 and $0.03, respectively (Corresponding Periods: basic and diluted net losses per share of $0.10 and $0.25, respectively).

Adjusted Funds Flow from Operations

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Adjusted funds flow from operations	**$52,471**	$27,521	**$103,954**	$41,603
On a weighted average basic common share basis:				
Adjusted funds flow from operations	**$0.28**	$0.17	**$0.56**	$0.26
On a weighted average diluted common share basis:				
Adjusted funds flow from operations	**$0.28**	$0.17	**$0.56**	$0.25

In the three and six months ended June 30, 2017, adjusted funds flow from operations increased 91% and 150%, respectively, compared to the Corresponding Periods. The increase reflects the improved commodity price environment, lower cash costs, as well as more funds flow from increased production related to ongoing drilling operations and asset acquisitions.

Net Cash from Operating Activities

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Net cash from operating activities	**$56,955**	$33,506	**$96,351**	$54,249
Basic net cash from operating activities per share	**$0.30**	$0.21	**$0.52**	$0.33
Diluted net cash from operating activities per share	**$0.30**	$0.20	**$0.52**	$0.33

In the three and six months ended June 30, 2017, basic and diluted net cash from operating activities per share increased compared to the Corresponding Periods. This increase largely reflects the improved commodity price environment, compared to the Corresponding Periods.

Capital Expenditures

Capital expenditures are summarized as follows:

($ thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Cash:				
Land retention costs	**$142**	$108	**$265**	$234
Geological and geophysical	**(9)**	160	**242**	296
Drilling and completions	**12,222**	6,202	**35,069**	20,031
Equipment and facilities	**4,782**	1,129	**13,766**	3,477
Administrative assets	**29**	27	**43**	36
Exploration and development expenditures	**17,166**	7,626	**49,385**	24,074
Capitalized general and administrative expenses	**1,014**	1,296	**1,504**	2,321
Exploration and development expenditures, including capitalized G&A	**18,180**	8,922	**50,889**	26,395
Property acquisitions, net of dispositions	**9,938**	6,029	**9,811**	4,315
Total capital expenditures - cash items	**$28,118**	$14,951	**$60,700**	$30,710
Non-cash:				
Property acquisitions	**26,163**	-	**26,163**	-
Gain on disposition (1)	**1,876**	-	**1,876**	-
Decommissioning obligations	**25,452**	14,480	**24,534**	25,101
Capitalized stock-based compensation	**1,986**	1,794	**4,451**	4,975
Total capital expenditures	**$83,594**	$31,225	**$117,723**	$60,786

(1) Gain on disposition excludes accumulated depletion of $0.6 million.

In the three and six months ended June 30, 2017, the Company drilled 3 (1.9 net) wells and 25 (17.9 net) wells, compared to 3 (2.0 net) wells and 15 (13.3 net) wells, respectively, in the Corresponding Periods. In addition, the Company completed 7 (5.0) net wells in the second quarter of 2017.

The Company anticipates that the remainder of its 2017 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 2017 exploration and development expenditures continue to be concentrated on the Company's primary core areas in SE Saskatchewan, focused on both conventional opportunities and the emerging Torquay/Three Forks play, as well as 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.

Share Capital

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Weighted average outstanding common shares:				
Basic	**186,893,268**	163,014,784	**185,215,693**	162,557,453
Diluted	**188,455,695**	163,014,784	**187,044,531**	162,557,453
Outstanding Securities:				
Common shares	**187,402,212**	163,348,803	**187,402,212**	163,348,803
Stock options	**474,834**	592,322	**474,834**	592,322
Incentive shares	**-**	1,820	**-**	1,820
Restricted awards	**1,359,804**	1,440,696	**1,359,804**	1,440,696
Performance awards	**2,930,102**	2,659,163	**2,930,102**	2,659,163

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

As at August 2, 2017, the Company had 187,663,181 common shares issued and outstanding, 2,965,466 performance awards outstanding, 1,378,855 restricted awards outstanding and 474,834 stock options outstanding.

Liquidity and Capital Resources

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

	As at June 30, 2017	As at Dec 31, 2016
Current assets (excluding financial derivative assets)	**$33,725**	$36,794
Less: current liabilities (excluding financial derivative liabilities)	**(77,637)**	(88,951)
Less: bank debt	**(198,000)**	(218,743)
Net debt	**($241,912)**	($270,900)

Despite the Company's net debt position, it believes that funds 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)

The Company may access the following capital resources:

Bank debt

At June 30, 2017, 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 June 30, 2017 the amount drawn from the Credit Facility was $198.0 million. On April 18, 2017, the Credit Facility was renewed at $400 million, comprised of a $55 million operating facility and a $345 million syndicated facility. Advances under the Credit Facility are available by way of direct advances, bankers' acceptances and standby letters of credit/guarantees. Direct advances bear interest at the prime rate, U.S. base rate or LIBOR rate, as applicable, plus a margin which is dependent on the Company's debt to trailing funds flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing funds flow ratio.

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 27, 2018. On or before April 27, 2018, 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, 2019. 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 October 31, 2017.

Significant investor

The Company has a significant investor, the Canadian Pension Plan Investment Board ("CPPIB"), with appoximately 25% ownership in the outstanding common shares of the Company. 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 June 30, 2017:

Remaining term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $77.50	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $80.25	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $82.00	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $83.10	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $84.00	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $85.00	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	500	$55.00 - $85.75	C$WTI
Jul 1, 2017 - Dec 31, 2017	Costless Collar	250	$55.00 - $90.75	C$WTI

At June 30, 2017, the mark-to-market value of these commodity contracts totalled an asset of $0.4 million.

Contractual Obligations

The following table lists the Company's contractual obligations as at June 30, 2017 and the expected timing of these obligations:

($ thousands)	**Total**	Less than 1 year	1-2 years	3-5 years	Thereafter
Trade and other payables	**$73,889**	$73,889	-	-	-
Dividends payable	**3,748**	3,748	-	-	-
Operating leases (office rent)	**6,152**	1,956	1,994	2,202	-
Bank debt	**198,000**	-	198,000	-	-
Total	**$281,789**	$79,593	$199,994	$2,202	-

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)

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.

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.

Future accounting pronouncements

The following accounting standards and amendments, issued by the International Accounting Standards Board (“IASB”), become effective January 1, 2018: IAS 38 (amendments to Clarification of Acceptable Methods of Depreciation and Amortization), IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 16 Leases comes effective January 1, 2019. The impact of these accounting standards and amendments are not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

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

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 three and six months ended June 30, 2017.

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)	**Q2 2017**	Q1 2017	Q4 2016	Q3 2016 (1)	Q2 2016 (1)	Q1 2016 (1)	Q4 2015 (1)	Q3 2015 (1)
Petroleum and natural gas sales	**96,432**	93,629	90,354	74,966	69,551	52,118	71,935	74,413
Net income (loss)	**2,532**	2,744	2,530	(11,963)	(15,750)	(25,260)	(89,590)	(52,882)
Per share – basic	**0.01**	0.01	0.01	(0.07)	(0.10)	(0.16)	(0.56)	(0.33)
Per share – diluted	**0.01**	0.01	0.01	(0.07)	(0.10)	(0.16)	(0.56)	(0.33)
Adjusted funds flow from operations, including transaction related costs (2)	**52,471**	51,483	51,255	31,606	27,521	14,082	33,961	35,220
Per share – basic	**0.28**	0.28	0.28	0.18	0.17	0.09	0.21	0.22
Per share – diluted	**0.28**	0.28	0.28	0.18	0.17	0.09	0.21	0.22
Adjusted funds flow from operations, excluding transaction related costs (2)	**52,471**	51,483	51,255	32,279	27,521	14,082	33,961	35,220
Per share – basic	**0.28**	0.28	0.28	0.19	0.17	0.09	0.21	0.22
Per share – diluted	**0.28**	0.28	0.28	0.19	0.17	0.09	0.21	0.22
Net cash from operating activities (3)	**56,955**	39,396	41,315	29,910	33,506	20,743	37,224	45,937
Per share – basic	**0.30**	0.21	0.23	0.17	0.21	0.13	0.23	0.29
Per share – diluted	**0.30**	0.21	0.22	0.17	0.20	0.13	0.23	0.29
Total assets	**1,961,822**	1,939,751	1,947,618	1,993,631	1,881,093	1,880,672	1,894,082	2,006,363
Total long-term financial liabilities	**198,000**	218,044	218,743	225,000	247,000	251,265	230,087	224,308
Dividends declared per share	**0.0600**	0.0600	0.0600	0.0600	0.0600	0.0850	0.1350	0.1350
Net debt (4)	**241,912**	258,582	270,900	287,264	298,613	305,824	297,080	285,681

(footnotes on next page)

(in $000's of dollars, except per share amounts)	Year ended Dec 2016 (1)	Year ended Dec 2015 (1)	Year ended Dec 2014
Petroleum and natural gas sales	286,989	262,588	321,329
Net income (loss)	(50,443)	(172,655)	6,258
Per share – basic	(0.30)	(1.27)	0.07
Per share – diluted	(0.30)	(1.27)	0.07
Adjusted funds flow from operations, including transaction related costs (2)	124,464	128,128	188,577
Per share – basic	0.73	0.94	2.02
Per share – diluted	0.73	0.93	1.97
Adjusted funds flow from operations, excluding transaction related costs (2)	125,137	132,983	188,719
Per share – basic	0.74	0.98	2.02
Per share – diluted	0.73	0.96	1.97
Net cash from operating activities (3)	125,474	137,562	198,982
Per share – basic	0.74	1.01	2.13
Per share – diluted	0.73	1.00	2.08
Total assets	1,947,618	1,894,082	1,326,891
Total long-term financial liabilities	218,743	230,087	179,849
Dividends declared per share	0.2650	0.5400	0.5400
Net debt (4)	270,900	297,080	244,658

(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) "Adjusted funds flow from operations, including transaction related costs" and "adjusted 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. "Adjusted 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. "Adjusted 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. TORC also presents "adjusted funds flow from operations, including transaction related costs" and "adjusted 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.

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

(4) 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.

TORC Oil & Gas Ltd

Financial Statements

As at June 30, 2017

and for the three and six months ended

June 30, 2017 and 2016

TORC Oil & Gas Ltd.

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

	Note	As at June 30, 2017	As at December 31, 2016
Assets			
Cash and cash equivalents		**$1,601**	-
Trade and other receivables		**29,401**	$34,386
Deposits and prepaid expenses		**2,723**	2,408
Financial derivative asset	10	**425**	-
Total current assets		**34,150**	36,794
Property, plant and equipment	4	**1,920,857**	1,893,631
Deferred tax asset		**6,815**	17,193
Total non-current assets		**1,927,672**	1,910,824
Total assets		**$1,961,822**	$1,947,618
Liabilities			
Trade and other payables		**$73,889**	$85,289
Dividends payable	6	**3,748**	3,662
Financial derivative liability	10	**-**	1,112
Total current liabilities		**77,637**	90,063
Bank debt	9	**198,000**	218,743
Decommissioning obligations	5	**316,873**	289,493
Total non-current liabilities		**514,873**	508,236
Total liabilities		**$592,510**	$598,299
Equity			
Share capital		**$1,800,722**	$1,771,238
Contributed surplus		**22,334**	14,858
Deficit		**(453,744)**	(436,777)
Total equity		**1,369,312**	1,349,319
Total liabilities and equity		**$1,961,822**	$1,947,618

Commitment (note 11)

See accompanying notes to the condensed interim financial statements.

TORC Oil & Gas Ltd.

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

	Note	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Revenues					
Petroleum and natural gas sales		**$96,432**	$69,551	**$190,061**	$121,669
Royalties		**(15,912)**	(12,639)	**(31,557)**	(21,774)
		80,520	56,912	**158,504**	99,895
Unrealized gain (loss) on financial derivatives		**308**	(126)	**1,537**	(126)
		80,828	56,786	**160,041**	99,769
Expenses					
Operating		**21,070**	21,353	**40,985**	42,673
Transportation		**2,101**	2,934	**4,213**	5,893
General and administrative		**2,141**	2,213	**4,438**	4,629
Finance costs		**4,319**	3,867	**8,116**	7,286
Stock-based compensation	7	**2,242**	2,032	**5,010**	5,581
Depletion and depreciation	4	**47,238**	43,076	**91,052**	85,648
Gain on disposition	4	**(2,431)**	-	**(2,431)**	-
		76,680	75,475	**151,383**	151,710
Income (loss) before income taxes		**4,148**	(18,689)	**8,658**	(51,941)
Deferred income tax expense (recovery)		**1,616**	(2,939)	**3,382**	(10,931)
Income (loss) and comprehensive income (loss)		**$2,532**	($15,750)	**$5,276**	($41,010)
Income (loss) per share:					
Basic and diluted	8	**$0.01**	($0.10)	**$0.03**	($0.25)

See accompanying notes to the condensed interim 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)	Share capital	Contributed surplus	Deficit	Total equity
Balance at December 31, 2015	161,242	$1,621,035	$19,992	($341,280)	$1,299,747
Stock-based compensation	-	-	10,556	-	10,556
Issued on vesting of: Share Awards and incentive shares	136	-	-	-	-
Transfer of stock-based compensation on vesting of: Share Awards and incentive shares	-	1,489	(1,489)	-	-
Dividends to shareholders	-	-	-	(23,573)	(23,573)
Issued pursuant to the share dividend program	1,971	11,157	-	-	11,157
Loss for the period	-	-	-	(41,010)	(41,010)
Balance at June 30, 2016	**163,349**	**$1,633,681**	**$29,059**	**($405,863)**	**$1,256,877**
Balance at December 31, 2016	183,099	$1,771,238	$14,858	($436,777)	$1,349,319
Common shares issued	2,786	19,166	-	-	19,166
Stock-based compensation	-	-	9,461	-	9,461
Issued on vesting of Share Awards	239	-	-	-	-
Transfer of stock-based compensation on vesting of Share Awards	-	1,985	(1,985)	-	-
Dividends to shareholders	-	-	-	(22,243)	(22,243)
Issued pursuant to the share dividend program (note 6)	1,278	8,333	-	-	8,333
Income for the period	-	-	-	5,276	5,276
Balance at June 30, 2017	**187,402**	**$1,800,722**	**$22,334**	**($453,744)**	**$1,369,312**

See accompanying notes to the condensed interim financial statements.

TORC Oil & Gas Ltd.

Statements of Cash Flows
(unaudited)
(in $000's of Canadian dollars)

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Cash flows from operating activities:				
Income (loss) for the period	**$2,532**	($15,750)	**$5,276**	($41,010)
Depletion and depreciation	**47,238**	43,076	**91,052**	85,648
Stock-based compensation	**2,242**	2,032	**5,010**	5,581
Deferred income tax expense (recovery)	**1,616**	(2,939)	**3,382**	(10,931)
Accretion on decommissioning obligations	**1,582**	976	**3,202**	2,189
Unrealized loss (gain) on financial derivatives	**(308)**	126	**(1,537)**	126
Gain on disposition	**(2,431)**	-	**(2,431)**	-
Settlement of decommissioning obligations	**(181)**	(10)	**(356)**	(10)
Change in non-cash working capital	**4,665**	5,995	**(7,247)**	12,656
Net cash from operating activities	**56,955**	33,506	**96,351**	54,249
Cash flows used in investing activities:				
Additions to property, plant and equipment	**(18,180)**	(8,922)	**(50,889)**	(26,395)
Property acquisitions	**(13,592)**	(6,029)	**(13,592)**	(4,315)
Proceeds from property dispositions	**3,654**	-	**3,781**	-
Change in non-cash working capital	**239**	(2,795)	**517**	(17,887)
Net cash used in investing activities	**(27,879)**	(17,746)	**(60,183)**	(48,597)
Cash flows from (used in) financing activities:				
Proceeds from (repayment of) bank debt	**(20,044)**	(4,265)	**(20,743)**	16,913
Dividends	**(7,431)**	(5,335)	**(13,824)**	(16,405)
Net cash from (used in) financing activities	**(27,475)**	(9,600)	**(34,567)**	508
Change in cash and cash equivalents	**1,601**	6,160	**1,601**	6,160
Cash and cash equivalents, beginning of period	**-**	-	**-**	-
Cash and cash equivalents, end of period	**$1,601**	$6,160	**$1,601**	$6,160

See accompanying notes to the condensed interim financial statements.

TORC Oil & Gas Ltd.

Notes to the Financial Statements
As at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016
(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, 2016, and do not include all of the information required for full annual financial statements.

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

The accounting policies applied for the condensed interim financial statements as at and for the three and six months ended June 30, 2017 are consistent with those applied in the financial statements as at and for the year ended December 31, 2016 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 August 2, 2017.

Future accounting pronouncements

The following accounting standards and amendments, issued by the International Accounting Standards Board (“IASB”), become effective January 1, 2018: IAS 38 (amendments to Clarification of Acceptable Methods of Depreciation and Amortization), IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 16 Leases comes effective January 1, 2019. The impact of these accounting standards and amendments are not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

TORC Oil & Gas Ltd.

Notes to the Financial Statements
As at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016
(unaudited)
(in $000's of Canadian dollars, unless otherwise noted)

3. Southeast Saskatchewan asset acquisitions

During the three months ended June 30, 2017, the Company closed two acquisitions of properties and working interests in its core southeast Saskatchewan area (together, the "Q2 Asset Acquisitions"). Total consideration for the Q2 Asset Acquisitions included cash of $13.0 million as well as the issuance of 2.8 million common shares of TORC, valued at $6.88 per common share on the closing date of April 4, 2017, for total net consideration of $32.1 million including customary adjustments.

The Company believes the nature and characteristics of the Q2 Asset Acquisitions are complementary to TORC's light oil focused strategy.

The Q2 Asset Acquisitions have been accounted for using the acquisition method of accounting, with the operating results included in the Company's financial and operating results commencing on the closing dates of the acquisitions.

Consideration paid	$32,148
Net assets acquired, at estimated fair value	
Property, plant and equipment	$42,521
Deferred tax liability	(6,996)
Decommissioning obligations	(3,377)
	$32,148

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 income and comprehensive income are the following amounts relating to the Q2 Asset Acquisitions, from their respective closing dates to June 30, 2017:

Petroleum and natural gas sales	$1,735
Net income and comprehensive income	$521

If the Q2 Asset Acquisitions had occurred on January 1, 2017, the Company's pro forma results of petroleum and natural gas sales and net income and comprehensive income for the six months ended June 30, 2017 would have been as follows:

	TORC, as stated in the statement of income and comprehensive income	Q2 Asset Acquisitions (from Jan 1, 2017 to closing dates)	Pro forma (unaudited)
Petroleum and natural gas sales	$190,061	$1,885	$191,946
Net income and comprehensive income	$5,276	$566	$5,842

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4. Property, plant and equipment

Cost:	
Balance at December 31, 2015	$2,309,434
Property acquisitions	105,384
Property dispositions	(740)
Capital expenditures	93,526
Change in decommissioning obligations	10,835
Balance at December 31, 2016	$2,518,439
Property acquisitions	43,131
Property dispositions	(1,905)
Capital expenditures	55,341
Change in decommissioning obligations	21,157
Balance at June 30, 2017	**$2,636,162**

Accumulated depletion, depreciation and impairment:	
Balance at December 31, 2015	$450,689
Depletion and depreciation	174,119
Balance at December 31, 2016	$624,808
Depletion and depreciation	91,052
Accumulated depletion pursuant to the Asset Disposition	(555)
Balance at June 30, 2017	**$715,305**

Net amount:	
As at December 31, 2016	$1,893,631
As at June 30, 2017	**$1,920,857**

At June 30, 2017, the Company had $123.8 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land (December 31, 2016: $132.2 million). Estimated future development costs of $617.9 million were included in the depletion calculation (December 31, 2016: $617.6 million).

During the three months ended June 30, 2017, the Company closed a disposition of certain non-core assets within the Company's existing southeast Saskatchewan area (the "Asset Disposition") for cash proceeds of $3.5 million (before customary adjustments). The carrying value was $1.1 million, resulting in a gain on disposition of $2.4 million.

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5. Decommissioning obligations

	As at June 30, 2017	As at December 31, 2016
Balance, beginning of period	**$289,493**	$264,703
Obligations incurred	**1,552**	3,559
Obligations acquired	**3,377**	9,652
Obligations settled	**(356)**	(365)
Change in discount rate, pursuant to asset acquisitions	**7,203**	20,479
Change in estimates	**12,402**	(13,203)
Accretion	**3,202**	4,668
Balance, end of period	**$316,873**	$289,493

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 $324.6 million as at June 30, 2017 (at December 31, 2016: $314.0 million) to be incurred on average in 25 years.

For the period ended June 30, 2017, the Company used a risk free rate of 2.13 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, 2016 when the risk free rate was 2.31 percent and the inflation rate was 1.8 percent, resulting in a change in estimate of $12.4 million. Actual costs may differ from estimated costs due to changes in laws and regulations, timing of costs, changes in technology and market conditions.

6. Dividends

(thousands, except per share amounts)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Dividends declared per share	**$0.060**	$0.060	**$0.120**	$0.145
Cash dividends paid	**$7,431**	$5,335	**$13,824**	$16,405
Dollar value of common shares issued under the Share Dividend Program	**3,726**	4,437	**8,333**	11,157
Total dividends	**$11,157**	$9,772	**$22,157**	$27,562

In 2016, the Company's dividend plan enabled common shareholders to elect to receive dividends in common shares rather than cash (the "Share Dividend Program"), calculated at 95% of the weighted average trading price for the five days immediately prior to the payment date (the "SDP Discount"). On December 15, 2016, TORC announced the elimination of the SDP Discount, beginning with the January 2017 dividend, which was paid in February 2017.

During the period between July 1, 2017 and August 2, 2017, $3.8 million of dividends have been declared.

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7. 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, a holder of restricted awards is entitled to a notional payment equal to the equivalent number of common shares (plus accrued dividend equivalents). A holder of performance awards is entitled to a similar payment equal to the equivalent number of common shares, converted using a multiplier between zero and two (plus accrued dividend equivalents), dependent on the Company's performance on a set criteria as determined by the Board of Directors. The Corporation has the discretion to settle the awards in common shares, cash or a combination thereof.

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, 2015	1,532	$16.42
Expired	(994)	17.61
Forfeited	(36)	14.08
Balance at December 31, 2016	**502**	**$14.22**
Expired	(27)	22.99
Balance and exercisable at June 30, 2017	**475**	**$13.73**

The following table summarizes stock options outstanding and exercisable at June 30, 2017:

(thousands, unless otherwise noted)	Number outstanding and exercisable	Weighted average remaining term (years)
Exercise price:		
$7.15 to $9.85	30	0.8
$11.65 to $13.05	140	0.5
$14.94 to $22.99	305	0.2
$7.15 to $22.99	475	0.3

When the outstanding stock options expire per the remaining terms summarized above, the Company does not expect to issue any additional stock options at this time.

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Restricted awards

The following table summarizes restricted award activity:

(thousands)	Number of restricted awards
Balance at December 31, 2015	1,264
Granted	572
Adjustment for payment of dividends	45
Forfeited	(20)
Vested	(858)
Balance at December 31, 2016	1,003
Granted	488
Adjustment for payment of dividends	23
Forfeited	(3)
Vested	(151)
Balance at June 30, 2017	**1,360**

Restricted awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, a holder of restricted awards is entitled to a notional payment equal to the equivalent number of common shares (plus accrued dividend equivalents). The Corporation has the discretion to settle the awards in common shares, cash or a combination thereof. The fair value of restricted awards is deemed to equal the stock price on the date of grant. For the period ended June 30, 2017, the weighted average fair value of restricted awards granted was $6.83 per restricted award. There is no forfeiture rate included in the calculation of fair values of restricted awards granted.

Performance awards

The following table summarizes performance award activity:

(thousands)	Number of performance awards
Balance at December 31, 2015	2,159
Granted	739
Granted pursuant to performance multiplier [1]	565
Adjustment for payment of dividends	73
Forfeited	(42)
Vested	(1,827)
Balance at December 31, 2016	1,667
Granted	979
Granted pursuant to performance multiplier [1]	335
Adjustment for payment of dividends	41
Forfeited	(4)
Vested	(88)
Balance at June 30, 2017	**2,930**

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

(continued)

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Performance awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, a holder of performance awards is entitled to a notional payment equal to the equivalent number of common shares, converted using a multiplier between zero and two (plus accrued dividend equivalents), dependent on the Company's performance on a set criteria as determined by the Board of Directors. The Corporation has the discretion to settle the awards in common shares, cash or a combination thereof. The multiplier, which was determined during the earning period, is considered to have been applied at the grant 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 June 30, 2017, the weighted average fair value of performance awards granted was $7.21 per performance award. There is no forfeiture rate included in the calculation of fair values of performance awards granted.

Stock-based compensation

The following table summarizes the stock-based compensation:

(thousands)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Stock-based compensation on options	**-**	$1	**-**	$5
Stock-based compensation on incentive awards	**-**	1	**-**	2
Stock-based compensation on restricted awards	**1,249**	1,561	**2,395**	2,757
Stock-based compensation on performance awards	**2,979**	2,263	**7,066**	7,792
Capitalized stock-based compensation	**(1,986)**	(1,794)	**(4,451)**	(4,975)
Total stock-based compensation	**$2,242**	$2,032	**$5,010**	$5,581

8. Income (loss) per share

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

(thousands, except number of common shares and per share amounts)	**Three months ended June 30, 2017**	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
Income (loss) for the period	**$2,532**	($15,750)	**$5,276**	($41,010)
Basic weighted average number of common shares	**186,893,268**	163,014,784	**185,215,693**	162,557,453
Diluted weighted average number of common shares	**188,455,695**	163,014,784	**187,044,531**	162,557,453
Basic and diluted loss per common share	**$0.01**	($0.10)	**$0.03**	($0.25)

For the three and six months ended June 30, 2016, 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.

In computing diluted earnings per share for the three months ended June 30, 2017, 1,122,601 performance awards and 439,826 restricted awards were added to the basic weighted average common shares outstanding. In computing diluted earnings per share for the six months ended June 30, 2017, 1,302,142 performance awards and 526,696 restricted awards were added to the basic weighted average common shares outstanding.

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9. Bank debt

At June 30, 2017, 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 June 30, 2017 the amount drawn from the Credit Facility was $198.0 million. On April 18, 2017, the Credit Facility was renewed at $400 million, comprised of a $55 million operating facility and a $345 million syndicated facility. Advances under the Credit Facility are available by way of direct advances, bankers' acceptances and standby letters of credit/guarantees. Direct advances bear interest at the prime rate, U.S. base rate or LIBOR rate, as applicable, plus a margin which is dependent on the Company's debt to trailing funds flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing funds flow ratio.

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 27, 2018. On or before April 27, 2018, 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, 2019. 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 October 31, 2017.

10. Financial derivatives

Commodity contracts outstanding as at June 30, 2017:

Remaining term	Reference	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Fair value at June 30, 2017 ($000s)
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $77.50	$44
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $80.25	45
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $82.00	61
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $83.10	45
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $84.00	46
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $85.00	46
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	500	$55.00 - $85.75	92
Jul 1, 2017 - Dec 31, 2017	C$WTI	Costless Collar	250	$55.00 - $90.75	46
					$425

11. Commitment

Operating lease commitment

Future minimum lease payments for the Company's office space as at June 30, 2017 are as follows:

2017	$971
2018	1,970
2019	2,018
2020	1,193
Total	$6,152