TORC Oil & Gas Ltd

# Management's Discussion and Analysis

For the three months ended

March 31, 2015 and 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("the MD&A") is dated May 13, 2015. The MD&A should be read in conjunction with TORC Oil & Gas Ltd.'s ("TORC" or the "Company") unaudited condensed interim financial statements as at and for the three months ended March 31, 2015 and the audited financial statements as at and for the year ended December 31, 2014. 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:

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Net cash from operating activities (defined by IFRS) | **$24,055** | $38,119 |
| Settlement of decommissioning obligations | **53** | 42 |
| Changes in non-cash working capital | **1,507** | 9,046 |
| Funds flow from operations, including transaction related costs | **$25,615** | $47,207 |
| Transaction related costs | **753** | - |
| Funds flow from operations, excluding transaction related costs | **$26,368** | $47,207 |

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

| | **As at Mar 31, 2015** | As at Dec 31, 2014 |
|---|---|---|
| Current assets (excluding financial derivative assets) | **$25,770** | $24,754 |
| Less: current liabilities (excluding financial derivative liabilities) | **(76,567)** | (89,459) |
| Less: bank debt | **(215,727)** | (179,849) |
| Less: non-current deferred lease incentives | **(57)** | (104) |
| Net debt | **($266,581)** | ($244,658) |

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

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

## Forward-Looking Statements

*This MD&A contains forward-looking statements. More specifically, it contains forward-looking statements respecting: (i) the expected timing of closing the Acquisition and the Financings, (ii) the anticipated future corporate royalty rate, (iii) the anticipated sources of funding for the Company's capital program, (iv) the sufficiency of liquidity and capital resources to fund the Company's capital program and ongoing operations, and (v) the Company's risk management activities and the benefits to be obtained therefrom.*

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

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

## Asset Acquisitions

Southeast Saskatchewan asset acquisition

In February 2015, the Company closed an acquisition various properties and working interests in its core southeast Saskatchewan area (the "February Acquisition"). Consideration paid was $146.7 million which included the issuance of 16,000,000 common shares valued at $9.17 per share based on TORC's trading price on February 25, 2015 (the date the February Acquisition closed).

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

Asset swap

During the three months ended March 31, 2015, the Company completed a swap of certain petroleum and natural gas properties in southeast Saskatchewan (the "Asset Swap"). In the Asset Swap, the Company gave up properties with a carrying value of $50.2 million and received properties with an equivalent fair value. The Asset Swap closed on March 31, 2015.

*(continued)*

Asset acquisition subsequent to March 31, 2015

On April 27, 2015, the Company announced a $430 million acquisition, payable in cash, of light oil producing assets in southeast Saskatchewan and southwest Manitoba, expected to close June 15, 2015 (the “June Acquisition”). In conjunction with the June Acquisition, TORC secured an equity investment by the Canada Pension Plan Investment Board ("CPPIB") for $150 million through a private placement of 14.9 million subscription receipts and also entered into an agreement for a $250.5 million bought deal prospectus offering of 24.8 million subscription receipts (the "Bought Deal") offered through a syndicate of underwriters (the "Underwriters"), for total gross proceeds of $400.5 million (the "Financings"). TORC has granted the Underwriters an option to purchase from treasury an additional 3.7 million subscription receipts, on the same terms, exercisable in whole or in part at any time up to the 30th day following closing of the Bought Deal. The Financings are expected to close on May 20, 2015 and the gross proceeds will be held in escrow until all conditions precedent to the completion of the June Acquisition have been satisfied or waived, expected to be June 15, 2015. If the June Acquisition is completed on or before July 31, 2015, the proceeds will be released to TORC and each subscription receipt will be exchanged for one common share of TORC for no additional consideration. If the June Acquisition is not completed on or before July 31, 2015 or the June Acquisition is terminated at an earlier time, holders of the subscription receipts will receive a cash payment equal to the offering price of the subscription receipts and any interest that was earned thereon during the time of escrow.

In April 2015, as part of the June Acquisition, the Company paid a $43 million deposit to the vendor using the Company's available credit facility. If the closing does not occur for any reason other than due to a default by TORC, or as a result of TORC's failure to obtain all necessary approvals, the deposit will be refundable.

## Results of Operations

### Production

| | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Crude oil (Bbl per day) (1) | **10,264** | 8,502 |
| NGL (Bbl per day) (1) (2) | **519** | 422 |
| Natural gas (Mcf per day) (3) | **10,533** | 9,630 |
| Total (Boe per day) | **12,539** | 10,529 |
| | | |
| Production mix: | | |
| Crude oil | **82%** | 81% |
| NGL | **4%** | 4% |
| Crude oil and NGL ("Liquids") | **86%** | 85% |
| Natural gas | **14%** | 15% |

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

Production in the three months ended March 31, 2015 increased 19% compared to the three months ended March 31, 2014 (the "Corresponding Period"). In addition to the Company's on-going drilling activities, the increase includes production from the February Acquisition, described above, which added approximately 1,550 boe/d starting on February 25, 2015.

## Pricing

| | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Average realized prices: | | |
| Crude oil ($ per Bbl) | **$46.94** | $93.90 |
| NGL ($ per Bbl) | **25.17** | 66.40 |
| Natural gas ($ per Mcf) | **2.89** | 5.54 |
| Boe ($ per Boe) | **$41.89** | $83.55 |

During the three months ended March 31, 2015, TORC realized oil prices of $46.94 per Bbl (Corresponding Period: $93.90 per Bbl).

During the three months ended March 31, 2015, TORC's discount to WTI converted to Canadian dollars approximated $13 per Bbl (Corresponding Period: $15 per Bbl). In the three months ended March 31, 2015, TORC's discount to Edmonton Par averaged approximately $5 per Bbl (Corresponding Period: $6 per Bbl). The pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

In the three months ended March 31, 2015, the Company realized a gas price of $2.89 per Mcf (Corresponding Period: $5.54 per Mcf). In the three months ended March 31, 2015, the Company's realized gas price was 17% above AECO benchmarks (Corresponding Period: 9% above AECO benchmarks).

In the three months ended March 31, 2015, the average realized price across all products was $41.89 per Boe. For the three months ended March 31, 2015, the average realized price was lower by $41.66 per Boe, compared to the Corresponding Period.

| | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| **Average Benchmark Prices:** | | |
| Crude oil – WTI *(US$ per Bbl)* | **$48.57** | $98.61 |
| Crude oil – Edmonton Par *(CDN$ per Bbl)* | **$51.72** | $100.03 |
| Natural gas – AECO Daily Spot *($ per Mcf)* | **$2.47** | $5.09 |
| Natural gas – AECO Monthly Spot *($ per Mcf)* | **$2.66** | $4.29 |
| Exchange rate – *(CDN$/US$)* | **1.24** | 1.10 |

## Revenues

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Crude oil | **$43,379** | $71,887 |
| NGL | **1,171** | 2,483 |
| Natural gas | **2,726** | 4,798 |
| | **$47,276** | $79,168 |

Revenues in the three months ended March 31, 2015 decreased 40% compared to the Corresponding Period, largely due to a 51% decrease in US$ WTI oil prices and a 48% decrease in Edmonton Par prices, somewhat offset by increased volumes.

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

## Royalties

| ($ thousands, unless otherwise noted) | Three months ended Mar 31, 2015 | Three months ended Mar 31, 2014 |
|---|---|---|
| Royalties | **$8,247** | $12,372 |
| $ per Boe | **$7.31** | $13.06 |
| Percentage of revenue | **17%** | 16% |

Compared to the Corresponding Period, the Company's corporate royalty rate (as a percentage of revenue) remained relatively the same. As the Company integrates the Saskatchewan properties associated with the February Acquisition and the June Acquisition (described above), the Company anticipates a slight increase in the corporate royalty rate. Royalty rates associated with properties in Saskatchewan includes the Saskatchewan Resource Tax.

## Operating and Transportation Expenses

| ($ thousands, unless otherwise noted) | Three months ended Mar 31, 2015 | Three months ended Mar 31, 2014 |
|---|---|---|
| Operating expenses | **$15,415** | $12,277 |
| $ per Boe | **$13.66** | $12.96 |
| Transportation expenses | **$2,066** | $2,401 |
| $ per Boe | **$1.83** | $2.53 |
| Operating and transportation expenses | **$17,481** | $14,678 |
| $ per Boe | **$15.49** | $15.49 |

For the three months ended March 31, 2015, the Company's operating expenses on a per Boe basis increased 5% compared to the Corresponding Period. This increase primarily reflects the higher operating costs associated with certain properties acquired in Saskatchewan.

For the three months ended March 31, 2015, the Company's transportation expenses on a per Boe basis decreased 28% compared to the Corresponding Period. This largely reflects the benefits associated with further development of infrastructure, economies of scale associated with greater volumes, and lower transportation costs associated with certain Saskatchewan properties.

For the three months ended March 31, 2015, the Company's combined operating and transportation expenses on a per Boe basis remained the same compared to the Corresponding Period.

### Operating Netbacks

| *($ per Boe, unless otherwise noted)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Average daily production *(Boepd)* | **12,539** | 10,529 |
| Crude oil ($ per Bbl) | **$46.94** | $93.90 |
| NGL ($ per Bbl) | **$25.17** | $66.40 |
| Natural gas *($ per Mcf)* | **$2.89** | $5.54 |
| Average price prior to hedging | **$41.89** | $83.55 |
| Realized gain (loss) on financial derivatives (hedging) | **$8.50** | ($1.51) |
| Royalties | **(7.31)** | (13.06) |
| Operating | **(13.66)** | (12.96) |
| Transportation | **(1.83)** | (2.53) |
| Operating netback | **$27.59** | $53.49 |
| Operating netback (prior to hedging) | **$19.09** | $55.00 |

### General and Administrative Expenses

During the three months ended March 31, 2015, the Company incurred the following general and administrative expenses ("G&A"):

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Gross general and administrative expenses | **$5,324** | $4,476 |
| Recoveries [1] | **(900)** | (669) |
| Capitalized general and administrative expenses [2] | **(1,615)** | (1,390) |
| Total general and administrative | **$2,809** | $2,417 |
| $ per Boe | **$2.49** | $2.55 |

(1) Recoveries refers to those G&A expenditures which under industry practice are reclassified to operating expenses, exploration and evaluation assets, or property, plant and equipment, dependent on their nature.

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

Total general and administrative expenses in the three months ended March 31, 2015 increased 16% compared to the Corresponding Period. These increases were due to additional employees (resulting in additional employee compensation costs) and other administrative costs largely associated with the Company's growing operations. However, on a per Boe basis, G&A decreased 2% compared to the Corresponding Period.

### Transaction Related Costs

| *($ thousands, unless otherwise noted)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Transaction related costs | **$753** | - |
| $ per Boe | **$0.66** | - |

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 and administrative integration expenses.

For the three months ended March 31, 2015, the Company incurred $0.8 million of transaction related costs associated with the February Acquisition (described above).

### Finance Costs

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Interest expense and financing charges | **$1,958** | $1,064 |
| Accretion on decommissioning obligations | **479** | 665 |
| Total | **$2,437** | $1,729 |
| $ per Boe | **$2.16** | $1.82 |

For the three months ended March 31, 2015, interest expense and financing charges increased compared to the Corresponding Period primarily due to the Company's higher bank debt, incurred largely in connection with various asset acquisitions in 2014 as well as ongoing business activities.

For the three months ended March 31, 2015, accretion on decommissioning obligations increased compared to the Corresponding Period due to the additional decommissioning obligations assumed by the Company largely in connection with asset acquisitions as well as ongoing drilling activities.

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

Average bank debt was as follows:

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Bank debt | **$203,543** | $91,266 |

## Stock-Based Compensation Expenses

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

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Stock-based compensation expenses | **$5,867** | $6,183 |
| Capitalized stock-based compensation expenses | **(2,748)** | (3,048) |
| Total | **$3,119** | $3,135 |
| $ per Boe | **$2.76** | $3.31 |

For the three months ended March 31, 2015, stock-based compensation expenses, net of capitalized amounts, decreased compared to the Corresponding Period, both on a dollar value and on a per Boe basis. This decrease primarily reflects the initially higher stock-based compensation expenses related to the initial grant of restricted awards and performance awards granted to the Company's directors, officers and employees in 2013 (the "Share Awards") as part of the Company's business model transition to a dividend plus growth company, and reflected a three year grant of Share Awards with corresponding vesting and expensing periods. Each additional grant of Share Awards in following years reflects a one year compensation amount.

## Depletion and Depreciation Expenses

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Depletion and depreciation expenses | **$31,144** | $26,217 |
| $ per Boe | **$27.60** | $27.67 |

For the three months ended March 31, 2015, the depletion and depreciation expenses on a total dollar basis increased 19% compared to the Corresponding Period. This increase is largely due to depletable base additions, primarily from acquisitions (including the February Acquisition), as well as on-going drilling operations. On a per Boe basis, for the three months ended March 31, 2015, the depletion and depreciation expenses remained similar compared to the Corresponding Period.

## Taxes

For the three months ended March 31, 2015, the Company recorded a deferred income tax recovery of $2.5 million (Corresponding Period: deferred income tax expense of $3.9 million). The deferred income tax recovery in the first quarter of 2015 is consistent with the Company's pre-tax loss compared to the Corresponding Period's pre-tax income.

## Net Loss

The Company incurred a net loss of $15.3 million in the three months ended March 31, 2015, compared to a net income of $8.0 million in the Corresponding Period, largely due to significantly reduced crude oil prices.

Basic and diluted net loss per share in the three months ended March 31, 2015 was $0.15, compared to basic and diluted net income per share of $0.09 in the Corresponding Period.

## Funds Flow from Operations

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Funds flow from operations, including transaction related costs | **$25,615** | $47,207 |
| Transaction related costs | **753** | - |
| Funds flow from operations, excluding transaction related costs | **$26,368** | $47,207 |

Basic funds flow from operations, excluding transaction related costs per share for the three months ended March 31, 2015 was $0.26 (Corresponding Period: $0.52). Diluted funds flow from operations, excluding transaction related costs per share for the three months ended March 31, 2015 was $0.25 (Corresponding Period: $0.50).

Basic funds flow from operations, including transaction related costs per share for the three months ended March 31, 2015 was $0.25 (Corresponding Period: $0.52). Diluted funds flow from operations, including transaction related costs per share for the three months ended March 31, 2015 was $0.24 (Corresponding Period: $0.50).

In the three months ended March 31, 2015, funds flow from operations, excluding transaction related costs decreased 44% compared to the Corresponding Period. This decrease largely correlates with the 51% decrease in US$ WTI oil prices and the 48% decrease in Edmonton Par prices.

## Net Cash from Operating Activities

| *($ thousands)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Net cash from operating activities | **$24,055** | $38,119 |
| Basic net cash from operating activities per share | **$0.23** | $0.52 |
| Diluted net cash from operating activities per share | **$0.23** | $0.50 |

In the three months ended March 31, 2015, net cash from operating activities decreased compared to the Corresponding Period which largely correlates with the decrease in crude oil prices.

## Capital Expenditures

Capital expenditures are summarized as follows:

| ($ thousands) | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| ***Cash:*** | | |
| Land retention costs | **$160** | $200 |
| Geological and geophysical | **177** | 190 |
| Drilling and completions | **28,266** | 32,723 |
| Equipment and facilities | **4,817** | 4,562 |
| Administrative assets | **132** | 65 |
| Exploration and development expenditures | **33,552** | 37,740 |
| Capitalized general and administrative expenses | **1,615** | 1,390 |
| Exploration and development expenditures, including capitalized G&A | **35,167** | 39,130 |
| Property acquisitions, net of dispositions | **1,516** | (27) |
| Total capital expenditures - cash items | **$36,683** | $39,103 |
| ***Non-cash:*** | | |
| Property acquisitions, net of dispositions | **186,596** | - |
| Decommissioning obligations | **54,588** | 506 |
| Capitalized stock-based compensation | **2,748** | 3,048 |
| Total capital expenditures | **$280,615** | $42,657 |

In the three months ended March 31, 2015, the Company drilled 8 (7.0 net) wells. In the Corresponding Period, the Company drilled 13 (8.5 net) wells.

The Company anticipates that the remainder of its 2015 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.

During the three months ended March 31, 2015, the Company closed the February Acquisition described above. The total consideration paid was $146.7 million which included the issuance of 16,000,000 common shares valued at $9.17 per share based on TORC's trading price on February 25, 2015 (the date the February Acquisition closed).

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

## Share Capital

| | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| **Weighted average outstanding common shares:** | | |
| Basic | **103,049,561** | 91,620,342 |
| Diluted | **103,049,561** | 94,158,525 |
| **Outstanding Securities:** | | |
| Common shares | **113,226,562** | 91,822,974 |
| Stock options | **1,623,798** | 1,640,195 |
| Incentive shares | **62,346** | 123,823 |
| Restricted awards | **1,144,766** | 1,264,285 |
| Performance awards | **2,185,580** | 2,140,452 |
| Warrants | **2,341,116** | 3,475,650 |

In the three months ended March 31, 2015, 4,640 Warrants were exercised for total cash proceeds of $0.03 million. At March 31, 2015, there were 2.3 million Warrants outstanding of which 1.2 million of the Warrants were exercisable. The Warrants expire on December 16, 2015, five years from the date of grant.

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

As at May 13, 2015, the Company had 113,397,324 common shares issued and outstanding, 1,623,798 stock options outstanding, 62,346 incentive shares outstanding, 2,220,584 performance awards outstanding, 1,170,672 restricted awards outstanding, and 2,341,116 warrants outstanding.

## Liquidity and Capital Resources

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

| | **As at Mar 31, 2014** | As at Dec 31, 2014 |
|---|---|---|
| Current assets (excluding financial derivative assets) | **$25,770** | $24,754 |
| Less: current liabilities (excluding financial derivative liabilities) | **(76,567)** | (89,459) |
| Less: bank debt | **(215,727)** | (179,849) |
| Less: non-current deferred lease incentives | **(57)** | (104) |
| Net debt | **($266,581)** | ($244,658) |

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

The Company may access the following capital resources:

Credit facility

At March 31, 2015, the Company had a reserves-based revolving credit facility of $425 million with a syndicate of banks (the "Credit Facility"), comprised of a $40 million operating facility from the operating lender (the "Operating Facility") and a $385 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). The Credit Facility was reconfirmed at $425 million on April 28, 2015. 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.

*(continued)*

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 27, 2016. On or before April 27, 2016, 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 27, 2017. 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, 2015.

Significant investor

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

## Risk Management - Financial Derivatives

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

At March 31, 2015, the Company had the following commodity contracts outstanding:

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

At March 31, 2015, the mark-to-market value of these commodity contracts totaled an asset of $16.0 million.

## Contractual Obligations

The following table lists the Company's contractual obligations as at March 31, 2015 and the expected timing of these obligations:

| *($ thousands)* | **Total** | Less than 1 year | 1-2 years | 3-5 years | Thereafter |
|---|---|---|---|---|---|
| Trade and other payables | **$71,295** | $71,295 | - | - | - |
| Dividends payable | **5,095** | 5,095 | - | - | - |
| Operating leases (office rent) | **1,676** | 1,257 | 419 | - | - |
| Bank debt | **215,727** | - | 215,727 | - | - |
| Total | **$293,793** | $77,647 | $216,146 | - | - |

*Operating commitments*

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

*Working capital*

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

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

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

## Business Conditions and Risks

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

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

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

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

*(continued)*

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.

*(continued)*

*Decommissioning obligations*

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

*Stock-based compensation*

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

*Financial derivatives*

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

*Deferred income taxes*

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

## Environmental Regulation and Risk

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

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

## Disclosure Controls and Internal Controls Over Financial Reporting

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

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

## Additional Information

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

## Summary of Quarterly and Annual Results

| *(in $000's of dollars, except per share amounts)* | **Q1 2015** **(1)** | Q4 2014 (1) | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 (1) | Q3 2013 | Q2 2013 |
|---|---|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | **47,276** | 70,854 | 83,798 | 87,509 | 79,168 | 68,206 | 41,717 | 28,117 |
| Net income (loss) | **(15,258)** | (30,411) | 15,146 | 13,494 | 8,029 | (17,841) | 3,287 | 3,340 |
| Per share – basic (2) | **(0.15)** | (0.32) | 0.16 | 0.15 | 0.09 | (0.20) | 0.06 | 0.09 |
| Per share – diluted (2) | **(0.15)** | (0.32) | 0.16 | 0.14 | 0.09 | (0.20) | 0.06 | 0.09 |
| Funds flow from operations, including transaction related costs (3) | **25,615** | 41,710 | 49,005 | 50,655 | 47,207 | 41,458 | 16,223 | 16,580 |
| Per share – basic (2) | **0.25** | 0.43 | 0.52 | 0.55 | 0.52 | 0.45 | 0.32 | 0.43 |
| Per share – diluted (2) | **0.24** | 0.43 | 0.51 | 0.53 | 0.50 | 0.45 | 0.32 | 0.42 |
| Funds flow from operations, excluding transaction related costs (3) | **26,368** | 41,748 | 49,029 | 50,735 | 47,207 | 40,769 | 24,163 | 16,397 |
| Per share – basic (2) | **0.26** | 0.43 | 0.52 | 0.55 | 0.52 | 0.45 | 0.48 | 0.42 |
| Per share – diluted (2) | **0.25** | 0.43 | 0.51 | 0.53 | 0.50 | 0.44 | 0.47 | 0.42 |
| Net cash from operating activities (4) | **24,055** | 72,191 | 46,236 | 42,436 | 38,119 | 46,912 | 6,055 | 16,153 |
| Per share – basic (2) | **0.23** | 0.50 | 0.50 | 0.46 | 0.42 | 0.51 | 0.12 | 0.42 |
| Per share – diluted (2) | **0.23** | 0.48 | 0.48 | 0.45 | 0.40 | 0.50 | 0.12 | 0.41 |
| Total assets | **1,568,736** | 1,326,891 | 1,325,007 | 1,273,256 | 1,214,575 | 1,215,153 | 1,200,628 | 611,283 |
| Total long-term financial liabilities | **429,966** | 301,176 | 265,212 | 252,502 | 198,189 | 183,725 | 194,647 | 29,006 |
| Dividends declared per share | **0.1350** | 0.1350 | 0.1350 | 0.1350 | 0.1350 | 0.1283 | 0.0417 | - |
| Net debt (5) | **(266,581)** | (244,658) | (213,391) | (181,169) | (145,528) | (145,183) | (121,486) | (2,088) |

*(footnotes on next page)*

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

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

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

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

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

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

Since its incorporation on March 23, 2010, the Company has accumulated light oil resource prone acreage and is delineating and developing its resource base. In November 2012, the Company acquired Vero and completed an equity financing. In September 2013, the Company acquired significant assets in southeast Saskatchewan, along with another equity financing. In the second, third and fourth quarters of 2014, the Company acquired various properties and working interests in its core Cardium and southeast Saskatchewan areas. In the fourth quarters of 2012, 2013, and 2014, the Company recorded impairment charges of $13.3 million, $38.4 million, and $72.6 million, respectively, related to its exploration and evaluation assets, contributing to a net loss for these periods. In February 2015, the Company acquired additional assets in southeast Saskatchewan. 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 March 31, 2015

and for the three months ended

March 31, 2015 and 2014

## FINANCIAL STATEMENTS

# TORC Oil & Gas Ltd.

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

| | Note | As at March 31, 2015 | As at December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| Trade and other receivables | | **$23,636** | $22,670 |
| Deposits and prepaid expenses | | **2,134** | 2,084 |
| Financial derivative asset | 12 | **15,954** | 24,596 |
| Total current assets | | **41,724** | 49,350 |
| Exploration and evaluation assets | 4 | **54,616** | 54,596 |
| Property, plant and equipment | 5 | **1,472,396** | 1,222,945 |
| Total non-current assets | | **1,527,012** | 1,277,541 |
| Total assets | | **$1,568,736** | $1,326,891 |
| **Liabilities** | | | |
| Trade and other payables | | **$71,295** | $84,928 |
| Dividends payable | 8 | **5,095** | 4,354 |
| Deferred lease incentives | | **177** | 177 |
| Total current liabilities | | **76,567** | 89,459 |
| Bank debt | 11 | **215,727** | 179,849 |
| Deferred premium on flow-through shares | 13 | **31** | 1,925 |
| Deferred lease incentives | | **57** | 104 |
| Decommissioning obligations | 6 | **160,684** | 105,670 |
| Deferred tax liability | | **53,467** | 13,628 |
| Total non-current liabilities | | **429,966** | 301,176 |
| Total liabilities | | **$506,533** | $390,635 |
| **Equity** | | | |
| Share capital | 7 | **$1,160,374** | $1,010,428 |
| Contributed surplus | | **25,349** | 19,543 |
| Deficit | | **(123,520)** | (93,715) |
| Total equity | | **1,062,203** | 936,256 |
| Total liabilities and equity | | **$1,568,736** | $1,326,891 |

Commitments (note 13)
Subsequent events (note 14)

See accompanying notes to the condensed interim financial statements.

# 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 Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|---|
| **Revenues** | | | |
| Petroleum and natural gas sales | | **$47,276** | $79,168 |
| Royalties | | **(8,247)** | (12,372) |
| | | **39,029** | 66,796 |
| Realized gain (loss) on financial derivatives | | **9,587** | (1,430) |
| Unrealized loss on financial derivatives | 12 | **(8,642)** | (5,304) |
| | | **39,974** | 60,062 |
| **Expenses** | | | |
| Operating | | **15,415** | 12,277 |
| Transportation | | **2,066** | 2,401 |
| General and administrative | | **2,809** | 2,417 |
| Transaction related costs | 3 | **753** | - |
| Finance costs | | **2,437** | 1,729 |
| Stock-based compensation | 9 | **3,119** | 3,135 |
| Depletion and depreciation | 5 | **31,144** | 26,217 |
| | | **57,743** | 48,176 |
| Income (loss) before income taxes | | **(17,769)** | 11,886 |
| Deferred income tax (recovery) | | **(2,511)** | 3,857 |
| Income (loss) and comprehensive income (loss) | | **($15,258)** | $8,029 |
| Income (loss) per share: | | | |
| Basic | 10 | **($0.15)** | $0.09 |
| Diluted | 10 | **($0.15)** | $0.09 |

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) | Number of warrants (000's) | Share capital | Contributed surplus | Deficit | Total equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | 91,423 | 3,480 | $958,754 | $11,881 | ($49,398) | $921,237 |
| Stock-based compensation | - | - | - | 6,183 | - | 6,183 |
| Issued on vesting of incentive shares | 5 | - | - | - | - | - |
| Transfer of stock-based compensation on vesting of incentive shares | - | - | 82 | (82) | - | - |
| Issued on exercise of warrants | 4 | (4) | 31 | - | - | 31 |
| Share issue costs, net of tax of $0.002 million | - | - | (7) | - | - | (7) |
| Dividends to shareholders | - | - | - | - | (12,379) | (12,379) |
| Issued pursuant to the share dividend program | 391 | - | 3,950 | - | - | 3,950 |
| Income for the period | - | - | - | - | 8,029 | 8,029 |
| **Balance at March 31, 2014** | **91,823** | **3,476** | **$962,810** | **$17,982** | **($53,748)** | **$927,044** |
| | | | | | | |
| Balance at December 31, 2014 | 96,765 | 2,346 | $1,010,428 | $19,543 | ($93,715) | $936,256 |
| Common shares issued for asset acquisition (note 3) | 16,000 | - | 146,720 | - | - | 146,720 |
| Stock-based compensation | - | - | - | 5,867 | - | 5,867 |
| Issued on vesting/exercise of: | | | | | | |
| Incentive shares | 7 | - | - | - | - | - |
| Restricted awards | 3 | - | - | - | - | - |
| Performance awards | 4 | - | - | - | - | - |
| Warrants | 5 | (5) | 33 | - | - | 33 |
| Transfer of stock-based compensation on vesting/exercise of: Incentive shares | - | - | 61 | (61) | - | - |
| Share issue costs, net of tax of $0.2 million | - | - | (500) | - | - | (500) |
| Dividends to shareholders (note 8) | - | - | - | - | (14,547) | (14,547) |
| Issued pursuant to the share dividend program (note 8) | 443 | - | 3,632 | - | - | 3,632 |
| Loss for the period | - | - | - | - | (15,258) | (15,258) |
| **Balance at March 31, 2015** | **113,227** | **2,341** | **$1,160,374** | **$25,349** | **($123,520)** | **$1,062,203** |

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 Mar 31, 2015 | Three months ended Mar 31, 2014 |
|---|---|---|
| **Cash flows from (used in) operating activities:** | | |
| Income (loss) for the period | $ (15,258) | $ 8,029 |
| Depletion and depreciation | 31,144 | 26,217 |
| Stock-based compensation | 3,119 | 3,135 |
| Deferred income tax (recovery) | (2,511) | 3,857 |
| Accretion on decommissioning obligations | 479 | 665 |
| Unrealized loss on financial derivatives | 8,642 | 5,304 |
| Settlement of decommissioning obligations | (53) | (42) |
| Change in non-cash working capital | (1,507) | (9,046) |
| Net cash from operating activities | 24,055 | 38,119 |
| **Cash flows from (used in) investing activities:** | | |
| Additions to exploration and evaluation assets | (20) | (125) |
| Additions to property, plant and equipment | (35,147) | (39,005) |
| Property acquisitions | (1,516) | (466) |
| Proceeds from disposition of oil and gas properties | - | 493 |
| Change in non-cash working capital | (12,439) | (13,776) |
| Net cash used in investing activities | (49,122) | (52,879) |
| **Cash flows from (used in) financing activities:** | | |
| Proceeds from bank debt | 35,878 | 9,523 |
| Proceeds from issue of share capital | 33 | 31 |
| Share issue costs | (670) | (9) |
| Dividends | (10,174) | (8,411) |
| Net cash from financing activities | 25,067 | 1,134 |
| Change in cash and cash equivalents | - | (13,626) |
| Cash and cash equivalents, beginning of period | - | 13,626 |
| Cash and cash equivalents, end of period | $ - | $ - |

See accompanying notes to the condensed interim financial statements.

## TORC Oil & Gas Ltd.

**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(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, 2014, and do not include all of the information required for full annual financial statements.

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

The accounting policies applied for the condensed interim financial statements as at and for the three months ended March 31, 2015 are consistent with those applied in the financial statements as at and for the year ended December 31, 2014 which have been prepared on the basis of IFRS issued by the IASB and interpretations of the IFRIC.

These condensed interim financial statements were approved by the Company's Board of Directors on May 13, 2015.

### 3. Southeast Saskatchewan asset acquisition

In February 2015, the Company closed an acquisition various properties and working interests in its core southeast Saskatchewan area (the "February Acquisition"). Consideration paid was $146.7 million which included the issuance of 16,000,000 common shares valued at $9.17 per share based on TORC's trading price on February 25, 2015 (the date the February Acquisition closed).

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

Transaction costs incurred by the Company totaling $0.8 million related to the February Acquisition were expensed.

The February 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 | |
| 16,000,000 common shares issued | $146,720 |
| Net assets acquired, at estimated fair value | |
| Property, plant and equipment | $196,673 |
| Deferred tax liability | (40,626) |
| Decommissioning obligations | (9,327) |
| | $146,720 |

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.

*(continued)*

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

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 February Acquisition, from the closing date to March 31, 2015.

| | Three months ended Mar 31, 2015 |
|---|---|
| Petroleum and natural gas sales | $2,441 |
| Net income and comprehensive income | $732 |

If the February Acquisition had occurred on January 1, 2015, the Company's pro forma results of petroleum and natural gas sales and net loss and comprehensive loss for the three months ended March 31, 2015 would have been as follows:

| Three months ended Mar 31, 2015 | TORC, as stated in the statement of income and comprehensive income | February Acquisition (from Jan 1, 2015 to closing date) | Pro forma (unaudited) |
|---|---|---|---|
| Petroleum and natural gas sales | $47,276 | $3,836 | $51,112 |
| Net loss and comprehensive loss | ($15,258) | $1,151 | ($14,107) |

## 4. Exploration and evaluation assets

| | |
|---|---|
| Balance at December 31, 2013 | $129,093 |
| Property acquisitions | 707 |
| Property dispositions | (100) |
| Capital expenditures | 308 |
| Impairment | (72,567) |
| Transferred to property, plant and equipment | (2,845) |
| Balance at December 31, 2014 | $54,596 |
| Capital expenditures | 20 |
| **Balance at March 31, 2015** | **$54,616** |

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

# TORC Oil & Gas Ltd.

**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(unaudited)**
**(in $000's of Canadian dollars, unless otherwise noted)**

## 5. Property, plant and equipment

| | |
|---|---|
| Cost: | |
| Balance at December 31, 2013 | $1,116,245 |
| Property acquisitions | 144,797 |
| Property dispositions | (760) |
| Capital expenditures | 152,207 |
| Change in decommissioning obligations | 2,224 |
| Transferred from exploration and evaluation assets | 2,845 |
| Balance at December 31, 2014 | $1,417,558 |
| Property acquisitions | 247,594 |
| Property dispositions | (58,411) |
| Capital expenditures | 37,913 |
| Change in decommissioning obligations | 45,261 |
| **Balance at March 31, 2015** | **$1,689,915** |

| | |
|---|---|
| Accumulated depletion and depreciation: | |
| Balance at December 31, 2013 | $80,253 |
| Depletion and depreciation for the year | 114,360 |
| Balance at December 31, 2014 | $194,613 |
| Depletion and depreciation for the period | 31,144 |
| Accumulated depletion pursuant to the Asset Swap | (8,238) |
| **Balance at March 31, 2015** | **$217,519** |

| | |
|---|---|
| Net amount: | |
| As at December 31, 2014 | $1,222,945 |
| **As at March 31, 2015** | **$1,472,396** |

Included in the net amount of property, plant and equipment at March 31, 2015 is office equipment of $0.4 million, net of accumulated depreciation of $0.4 million (December 31, 2014: $0.3 million, net of accumulated depreciation of $0.4 million).

At March 31, 2015, the Company had $102.7 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land (December 31, 2014: $104.2 million). Estimated future development costs of $469.1 million were included in the depletion calculation (December 31, 2014: $406.4 million).

During the three months ended March 31, 2015, the Company completed a swap of certain petroleum and natural gas properties in southeast Saskatchewan (the “Asset Swap”). In the Asset Swap, the Company gave up properties with a carrying value of $50.2 million and received properties with an equivalent fair value, and therefore no gain or loss was recognized. The fair value was determined based on the properties given up. The Asset Swap closed on March 31, 2015.

## TORC Oil & Gas Ltd.

**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(unaudited)**
**(in $000's of Canadian dollars, unless otherwise noted)**

### 6. Decommissioning obligations

| | **As at March 31, 2015** | As at December 31, 2014 |
|---|---|---|
| Balance, beginning of year | **$105,670** | $93,045 |
| Obligations incurred | **1,413** | 2,224 |
| Obligations acquired | **9,327** | 7,929 |
| Obligations settled | **(53)** | (347) |
| Change in discount rate, pursuant to the February Acquisition (note 3) | **20,800** | - |
| Change in estimates | **23,048** | - |
| Accretion | **479** | 2,819 |
| Balance, end of period | **$160,684** | $105,670 |

The total future decommissioning obligations are based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated an undiscounted total future liability of $164.4 million as at March 31, 2015 (at December 31, 2014: $131.4 million) to be incurred on average in 25 years.

For the period ended March 31, 2015, the Company used a risk free rate of 2 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, 2014 when the risk free rate was 2.85 percent and the inflation rate was 1.8 percent, resulting in a change in estimate of $23.0 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 in the February Acquisition were initially recognized using a fair value interest rate of 7%. They were subsequently revalued using the risk free rate of 2 percent resulting in a change of $20.8 million.

### 7. Share capital

Warrants

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

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

In the three months ended March 31, 2015, 4,640 Warrants were exercised for total cash proceeds of $0.03 million. At March 31, 2015, there were 2.3 million Warrants outstanding of which 1.2 million of the Warrants were exercisable. The Warrants expire on December 16, 2015, five years from the date of grant.

## TORC Oil & Gas Ltd.

**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(unaudited)**
**(in $000's of Canadian dollars, unless otherwise noted)**

### 8. Dividends

| *(thousands, except per share amounts)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Dividends declared per share | **$0.135** | $0.135 |
| Cash dividends paid | **$10,174** | $8,411 |
| Dollar value of common shares issued under the Share Dividend Program | **3,632** | 3,950 |
| Total dividends | **$13,806** | $12,361 |

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

During the period between April 1, 2015 and May 13, 2015, $5.1 million of dividends have been declared.

### 9. 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 6.5 percent of the outstanding common shares. Share Awards are earned over various periods, up to three years from the date of grant. Upon being earned, the restricted awards are converted into common shares and issued from treasury at no cost to the recipient. The performance awards are converted into common shares using a multiplier between zero and two, dependent on the Company's performance on a set criteria as determined by the Board of Directors. In the case of both restricted and performance awards, the number of common shares to be issued on the applicable issue date is adjusted to account for the payment of dividends from the grant date to the applicable issue date.

<u>*Stock options*</u>

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, 2013 | 1,640 | $16.38 |
| Exercised | (8) | 7.15 |
| **Balance at December 31, 2014** | **1,632** | **$16.43** |
| Forfeited | (8) | 16.67 |
| **Balance at March 31, 2015** | **1,624** | **$16.43** |
| **Exercisable at March 31, 2015** | **1,488** | **$16.78** |

*(continued)*

## TORC Oil & Gas Ltd.

**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(unaudited)**
**(in $000's of Canadian dollars, unless otherwise noted)**

The following table summarizes stock options outstanding and exercisable at March 31, 2015:

| *(thousands, unless otherwise noted)* | Number outstanding | Number exercisable | Weighted average remaining term (years) |
|---|---|---|---|
| Exercise price: | | | |
| $7.15 to $9.85 | 31 | 7 | 2.8 |
| $11.65 to $13.05 | 155 | 126 | 2.5 |
| $14.94 to $22.99 | 1,438 | 1,355 | 1.4 |
| $7.15 to $22.99 | 1,624 | 1,488 | 1.5 |

*Incentive shares*

The following table summarizes incentive share activity:

| *(thousands)* | Number of incentive shares |
|---|---|
| Balance at December 31, 2013 | 129 |
| Common shares issued upon vesting | (60) |
| Balance at December 31, 2014 | 69 |
| Common shares issued upon vesting | (7) |
| **Balance at March 31, 2015** | **62** |
| **Convertible into common shares at March 31, 2015** | **-** |

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

*Restricted awards*

The following table summarizes restricted award activity:

| *(thousands)* | Number of restricted awards |
|---|---|
| Balance at December 31, 2013 | 1,249 |
| Granted | 268 |
| Adjustment for payment of dividends | 60 |
| Forfeited | (31) |
| Common shares issued upon vesting | (424) |
| Balance at December 31, 2014 | 1,122 |
| Granted | 21 |
| Adjustment for payment of dividends | 19 |
| Forfeited | (14) |
| Common shares issued upon vesting | (3) |
| **Balance at March 31, 2015** | **1,145** |
| **Convertible into common shares at March 31, 2015** | **-** |

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 three months ended March 31, 2015, the weighted average fair value of restricted awards granted was $9.85 per restricted award. There is no forfeiture rate included in the calculation of fair values of restricted awards granted.

*(continued)*

## TORC Oil & Gas Ltd.

**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(unaudited)**
**(in $000's of Canadian dollars, unless otherwise noted)**

*Performance awards*

The following table summarizes performance award activity:

| *(thousands)* | Number of performance awards |
|---|---|
| Balance at December 31, 2013 | 1,818 |
| Granted | 474 |
| Granted pursuant to performance multiplier [(1)] | 299 |
| Adjustment for payment of dividends | 103 |
| Forfeited | (52) |
| Common shares issued upon vesting | (931) |
| Balance at December 31, 2014 | 1,711 |
| Granted | 65 |
| Granted pursuant to performance multiplier [(1)] | 388 |
| Adjustment for payment of dividends | 29 |
| Forfeited | (3) |
| Common shares issued upon vesting | (4) |
| **Balance at March 31, 2015** | **2,186** |
| **Convertible into common shares at March 31, 2015** | **-** |

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

Performance awards are earned over various periods, 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 three months ended March 31, 2015, the weighted average fair value of performance awards granted was $9.83 per performance award. There is no forfeiture rate included in the calculation of fair values of performance awards granted.

### 10. Earnings per share

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

| *(thousands, except number of common shares and per share amounts)* | **Three months ended Mar 31, 2015** | Three months ended Mar 31, 2014 |
|---|---|---|
| Income (loss) for the period | **($15,258)** | $8,029 |
| Basic weighted average number of common shares | **103,049,561** | 91,620,342 |
| Diluted weighted average number of common shares | **103,049,561** | 94,158,525 |
| Basic income (loss) per common share | **($0.15)** | $0.09 |
| Diluted income (loss) per common share | **($0.15)** | $0.09 |

For the three months ended March 31, 2015, the diluted number of shares is equivalent to the basic number of shares due to antidilutive stock options, incentive shares and warrants. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

*(continued)*

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

## 11. Credit facility

At March 31, 2015, the Company had a reserves-based revolving credit facility of $425 million with a syndicate of banks (the "Credit Facility"), comprised of a $40 million operating facility from the operating lender (the "Operating Facility") and a $385 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). The Credit Facility was reconfirmed at $425 million on April 28, 2015. 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, 2016. On or before April 27, 2016, 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 27, 2017. 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, 2015.

## 12. Financial derivatives

Commodity contracts outstanding as at March 31, 2015:

| Remaining term | Reference | Type | Volume (Bbl/d) | Price (per Bbl in Canadian dollars) | Fair value at Mar 31, 2015 ($000s) |
|---|---|---|---|---|---|
| Apr 1, 2015 - June 30, 2015 | C$WTI | Costless Collar | 500 | $95.00 - $106.25 | $1,454 |
| Apr 1, 2015 - June 30, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $108.00 | 614 |
| Apr 1, 2015 - June 30, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $109.55 | 615 |
| Apr 1, 2015 - June 30, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $111.00 | 614 |
| Apr 1, 2015 - June 30, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $111.25 | 614 |
| Apr 1, 2015 - June 30, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $112.75 | 614 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $110.55 | 1,635 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $112.00 | 1,635 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $108.15 | 1,633 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $111.75 | 1,638 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $111.75 | 1,629 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $113.75 | 1,630 |
| Apr 1, 2015 - Dec 31, 2015 | C$WTI | Costless Collar | 250 | $90.00 - $115.85 | 1,629 |
| | | | | | $15,954 |

As at March 31, 2015, a 10% decrease in the market price detailed in the commodity contracts above would result in a $4.4 million unrealized gain on financial derivatives and a corresponding increase in income.

**TORC Oil & Gas Ltd.**
**Notes to the Financial Statements**
**As at March 31, 2015 and for the three months ended March 31, 2015 and 2014**
**(unaudited)**
**(in $000's of Canadian dollars, unless otherwise noted)**

## 13. Commitments

Flow-through shares issued in October 2014

On October 29, 2014, the Company closed a private placement offering of 1,441,900 flow-through shares to raise gross proceeds of $19.7 million (the "Financing"). The Financing was comprised of 772,000 flow-through shares at $14.25 per share issued in respect of Canadian exploration expenses ("CEE") for gross proceeds of $11.0 million, and 669,900 flow-through shares at $13.00 per share issued in respect of Canadian development expenses ("CDE") for gross proceeds of $8.7 million. As at December 31, 2014, the Company had fully incurred the required $8.7 million qualifying as CDE. The $11.0 million of CEE must be incurred before December 31, 2015. All qualifying expenditures were renounced to shareholders as at December 31, 2014. The obligation remaining for this flow-through share issue was $0.2 million as at March 31, 2015.

A flow-through share liability of $3.5 million was recorded to reflect the opening fair value of the liability associated with these flow-through shares at that date. This flow-through share liability is reduced on a pro-rata basis as the Company incurred qualifying expenditures. As at March 31, 2015, the remaining flow-through share liability was $0.03 million.

## 14. Subsequent events

Asset acquisition and financing

On April 27, 2015, the Company announced a $430 million acquisition, payable in cash, of light oil producing assets in southeast Saskatchewan and southwest Manitoba, expected to close June 15, 2015 (the “June Acquisition”). In conjunction with the June Acquisition, TORC secured an equity investment by the Canada Pension Plan Investment Board ("CPPIB") for $150 million through a private placement of 14.9 million subscription receipts and also entered into an agreement for a $250.5 million bought deal prospectus offering of 24.8 million subscription receipts (the "Bought Deal") offered through a syndicate of underwriters (the "Underwriters"), for total gross proceeds of $400.5 million (the "Financings"). TORC has granted the Underwriters an option to purchase from treasury an additional 3.7 million subscription receipts, on the same terms, exercisable in whole or in part at any time up to the 30th day following closing of the Bought Deal. The Financings are expected to close on May 20, 2015 and the gross proceeds will be held in escrow until all conditions precedent to the completion of the June Acquisition have been satisfied or waived, expected to be June 15, 2015. If the June Acquisition is completed on or before July 31, 2015, the proceeds will be released to TORC and each subscription receipt will be exchanged for one common share of TORC for no additional consideration. If the June Acquisition is not completed on or before July 31, 2015 or the June Acquisition is terminated at an earlier time, holders of the subscription receipts will receive a cash payment equal to the offering price of the subscription receipts and any interest that was earned thereon during the time of escrow.

In April 2015, as part of the June Acquisition, the Company paid a $43 million deposit to the vendor using the Company's available credit facility. If the closing does not occur for any reason other than due to a default by TORC, or as a result of TORC's failure to obtain all necessary approvals, the deposit will be refundable.