TORC Oil & Gas Ltd

Management's Discussion and Analysis

For the three months and years ended

December 31, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("the MD&A") is dated March 11, 2013. The MD&A should be read in conjunction with TORC Oil & Gas Ltd.'s ("TORC" or the "Company") audited financial statements as at and for the year ended December 31, 2012. The reader should be aware that historical results are not necessarily indicative of future performance.

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

Barrel of Oil Equivalent

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

Non-IFRS Measurements

The MD&A contains the terms "funds flow from operations" and "operating netback" which are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Funds flow from operations represents cash flow from (used in) operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. Operating netback represents revenue and realized gain or loss on financial derivatives, less royalties, operating expenses and transportation expenses and has been presented on a per Boe basis. Management believes that in addition to net income, funds flow from operations and operating netback are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income and net cash from (used in) 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 (used in) operating activities, as defined by IFRS, is as follows:

($ thousands)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Net cash from (used in) operating activities (defined by IFRS)	**$ 3,076**	$ (396)	**$ 8,514**	$ (600)
Settlement of decommissioning obligations	**-**	-	**98**	-
Changes in non-cash working capital	**1,165**	2,127	**4,783**	1,121
Funds flow from operations (as defined above)	**$ 4,241**	$ 1,731	**$ 13,395**	$ 521

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. Management's assessment of future plans and operations, drilling plans and the timing thereof, plans for the tie-in and completion of wells and the timing thereof, capital expenditures, timing of capital expenditures and methods of financing capital expenditures and the ability to fund financial liabilities, production estimates, expected commodity mix and prices, future operating costs, future transportation costs, expected royalty rates, expected general and administrative expenses, expected interest rates, debt levels, funds from operations and the timing of and impact of implementing accounting policies, estimates regarding undeveloped land position and estimated future drilling, recompletion or reactivation locations and anticipated impact upon TORC's forecasts in respect of production and cash flow for 2013 and resulting year-end net debt may constitute forward looking statements under applicable securities laws and necessarily involve risks including, without limitation, 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.

The Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although TORC believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: 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.

Additional information on these and other factors 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.

Significant Transactions

Plan of Arrangement

On September 13, 2012, TORC and Vero Energy Inc. ("Vero") jointly announced that they had entered into a plan of arrangement (the "Arrangement") under the Business Corporation's Act (Alberta) to form a new light oil focused company. Under the terms of the Arrangement, each previous TORC (hereinafter "Old TORC") shareholder received 0.87 shares of TORC for each share of Old TORC held and each Vero shareholder received one share of TORC for each share of Vero held. The Arrangement closed on November 19, 2012.

The Old TORC shareholders held 75% of the outstanding shares of the new combined entity. As well, the management team and board of directors of Old TORC continued their roles into TORC. Accordingly, the transaction is accounted for as a reverse takeover whereby Old TORC is deemed to be the acquirer of Vero, using the acquisition method of accounting.

In accordance with terms of the Arrangement, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of 0.87 (the Arrangement exchange ratio), in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

Financing

In connection with the Arrangement, the Company entered into an agreement, on a "bought deal" private placement basis, for an offering of 26,796,000 subscription receipts ("Subscription Receipts") at $3.00 per Subscription Receipt (Old TORC: 30,800,000 Subscription Receipts at $2.60 per Subscription Receipt) to raise gross proceeds of $80.1 million and 11,231,700 flow-through subscription receipts ("Flow-Through Subscription Receipts") at $3.56 per Flow-through Subscription Receipt (Old TORC: 20,910,000 Flow-Through Subscription Receipts at $3.10 per Flow-Through Subscription Receipt) to raise gross proceeds of $40.0 million (in aggregate, the "TORC Financing"). The TORC Financing raised gross proceeds of $120.1 million before estimated share issue costs $6.4 million. The TORC Financing closed on November 19, 2012 and the proceeds were released to the Company with each Subscription Receipt and Flow-Through Subscription Receipt of Old TORC converted into 0.87 common shares of TORC for no additional consideration in accordance with the share exchange ratio in the Arrangement.

Credit Facility

At December 31, 2012, the Company had available a $100.0 million syndicated reserves-based revolving credit facility. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank’s prime lending rate plus an applicable margin for Canadian dollar advances and at the bank’s U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent on the Company’s debt to trailing cash flow ratio. The banker’s acceptances bear interest at the applicable banker’s acceptance rate plus a stamping fee, based on the Company’s debt to trailing cash flow ratio.

The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the bank and was confirmed on November 19, 2012. The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The Company's next credit facility evaluation is due to be completed by April 30, 2013.

Results of Operations

Production

	Three months ended December 31, 2012	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Crude oil and NGL (Bbl per day) [(1) (2)]	**2,047**	348	**1,114**	94
Natural gas (Mcf per day) [(3)]	**2,824**	216	**1,027**	147
Total (Boe per day)	**2,518**	384	**1,285**	119

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

Production in the three months and year ended December 31, 2012 increased significantly compared to the three months and year ended December 31, 2011 (the "Corresponding Periods"). In addition to the Company's on-going drilling success, the increase includes 43 days of production from the acquisition of Vero which closed on November 19, 2012.

In the three months and year ended December 31, 2012, the Company drilled nine (6.8 net) wells and 28 (21.6 net) wells, respectively. In the Corresponding Periods, the Company drilled seven (5.7 net) wells and 14 (11.2 net) wells, respectively.

The Company's production mix for the three months and year ended December 31, 2012 was 81% oil and NGL and 19% natural gas and 87% oil and NGL and 13% natural gas, respectively. In the Corresponding Periods, the production mixes were 91% oil and NGL and 9% natural gas, and 79% oil and NGL and 21% natural gas, respectively.

In the fourth quarter of 2012, 70% and 30% of the Company's total production came from Cardium and southern Alberta wells, respectively. In the year ended December 31, 2012, 68% and 32% of the Company's total production came from Cardium and southern Alberta wells, respectively.

Pricing

	Three months ended December 31, 2012	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Average realized prices:				
Crude oil and NGL ($ per Bbl)	**$ 72.89**	$ 93.18	**$ 77.56**	$ 92.48
Natural gas ($ per Mcf)	**3.15**	3.22	**2.78**	3.42
Boe ($ per Boe)	**$ 62.89**	$ 86.36	**$ 69.53**	$ 77.84

In the three months and year ended December 31, 2012, the Company realized prices of $62.89 per Boe and $69.53 per Boe, respectively. This represents a decrease of 27% and 11% compared to the Corresponding Periods, reflecting the lower North American price of crude oil as well as the Company's increase in gas weighting.

During the year ended December 31, 2012, TORC's discount to WTI converted to Canadian dollars ranged from approximately $15/Bbl in Q1 and Q2, to approximately $13/Bbl in Q3 and Q4, averaging approximately $14/Bbl over the year 2012. TORC's discount to Edmonton Par averaged $10.64 in Q4 and $7.51 for the year ended December 31, 2012 (Corresponding Periods: $4.40 and $1.70, respectively). The pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

In the three months and year ended December 31, 2012, the Company realized gas prices of $3.15 per Mcf and $2.78 per Mcf, respectively, which was 9% and 16%, respectively, above AECO benchmarks. During the first three quarters of 2012, the Company realized natural gas prices of approximately $2.00 per Mcf, which was in line with AECO benchmarks. In 2013, TORC expects to realize natural gas prices approximately 5% to 10% greater than AECO benchmarks due to the heat content of its natural gas.

(continued)

	Three months ended December 31, 2012	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Average Benchmark Prices:				
Crude oil – WTI *(US$ per Bbl)*	**88.18**	94.06	**94.20**	95.12
Crude oil – Edmonton Par *(CDN$ per Bbl)*	**84.47**	97.86	**86.59**	95.52
Natural gas – AECO Daily Spot *($ per Mcf)*	**2.90**	2.89	**2.16**	3.28
Natural gas – AECO Monthly Spot *($ per Mcf)*	**2.75**	3.12	**2.16**	3.31
Exchange rate – *(CDN$/US$)*	**0.99**	1.02	**1.00**	0.99

Revenues

($ thousands)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Crude oil and NGL	**$ 13,735**	$ 2,981	**$ 31,634**	$ 3,178
Natural gas	**832**	68	**1,077**	191
	$ 14,567	$ 3,049	**$ 32,711**	$ 3,369

Revenues in the three months and year ended December 31, 2012 increased significantly compared to the Corresponding Periods, due to the Company's on-going drilling success throughout 2012 and the addition of 43 days of production added from the acquisition of Vero which closed on November 19, 2012.

Royalties

($ thousands, unless otherwise noted)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Royalties	**$ 1,586**	$ 263	**$ 3,323**	$ 293
Percentage of revenue	**10.9%**	8.6%	**10.2%**	8.7%

The Company receives certain Crown royalty incentives on qualifying wells that meet the Crown's depth and other criteria, which results in reduced Crown royalty rates until certain time and volume thresholds are met. As the Company brings wells on production that meet these criteria, the corporate royalty rate decreases. As the Crown royalty incentives expire for these wells, or the Company drills wells that do not qualify for these incentives, the corporate royalty rate increases.

Operating Expenses

For the three months and year ended December 31, 2012, the Company's operating expenses were $2.8 million ($12.07 per Boe) and $6.0 million ($12.83 per Boe), respectively. For the three months and year ended December 31, 2011, the Company's operating expenses were $0.3 million ($9.27 per Boe) and $0.4 million ($9.36 per Boe), respectively. The increase on a per Boe basis, compared to the Corresponding Periods, largely reflects certain costs associated with increased production activity as well as higher emulsion processing charges, particularly in the Company's southern Alberta and Kaybob properties which are at an earlier stage of development and do not yet have established infrastructure, as compared to the Company's other producing properties.

Transportation Expenses

For the three months and year ended December 31, 2012, the Company's transportation expenses were $1.4 million ($6.20 per Boe) and $3.2 million ($6.75 per Boe), respectively. In the Corresponding Periods, the Company's transportation expenses were $0.2 million ($6.52 per Boe) and $0.2 million ($5.72 per Boe), respectively.

Transportation costs in the quarter and year ended December 31, 2012, particularly crude oil trucking, remained consistent with the previous quarter due to the Company's early stage drilling operations where delivery and transportation infrastructure continues to be established.

Operating Netbacks

($ per Boe, unless otherwise noted)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Average daily production *(Boepd)*	**2,518**	384	**1,285**	119
Crude oil and NGL *($ per Bbl)*	**$ 72.89**	$ 93.18	**$ 77.56**	$ 92.48
Realized hedging gains ($ per Bbl)	**1.24**	-	**0.61**	-
Natural gas *($ per Mcf)*	**$ 3.15**	$ 3.22	**$ 2.78**	$ 3.42
Average price prior to hedging	**$ 62.89**	$ 86.36	**$ 69.53**	$ 77.84
Realized gain on financial derivatives (hedging)	**$ 1.24**	$ -	**$ 0.61**	$ -
Royalties	**(6.84)**	(7.45)	**(7.06)**	(6.77)
Operating	**(12.07)**	(9.27)	**(12.83)**	(9.36)
Transportation	**(6.20)**	(6.52)	**(6.75)**	(5.72)
Operating netback	**$ 39.02**	$ 63.12	**$ 43.50**	$ 55.99
Operating netback (prior to hedging)	**$ 37.78**	$ 63.12	**$ 42.89**	$ 55.99

General and Administrative Expenses

During the three months and year ended December 31, 2012, the Company incurred the following general and administrative expenses ("G&A"):

($ thousands)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Gross general and administrative expenses	**$ 2,067**	$ 1,698	**$ 7,571**	$ 5,767
Recoveries (1)	**(345)**	(376)	**(1,516)**	(641)
Capitalized general and administrative expenses (2)	**(714)**	(518)	**(2,441)**	(2,415)
Total general and administrative	**$ 1,008**	$ 804	**$ 3,614**	$ 2,711
G&A per Boe – ($ per Boe)	**$ 4.35**	$ 22.78	**$ 7.68**	$ 62.62

(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 and year ended December 31, 2012 increased 25% and 33%, respectively, compared to the Corresponding Periods. This increase was due to additional employee compensation and other administrative costs resulting from increased drilling activity and production operations compared to the Corresponding Periods.

Transaction Related Costs

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 and year ended December 31, 2012, these totaled $3.8 million and are comprised of the costs related to the Arrangement with Vero.

Finance Costs (Income)

($ thousands)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Interest income	**$ (187)**	$ (306)	**$ (540)**	$ (851)
Financing charges	**176**	-	**201**	42
	(11)	(306)	**(339)**	(809)
Accretion on decommissioning obligations	**38**	2	**59**	2
	$ 27	$ (304)	**$ (280)**	$ (807)

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

From time-to-time, and depending on the Company's short-term cash requirements, TORC invests excess cash on hand in interest bearing bankers acceptances and in bank accounts that generate interest income.

In the fourth quarter of 2012, the Company earned 39% less interest income compared to the fourth quarter of 2011. This is largely due to a higher average cash balance in the fourth quarter of 2011 compared to the fourth quarter of 2012. For the same reason, in the year ended December 31, 2012, the Company earned 37% less interest income compared to the year ended December 31, 2011.

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 December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Stock-based compensation expenses	**$ 850**	$ 1,206	**$ 3,975**	$ 3,106
Capitalized stock-based compensation expenses	**(468)**	(663)	**(2,186)**	(1,708)
	$ 382	$ 543	**$ 1,789**	$ 1,398

For the three months ended December 31, 2012, stock-based compensation expenses, net of capitalized amounts, decreased 30% compared to the same period in 2011, largely as a result of vested Stock Options and Incentive Shares that are no longer being expensed.

For the year ended December 31, 2012, stock-based compensation expenses, net of capitalized amounts, increased 28% compared to the same period in 2011. The Company incurred stock-based compensation expenses in each of the twelve months ended December 31, 2012, compared to approximately five months in the Corresponding Period when stock-based compensation was first introduced in April 2011.

Depletion and Depreciation Expenses

For the three months and year ended December 31, 2012, the Company's depletion and depreciation expenses totaled $6.9 million ($29.65 per Boe) and $18.4 million ($39.05 per Boe), respectively. In the Corresponding Periods, the Company's depletion and depreciation expenses were $1.5 million ($42.14 per Boe) and $2.0 million ($45.73 per Boe), respectively.

Taxes

For the three months and year ended December 31, 2012, the Company recorded a deferred income tax recovery of $3.6 million and $2.3 million, respectively (Corresponding Periods: deferred income tax expenses of $1.7 million and $1.8 million, respectively).

Net Loss

The net loss for the three months and year ended December 31, 2012 was $13.7 million and $18.8 million, respectively (Corresponding Periods: $2.0 million and $4.7 million, respectively).

Basic and diluted net loss per share for the three months and year ended December 31, 2012 was $0.09 and $0.16, respectively (Corresponding Periods: $0.02 and $0.06, respectively).

Funds Flow from Operations

Funds flow from operations for the three months and year ended December 31, 2012 was $4.2 million and $13.4 million, respectively (Corresponding Periods: funds outflow from operations of $1.7 million and $0.5 million, respectively).

Basic and diluted funds flow from operations per share for the three months and year ended December 31, 2012 was $0.03 and $0.12, respectively (Corresponding Periods: $0.02 and $nil, respectively).

Net Cash from (used in) Operating Activities

Net cash from operating activities for the three months and year ended December 31, 2012 was $3.1 million and $8.5 million, respectively. In the Corresponding Periods, net cash from (used in) operating activities were $(0.4) million and $(0.6) million, respectively.

Basic and diluted net cash from (used in) operating activities per share for the three months and year ended December 31, 2012 was $0.02 and $0.07, respectively (Corresponding Periods: $nil and $(0.01), respectively).

Capital Expenditures

Capital expenditures are summarized as follows:

($ thousands)	**Three months ended December 31, 2012**	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Cash:				
Land retention costs	**$ 62**	$ (13)	**$ 403**	$ 509
Geological and geophysical	**2**	(83)	**1,302**	1,616
Drilling and completions	**32,169**	33,875	**110,231**	63,759
Equipment and facilities	**3,959**	4,589	**11,864**	6,327
Administrative assets	**43**	6	**56**	322
Capitalized general and administrative expenses	**714**	518	**2,441**	2,415
Exploration and development expenditures	**36,949**	38,892	**126,297**	74,948
Property acquisitions, net of dispositions	**2,417**	(1,927)	**6,646**	135,248
Total capital expenditures - cash items	**$ 39,366**	$ 36,965	**$ 132,943**	$ 210,196
Non-cash:				
Corporate acquisition [(1)]	**164,726**	-	**164,726**	-
Property acquisition [(2)]	**-**	-	**-**	22,713
Decommissioning obligations	**665**	778	**3,227**	874
Exploration and evaluation	**(13,306)**	-	**(13,306)**	-
Capitalized stock-based compensation	**468**	663	**2,186**	1,708
Total capital expenditures	**$ 191,919**	$ 38,406	**$ 289,776**	$ 235,491

(1) For the three months and year ended December 31, 2012, $164.7 million represents the amount allocated to property, plant and equipment for the acquisition of Vero. This differs from the purchase price where there are allocations made to other assets and liabilities, including derivative contracts, decommissioning obligations and deferred tax liabilities. Excluding these items, TORC paid total consideration, including assumed net working capital, of $159.1 million.

(2) For the year ended December 31, 2011, includes consideration paid in February 2011 of 6,586,752 Common Shares at a deemed price of $3.45 per share.

(continued)

During the fourth quarter of 2012, the Company drilled nine (6.8 net) wells. In the year ended December 31, 2012, the Company drilled 28 (21.6 net) wells. The Company also continued to add to its land base in the year ended December 31, 2012, although significantly less compared to the year ended December 31, 2011 as the Company focused on its delineation drilling phase.

During the fourth quarter of 2012, the Company expensed $13.3 million of exploration and evaluation costs related to projects that were deemed uneconomic and that the Company no longer intends to pursue.

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

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

Share Capital

	Three months ended December 31, 2012	Three months ended December 31, 2011	**Year ended December 31, 2012**	Year ended December 31, 2011
Weighted average outstanding common shares:				
Basic	**145,633,890**	105,646,553	**115,802,518**	83,375,451
Diluted	**145,633,890**	105,646,553	**115,802,518**	83,375,451
Outstanding Securities:				
Common shares	**192,927,615**	105,646,553	**192,927,615**	105,646,553
Stock options	**7,904,017**	5,479,434	**7,904,017**	5,479,434
Incentive shares	**879,702**	782,739	**879,702**	782,739
Warrants	**17,400,000**	17,400,000	**17,400,000**	17,400,000

The corporate acquisition of Vero has been accounted for as a reverse takeover. As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of 0.87 (the Arrangement exchange ratio), in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

The Company is authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares and an unlimited number of preferred shares.

As at March 11, 2013, the Company had 192,933,995 common shares issued and outstanding, 8,332,497 stock options outstanding, 934,572 incentive shares outstanding and 17,400,000 warrants outstanding.

Liquidity and Capital Resources

At December 31, 2012, the Company had available a $100.0 million syndicated reserves-based revolving credit facility. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent on the Company's debt to trailing cash flow ratio. The banker's acceptances bear interest at the applicable banker's acceptance rate plus a stamping fee, based on the Company's debt to trailing cash flow ratio.

The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the bank and was confirmed on November 19, 2012. The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The Company's next credit facility evaluation is due to be completed by April 30, 2013.

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

As at December 31, 2012, and the date of this MD&A, the credit facility was undrawn.

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 meteorological 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 December 31, 2012, the Company had the following financial derivatives outstanding. All of these instruments were obtained with the acquisition of Vero in November 2012.

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Oct 1, 2012 to Mar 31, 2013	Oil swap	500	$95.05	WTI
Apr 1, 2012 to Mar 31, 2013	Costless Collar	250	$90.00 - $110.00	WTI
Jan 1, 2013 to Mar 31, 2013	Costless Collar	250	$95.00 - $107.15	WTI
Jan 1, 2013 to Dec 31, 2013	Costless Collar	250	$95.00 - $106.00	WTI
Jan 1, 2013 to Dec 31, 2013	Costless Collar	250	$95.00 - $106.00	WTI
Apr 1, 2013 to Dec 31, 2013	Costless Collar	500	$90.00 - $100.00	WTI

At December 31, 2012, the mark-to-market value of these hedges totaled $1.5 million.

Contractual Obligations

The following table lists the Company's contractual obligations as at December 31, 2012 and the expected timing of these obligations:

($ thousands)	Total	Less than 1 year	1-2 years	3-5 years	Thereafter
Trade and other payables	$ 65,470	$ 65,470	$ -	$ -	$ -
Operating leases (office rent)	3,869	1,080	1,080	1,709	-
Farm-in transactions	500	500	-	-	-
Flow-through obligation	32,442	32,442	-	-	-
Total	$ 102,281	$ 99,492	$ 1,080	$ 1,709	$ -

Flow-through shares

In November 2012, the Company issued 11,231,700 flow-through shares at a price of $3.56 per share for gross proceeds of $40.0 million. As a result, the Company must incur qualifying resource expenditures amounting to $40.0 million before December 31, 2013. The qualifying expenditures were renounced to shareholders as at December 31, 2012. The obligation remaining for this flow-through share issue was $32.4 million as at December 31, 2012.

Operating commitments

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

Working capital

During the land accumulation and initial operations stages, the Company is dependent on cash on hand, future financings from equity issues and/or debt. As the Company actively engages in drilling operations, positive cashflow becomes increasingly material to the Company's funding plans. The Company may create a negative working capital position. The Company will prudently manage its borrowings in relation to its credit capacity.

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.

(continued)

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

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

Farm-in transactions

The Company has entered into a number of farm-in agreements with third parties to earn interests in additional prospective acreage. At December 31, 2012, the Company's required future commitments are estimated to be $0.5 million, which are expected to be completed by the end of 2013 and form part of the Company's on-going capital program.

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.

During the start-up and land accumulation phase, 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.

During its operational phases, 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.

(continued)

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 calculation of stock-based compensation includes estimates for interest rates, forfeiture rates, stock price volatility and the expected timing of exercise of stock options. These estimates can impact net income and contributed surplus.

Financial derivatives

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

Deferred income taxes

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

Environmental Regulation and Risk

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

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

Future Accounting Pronouncements

The following accounting standards and amendments, issued by the International Accounting Standards Board ("IASB"), become effective January 1, 2013 (except as otherwise noted). The impact of these accounting standards and amendments is not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

IFRS 9 "Financial Instruments"

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes two categories for measuring financial assets and liabilities: i) amortized cost, and ii) fair value. These two categories eliminate the existing IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables. IFRS 9 is not effective until January 1, 2015.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 establishes a new approach to determining which investees should be consolidated. It was issued by the IASB in May 2011, and will replace IAS 27 *Consolidated and Separate Financial Statements.* IFRS 10 uses control as the single determination for consolidation of an entity.

IFRS 11 "Joint Arrangements"

IFRS 11 will replace IAS 31 *Interest in Joint Ventures* and is a new standard that defines joint operations and joint ventures and how each will be accounted. IFRS 11 requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 establishes the required disclosures for interests in joint arrangements and subsidiaries. The new disclosures provide information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in joint arrangements and subsidiaries.

IFRS 13 "Fair Value Measurement"

IFRS 13 replaces the fair value measurement guidance currently dispersed across various IFRS standards with a single definition of fair value measurement when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather, describes how to measure fair value under IFRS when it is required or permitted.

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. Canadian Securities Regulators' National Instrument 52-109 provides for reduced certification requirements in the first reporting period following a reverse takeover reflecting the inherent limitations of management to design, document and evaluate ICFR and DC&P within a short time frame. For the year ended December 31, 2012, there is no regulatory requirement for management to provide an opinion on the design or operating effectiveness of ICFR or DC&P controls.

In order to exercise due diligence regarding the complete, accurate and fair presentation of annual filings, the Chief Executive Officer and Chief Financial Officer have adopted a risk-based approach to internal control design. Management has identified high-risk areas and designed ICFR and DC&P for the year ended December 31, 2012.

Additional Information

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

Summary of Quarterly and Annual Results

(in $000's of dollars, except per share amounts)	**Q4 2012** **(1)**	Q3 2012 (1)	Q2 2012 (1)	Q1 2012 (1)	Q4 2011 (1)	Q3 2011 (1)	Q2 2011 (1)	Q1 2011 (1)
Petroleum and natural gas sales	**14,567**	6,237	5,350	6,557	3,049	220	100	-
Net loss	**(13,677)**	(1,659)	(840)	(2,591)	(1,982)	(974)	(1,248)	(463)
Per share – basic (2)	**(0.09)**	(0.02)	(0.02)	(0.03)	(0.02)	(0.01)	(0.02)	(0.01)
Per share – diluted (2)	**(0.09)**	(0.02)	(0.02)	(0.03)	(0.02)	(0.01)	(0.02)	(0.01)
Funds flow from (used in) operations (3)	**4,241**	2,932	2,428	3,794	1,731	(336)	(504)	(370)
Per share – basic (2)	**0.03**	0.03	0.02	0.04	0.02	-	(0.01)	(0.01)
Per share – diluted (2)	**0.03**	0.03	0.02	0.04	0.02	-	(0.01)	(0.01)
Net cash from (used in) operating activities (4)	**3,076**	(172)	2,550	3,060	(396)	422	86	(712)
Per share – basic (2)	**0.02**	-	0.02	0.03	-	-	-	(0.01)
Per share – diluted (2)	**0.02**	-	0.02	0.03	-	-	-	(0.01)
Total assets	**627,457**	361,755	356,919	376,184	368,462	349,853	301,445	180,358
Net working capital (5)	**35,077**	(3,392)	13,396	35,089	81,138	116,305	127,261	71,732

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

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

(2) *The corporate acquisition of Vero has been accounted for as a reverse takeover. As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of 0.87 (the Arrangement exchange ratio), in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.*

(3) *Funds flow from operations should not be considered an alternative to, or more meaningful than, net cash 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 represents net cash used in operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. TORC also presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.*

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

(5) *Net working capital is calculated as current assets (excluding financial derivative asset) less current liabilities and non-current deferred lease incentives.*

Since its incorporation on March 23, 2010, the Company has accumulated light oil resource prone acreage, and has begun the delineation of its resource base. In November 2012, the Company acquired Vero and completed an equity financing. These events have resulted in an increase in total assets, comprised largely of land, wells and cash. As the Company commenced production from its resource base, petroleum and natural gas sales also increased, influenced by commodity prices and commodity mix.

TORC Oil & Gas Ltd

Financial Statements

As at and for the years ended

December 31, 2012 and 2011

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying financial statements of TORC Oil & Gas Ltd. were prepared by and are the responsibility of management. They have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain assessments that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. The financial information contained elsewhere in Management's Discussion and Analysis has been reviewed to ensure consistency with the financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's financial records, that procedures and policies are adhered to, that the financial statements realistically report the Company's operating and financial results, and that assets are safeguarded from unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2012.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements in accordance with Canadian generally accepted auditing standards and to provide an independent auditors' report thereon.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of three unrelated and independent members of the Board of Directors and meets quarterly with the financial officers of the Company. KPMG LLP has access to the Audit Committee to review the planning and scope of testing and to discuss the results of their audit work. On the recommendation of the Audit Committee, the accompanying financial statements have been approved by the Board of Directors.

(signed)

Brett Herman
President and
Chief Executive Officer

(signed)

Jason Zabinsky
Vice President, Finance and
Chief Financial Officer

Calgary, Canada
March 11, 2013

AUDITORS' REPORT TO THE SHAREHOLDERS

To the shareholders of TORC Oil & Gas Ltd.

We have audited the accompanying financial statements of TORC Oil & Gas Ltd., which comprise the statements of financial position as at December 31, 2012 and December 31, 2011, the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TORC Oil & Gas Ltd. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

KPMG LLP
Chartered Accountants

Calgary, Canada
March 11, 2013

TORC Oil & Gas Ltd.

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

	Note	**As at December 31, 2012**	As at December 31, 2011
Assets			
Cash and cash equivalents		**$ 79,715**	$ 110,747
Trade and other receivables	6	**19,096**	4,062
Deposits and prepaid expenses		**2,369**	305
Financial derivative asset	19	**1,526**	-
Total current assets		**102,706**	115,114
Exploration and evaluation assets	11	**151,111**	120,708
Property, plant and equipment	12	**373,640**	132,640
Total non-current assets		**524,751**	253,348
Total assets		**$ 627,457**	$ 368,462
Liabilities			
Trade and other payables		**$ 65,470**	$ 33,166
Deferred lease incentives	20	**177**	177
Total current liabilities		**65,647**	33,343
Deferred premium on flow-through shares	20	**5,233**	3,733
Deferred lease incentives	20	**456**	633
Decommissioning obligations	13	**11,408**	877
Deferred tax liability	14	**3,709**	1,958
Total non-current liabilities		**20,806**	7,201
Total liabilities		**$ 86,453**	$ 40,544
Equity			
Share capital	15	**$ 558,630**	$ 329,836
Contributed surplus		**6,165**	3,106
Deficit		**(23,791)**	(5,024)
Total equity		**541,004**	327,918
Total liabilities and equity		**$ 627,457**	$ 368,462

Commitments (note 20)

See accompanying notes to the financial statements.

Approved on behalf of the Board

(signed)

Raymond Chan
Director

(signed)

Brett Herman
Director

TORC Oil & Gas Ltd.

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

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Revenues			
Petroleum and natural gas sales		**$ 32,711**	$ 3,369
Royalties		**(3,323)**	(293)
		29,388	3,076
Realized gain on financial derivatives		**287**	-
Unrealized loss on financial derivatives	19	**(890)**	-
		28,785	3,076
Expenses			
Operating		**6,033**	405
Transportation		**3,174**	248
General and administrative		**3,614**	2,711
Transaction related costs	7	**3,798**	-
Finance costs (income)	9	**(280)**	(807)
Stock-based compensation	16	**1,789**	1,398
Depletion and depreciation	12	**18,373**	1,979
Exploration and evaluation	11	**13,306**	-
		49,807	5,934
Loss before income taxes		**(21,022)**	(2,858)
Deferred income tax (recovery)	14	**(2,255)**	1,809
Loss and comprehensive loss		**$ (18,767)**	$ (4,667)
Loss per share:			
Basic	17	**$ (0.16)**	$ (0.06)
Diluted	17	**$ (0.16)**	$ (0.06)

See accompanying notes to the financial statements.

TORC Oil & Gas Ltd.

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

	Number of common shares	Number of warrants		Share capital		Contributed surplus		Deficit		Total equity
Balance at December 31, 2010	23,533	17,400	$	25,914	$	44	$	(357)	$	25,601
Issue of common shares	81,133	-		320,679		-		-		320,679
Issued on exercise of stock options	981	-		1,128		-		-		1,128
Transfer of stock-based compensation on exercise of stock options	-	-		44		(44)		-		-
Share issue costs, net of tax of $3.7 million	-	-		(10,968)		-		-		(10,968)
Flow-through share liability	-	-		(6,961)		-		-		(6,961)
Stock-based compensation	-	-		-		3,106		-		3,106
Loss for the year	-	-		-		-		(4,667)		(4,667)
Balance at December 31, 2011	**105,647**	**17,400**	**$**	**329,836**	**$**	**3,106**	**$**	**(5,024)**	**$**	**327,918**
Issue of common shares	38,028	-		120,101		-		-		120,101
Common shares issued for corporate acquisition (note 7)	48,992	-		119,052		-		-		119,052
Issued on vesting of incentive shares	261	-		-		-		-		-
Transfer of stock-based compensation on vesting of incentive shares	-	-		916		(916)		-		-
Share issue costs, net of tax of $1.6 million	-	-		(4,820)		-		-		(4,820)
Flow-through share liability	-	-		(6,455)		-		-		(6,455)
Stock-based compensation	-	-		-		3,975		-		3,975
Loss for the year	-	-		-		-		(18,767)		(18,767)
Balance at December 31, 2012	**192,928**	**17,400**	**$**	**558,630**	**$**	**6,165**	**$**	**(23,791)**	**$**	**541,004**

See accompanying notes to the financial statements.

TORC Oil & Gas Ltd.

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

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from operating activities:			
Loss for the year		$ (18,767)	$ (4,667)
Depletion and depreciation		18,373	1,979
Stock-based compensation		1,789	1,398
Deferred income tax (recovery)		(2,255)	1,809
Accretion on decommissioning obligations	9	59	2
Unrealized gain on financial instruments		890	-
Exploration and evaluation		13,306	-
Settlement of decommissioning obligations	13	(98)	-
Change in non-cash working capital	10	(4,783)	(1,121)
Net cash from (used in) operating activities		8,514	(600)
Cash flows from investing activities:			
Additions to exploration and evaluation assets		(93,514)	(199,820)
Additions to property, plant and equipment		(41,150)	(10,376)
Disposal of exploration and evaluation assets		1,721	-
Change in non-cash working capital	10	15,558	30,397
Net cash used in investing activities		(117,385)	(179,799)
Cash flows from financing activities:			
Proceeds from issue of share capital		120,101	299,095
Share issue costs		(6,427)	(14,625)
Repayment of debt		(36,085)	-
Change in non-cash working capital	10	250	10
Net cash from financing activities		77,839	284,480
Change in cash and cash equivalents		(31,032)	104,081
Cash and cash equivalents, beginning of year		110,747	6,666
Cash and cash equivalents, end of year		$ 79,715	$ 110,747

See accompanying notes to the financial statements.

TORC Oil & Gas Ltd.

Notes to the Financial Statements
As at and for the years ended December 31, 2012 and December 31, 2011
(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 principle place of business is located at Suite 1800, Eighth Avenue Place, 525 - 8th Avenue SW, Calgary, Alberta, Canada T2P 1G1.

2. Basis of preparation

The corporate acquisition of Vero Energy Inc. ("Vero") has been accounted for as a reverse takeover. As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of 0.87 (the Arrangement exchange ratio), in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

Operating expenses in the statement of income and comprehensive income are presented as a combination of function and nature to conform with industry practice. Depletion and depreciation is presented on a separate line by its nature, while operating expenses and general and administrative expenses are presented on a functional basis. Significant expenses such as key management personnel's short-term employee benefits and stock-based compensation are presented by their nature in the notes to the financial statements.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Board of Directors on March 11, 2013.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(d) Use of estimates and judgments

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 amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

(continued)

The Company's assets are aggregated into cash generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these financial statements.

Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101.

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

The Company's estimate of stock-based compensation is dependent upon estimates of historic volatility and forfeiture rates.

The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

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3. Significant accounting policies

The accounting policies set out below have been applied consistently to the years presented in the financial statements by the Company.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income and comprehensive income.

(ii) Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in the statement of income and comprehensive income.

(c) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents including bank overdrafts, trade and other receivables, trade and other payables and loans and borrowings. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

(continued)

Cash and cash equivalents:

Cash and short term deposits on the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of outstanding bank overdrafts.

Other:

Other non-derivative financial instruments, such as loans and borrowings, trade and other receivables and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

<u>Derivative financial instruments</u>

The Company may enter into certain financial derivative contracts (often known as "hedges") in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and foreign exchange rates. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified at fair value through profit and loss and are recorded on the statement of financial position at fair value. Related transaction costs such as trading commissions are recognized in the statement of income and comprehensive income when incurred.

Forward physical delivery and sales contracts of oil and natural gas products are entered into under normal course of business and therefore not recorded at fair value on the statement of financial position. These physical delivery contracts are not considered to be derivative financial instruments or hedges. Settlements on these physical delivery contracts are recognized in oil and natural gas revenue on the statement of income and comprehensive income.

<u>Share capital</u>

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants and share options are recognized as a deduction from equity, net of any tax effects.

(d) Exploration and evaluation assets ("E&E")

Costs incurred prior to the ownership of licenses and rights to drill on properties are expensed in the statement of income and comprehensive income as incurred, if the related licenses and rights are not subsequently acquired.

The costs incurred to acquire licenses and rights to drill, including seismic costs, and the subsequent drilling and completing costs related to these licenses (including employee remuneration, materials and fuel used, rig costs and payments made to contractors) are capitalized as E&E assets until the drilling of the well is complete and the results have been evaluated.

E&E assets are accumulated in cost centers pending the determination of technical feasibility and commercial viability of the drilling project. Technical feasibility and commercial viability is considered to be achieved when proven reserves are determined to exist. Upon determination of proven reserves, the related E&E assets are reclassified to a different long-term asset category, Drilling and Production ("D&P") assets within Property, Plant and Equipment ("PP&E"), where the assets may be subject to depletion expense.

E&E assets are measured at cost less accumulated impairment losses and not subject to depletion expense until after these assets are reclassified to PP&E.

(continued)

As facts and circumstances suggest, E&E assets are tested for impairment. The Company compares the carrying amount of its total E&E assets to the assets' recoverable amount, which, for E&E assets, is generally the fair market value of undeveloped land at the time of impairment testing. In addition, E&E assets related to specific technically feasible and commercially viable cost centers are tested for impairment if and when they are reclassified to PP&E. E&E assets are aggregated with the associated cash generating units for the purposes of impairment testing.

Impairment losses recognized in prior periods are assessed as facts and circumstances suggest to evaluate if those losses have decreased or no longer exist. If those impairment losses have decreased or no longer exist (recovered), they are reversed accordingly. Previously recognized impairment losses may be recovered in future reporting periods due to changes in estimates used to determine the recoverable amount. An impairment loss recovery is recorded only to the extent that the E&E asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Impairment losses and recoveries are recorded in the statement of income and comprehensive income.

(e) Property, plant and equipment ("PP&E")

There are two categories of PP&E: Developed and Producing ("D&P") assets and Other PP&E assets.

D&P assets include capital costs (i) related to drilling projects where the drilling location is already determined to hold proven reserves, (ii) that have been reclassified from E&E assets because proven reserves have been determined, and (iii) incurred to improve an already technically feasible and commercially viable well.

Other PP&E typically includes furniture, fixtures, leasehold improvements and office equipment.

For statement of financial position presentation, both D&P assets and Other PP&E are included in the PP&E category.

(i) Recognition and measurement

PP&E is measured at cost less accumulated depletion and depreciation and accumulated impairment losses. For the purposes of depletion and depreciation, when significant parts of PP&E have different useful lives, they are accounted for separately so that depletion and depreciation rates appropriately reflect useful lives.

Gains and losses on disposal of PP&E, property swaps and farm-outs, including oil and natural gas interests, are determined by comparing the proceeds from disposal of fair value of the asset received or given up, with the carrying amount of the PP&E sold, and are recognized on a net basis in profit or loss.

For the purposes of impairment testing, assets are grouped into the smallest group of assets that generate independent cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. These groups of assets are called cash generating units ("CGU's").

Impairment testing of PP&E is performed as facts and circumstances suggest by comparing the carrying amount of each CGU to each CGU's recoverable amount. The recoverable amount of a CGU is the greater of (i) its value in use, and (ii) its fair value less selling costs. In assessing value in use for D&P assets, the estimated future cash flows from the production of proven and probable reserves are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from proved and probable reserves.

Impairment losses recognized in prior periods are assessed at each reporting date to evaluate if those losses have decreased or no longer exist. If those impairment losses have decreased or no longer exist (recovered), they are reversed accordingly. Previously recognized impairment losses may be recovered in future reporting periods due to changes in estimates used to determine the recoverable amount. An impairment loss recovery is recorded only to the extent that the PP&E carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. Impairment losses and recoveries are recorded in the statement of income and comprehensive income.

(continued)

(ii) Proven and probable reserves

Proven and probable reserves represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. At least annually, reserves are evaluated by independent reserve evaluators.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

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.

(iii) Subsequent costs

Subsequent costs are capital costs incurred to improve an existing D&P asset (such as a well) that is technically feasible and commercially viable. These costs are capitalized as D&P assets only if they increase the future economic benefits of the asset. All other expenditures are expensed in the statement of income and comprehensive income as incurred. These improvement costs include capital costs of further developing proven reserves or enhancing production. The costs of routine maintenance of D&P assets are recognized in the statement of income and comprehensive income as incurred. The carrying value of any replaced or sold component is derecognized.

(iv) Depletion and depreciation

The net carrying value of D&P assets is depleted using the unit-of-production method by calculating the ratio of production in the period to the related proven and probable reserves. The carrying value to be depleted includes estimated future development costs necessary to produce proven and probable reserves. Future development costs are estimated by considering the level of development required to produce the proven and probable reserves and are reviewed by independent reserve engineers at least annually.

For Other PP&E, depreciation is recognized in the statement of income and comprehensive income on a straight-line basis over their estimated useful lives. Finance lease assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Goodwill

The Company records goodwill relating to corporate acquisitions when the purchase price exceeds the fair value of the net identifiable assets and liabilities acquired by the Company. When goodwill is negative, it is recognized immediately in the statement of income and comprehensive income. The goodwill balance is assessed for impairment annually or as events occur that could result in an impairment. Goodwill is measured at cost less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to CGU's that are expected to economically benefit from the business combination from which the goodwill arose. An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income. Impairment losses identified in a CGU are first charged against any goodwill related to that CGU, with any remaining impairment losses charged against E&E or PP&E assets remaining in that CGU. Impairment losses of goodwill cannot be reversed.

(g) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Company's statement of financial position.

Payments made under operating leases are recognized in the statement of income and comprehensive income on a straight-line basis over the term of the lease and not recognized as a liability on the Company's statement of financial position. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Stock-based compensation

The grant date fair value of stock-based compensation, such as stock options granted to employees, is recognized as stock-based compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated at the grant date and is adjusted to reflect the actual number of stock options that vest. The inputs used in the calculation of the fair value of stock-based compensation are estimated on the grant date.

(i) Flow-through shares

The Company may finance a portion of its exploration activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation.

The proceeds from the sale of flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the fair market price of the existing shares and the amount the investor pays for the flow-through shares (given no other differences between the securities). A flow-through share liability is recognized for this difference. On a pro-rata basis, the previously recorded flow-through share liability is reversed and a corresponding deferred tax liability (equal to the Company's effective tax rate multiplied by the flow-through commitment) is recognized as qualifying expenditures are incurred. Any difference between the reversal of the flow-through share liability and corresponding deferred tax liability is recognized as deferred tax expense in the statement of income and comprehensive income.

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(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Examples of provisions include dismantling, decommissioning and site disturbance remediation activities, and anticipated losses from lawsuits. Provision is made for the estimated cost of these activities and capitalized in the relevant asset category.

<u>Decommissioning obligations</u>

Decommissioning obligations (also called asset retirement obligations) are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Any changes to such estimates are applied prospectively. The increase in the provision due to the passage of time, known as accretion, is recognized in the statement of income and comprehensive income as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(k) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters a third party pipeline or facility. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(l) Finance income and costs

Finance costs comprise of interest expense on borrowings, accretion of the discount on decommissioning obligations, and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in the statement of income and comprehensive income, using the effective interest method.

(continued)

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity, such as share issue costs, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share

Basic earnings per share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

4. Future accounting pronouncements

The following accounting standards and amendments, issued by the International Accounting Standards Board ("IASB"), become effective January 1, 2013 (except as otherwise noted). The impact of these accounting standards and amendments is not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

<u>IFRS 9 "Financial Instruments"</u>

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 establishes two categories for measuring financial assets and liabilities: i) amortized cost, and ii) fair value. These two categories eliminate the existing IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables. IFRS 9 is not effective until January 1, 2015.

<u>IFRS 10 "Consolidated Financial Statements"</u>

IFRS 10 establishes a new approach to determining which investees should be consolidated. Issued in May 2011 by the IASB, IFRS 10 will replace IAS 27 Consolidated and Separate Financial Statements. IFRS 10 uses control as the single determination for consolidation of an entity.

<u>IFRS 11 "Joint Arrangements"</u>

IFRS 11 will replace IAS 31 Interest in Joint Ventures and establishes two categories of joint arrangements: i) joint operations, and ii) joint ventures. IFRS 11 further describes the criteria necessary to classify a joint arrangement as either a joint operation or a joint venture. IFRS 11 requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under existing IAS 31, joint ventures may be proportionately consolidated.

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IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 establishes the required disclosures for interests in joint arrangements and subsidiaries. The new disclosures provide information that is intended to assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in joint arrangements and subsidiaries.

IFRS 13 "Fair Value Measurement"

IFRS 13 replaces the fair value measurement guidance currently dispersed across various IFRS standards with a single definition of fair value measurement. IFRS 13 does not change when an entity is required to use fair value, rather, it describes how to measure fair value when it is required or permitted.

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Exploration and evaluation assets, and property, plant and equipment

The fair value of exploration and evaluation assets and property, plant and equipment recognized in a business combination, is based on market value. The market value of E&E assets and PP&E is the estimated amount for which E&E assets and PP&E could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests included in E&E assets and PP&E is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

Cash and cash equivalents, bank overdrafts, trade and other receivables, trade and other payables, and loans and borrowings

The fair value of cash and cash equivalents, bank overdrafts, trade and other receivables, trade and other payables, and loans and borrowings is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2012 and 2011, the fair value of cash and cash equivalents, trade and other receivables and trade and other payables approximated their carrying value due to their short term to maturity.

Derivatives

The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate. The fair value of costless collars is based on option models that use published information with respect to volatility, prices and interest rates. The Company classifies its derivatives as Level 2.

(continued)

Stock-based compensation

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, forfeiture rate and the risk-free interest rate (based on government bonds).

6. Financial risk management

(a) Overview

The Company’s activities expose it to a variety of financial risks such as credit risk, liquidity risk and market risk that arise as a result of its exploration, development, production and financing activities.

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk and the Company’s management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company’s risk management framework. Management has implemented and monitors compliance with risk management policies. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and market conditions.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of the Company’s cash and cash equivalents, trade and other receivables, and financial derivative contract assets represents the maximum credit exposure.

With respect to trade and other receivables, the Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Receivables from petroleum and natural gas marketers are collected on the 25th day of each month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with credit-worthy marketers, as well as to carefully assess the extent of credit granted to these parties.

Joint venture receivables are normally collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risks exist with joint venture partners as disagreements occasionally arise, increasing the risk of non-collection.

The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners. However, the Company does have the ability to withhold production from joint venture partners in the event of non-payment, as well as requiring prepayment (cash calls) for significant expenditures.

The Company does not anticipate any default as it transacts with credit-worthy customers and management does not expect any losses from non-performance by these customers. As such, a provision for doubtful accounts has not been recorded at December 31, 2012 and 2011.

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The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	December 31, 2012	December 31, 2011
Petroleum and natural gas marketing companies	**$ 6,805**	$ 1,793
Joint venture partners	**11,244**	996
Other parties [1]	**760**	1,213
Bank [2]	**287**	60
Total trade and other receivables	**$ 19,096**	$ 4,062

[1] Other parties is comprised of goods and services tax ("GST") receivable from the federal government.

[2] Bank is comprised of commodity derivative contract settlements receivable from the Company's bank.

As at December 31, 2012, the Company’s trade and other receivables are aged as follows:

	December 31, 2012	December 31, 2011
Current (less than 90 days)	**$ 18,114**	$ 4,015
Past due (greater than 90 days)	**982**	47
Total	**$ 19,096**	$ 4,062

(c) Liquidity risk

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of trade and other payables which are all considered due within one year. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities. The Company has had no defaults or breaches on its financial liabilities.

(d) Market risk

Market risk is the risk that changes in market prices relating to currency, commodity prices and interest rates will affect the Company’s net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities. The objective of market risk management is to manage and control market risk exposure within acceptable parameters.

Although the Company generally does not sell or transact in foreign currency, the United States dollar influences the price of petroleum and natural gas sold in Canada. Furthermore, exchange rate fluctuations can affect the fair value and cash flow from derivative contracts. For the years ended December 31, 2012 and 2011, the Company did not enter into any foreign currency derivative contracts.

Commodity prices for crude oil, natural gas liquids and natural gas are also impacted by political events, meteorological conditions and changes in supply and demand. The Company may enter into commodity derivative contracts that provide downside price protection in order to provide some stability of cash flows for capital spending and planning purposes. The Company’s risk management activities are conducted pursuant to its risk management policies approved by the Board of Directors.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rates. The Company’s interest rate risk arises from its floating rate credit facility. As at December 31, 2012, the Company's credit facility was undrawn. For the years ended December 31, 2012 and 2011, the Company did not enter into any interest rate derivative contracts.

(continued)

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

(e) Capital management

The Company's policy is to maintain a strong capital base in order to maintain financial flexibility and to sustain the future development of the business. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The Company considers its capital structure to include working capital, any bank debt and shareholders' equity.

The same as in the prior year, in order to optimize capital and operating efficiency, the Company monitors its working capital. In times of working capital deficiency ("Net Debt"), the Company monitors debt levels based on a ratio of Net Debt to annualized funds flow from operations. The Company defines funds flow from operations as cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations.

7. Corporate acquisition

On September 13, 2012, TORC and Vero jointly announced that they had entered into a plan of arrangement (the "Arrangement") under the Business Corporation's Act (Alberta) to form a new light oil focused company. Under the terms of the Arrangement, each previous TORC (hereinafter "Old TORC") shareholder received 0.87 shares of TORC for each share of Old TORC held and each Vero shareholder exchanged their shares for one share of TORC for each share of Vero held. The Arrangement closed on November 19, 2012. Total consideration paid was $119.1 million through the issuance of 48,992,479 common shares valued at $2.43 per share based on Vero's trading price on November 19, 2012, the date the Arrangement closed.

Transaction costs incurred by the Company totaling $3.8 million related to this Arrangement were expensed in the statement of loss and comprehensive loss.

The Company believes this Arrangement complements TORC's existing petroleum and natural gas assets, provides a solid base of lower risk development opportunities, and accelerates TORC's production growth phase.

The Old TORC shareholders held 75% of the outstanding shares of the new combined entity. As well, the management team and board of directors of Old TORC continued their roles into TORC. Accordingly, the transaction is accounted for as a reverse takeover whereby Old TORC is deemed to be the acquirer of Vero, using the acquisition method of accounting, with the results of Vero's operations included in the Company's financial and operating results beginning November 19, 2012.

Consideration paid		
48,992,479 common shares issued	$	119,052

Net assets acquired, at estimated fair value		
Property, plant and equipment	$	164,726
Bank indebtedness		(36,085)
Working capital deficiency		(4,004)
Derivative contracts		2,416
Decommissioning obligations		(7,345)
Deferred tax liability		(656)
	$	119,052

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.

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Included in the statement of loss and comprehensive loss for the year ended December 31, 2012 are the following amounts relating to Vero from November 19, 2012 to December 31, 2012:

Petroleum and natural gas sales	$	5,713
Net income and comprehensive income	$	3,343

If the Arrangement had occurred on January 1, 2012, the pro forma results of petroleum and natural gas sales and net income (loss) and comprehensive income (loss) for the two combined entities for the year ended December 31, 2012 would have been as follows:

Year ended December 31, 2012		As stated		Vero Jan 1 to Nov 18, 2012		(Unaudited)
Petroleum and natural gas sales	$	32,711	$	50,078	$	82,789
Net income (loss) and comprehensive income (loss)	$	(18,767)		3,363	$	(15,404)

8. Key management personnel compensation

		Year ended December 31, 2012		Year ended December 31, 2011
Remuneration and short-term benefits	**$**	**1,640**	$	1,415
Stock-based compensation		**2,128**		1,808
		3,768		3,223
Capitalized portion of total compensation		**(2,072)**		(1,773)
	$	**1,696**	$	1,450

Key management personnel includes the officers and directors of the Company.

Short-term employee benefits and stock-based compensation include both the capitalized and non-capitalized portion of these expenditures. Stock-based compensation reflects amounts amortized during the respective periods.

9. Finance costs (income)

		Year ended December 31, 2012		Year ended December 31, 2011
Interest income	**$**	**(540)**	$	(851)
Financing charges		**201**		42
		(339)		(809)
Accretion on decommissioning obligations		**59**		2
	$	**(280)**	$	(807)

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10. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2012	Year ended December 31, 2011
Source/(use) of cash:		
Trade and other receivables	**$ (15,034)**	$ (4,037)
Deposits and prepaid expenses	**(2,064)**	(165)
Trade and other payables	**32,304**	32,678
Deferred lease incentives	**(177)**	810
Non-cash working capital acquired (note 7)	**(4,004)**	-
	$ 11,025	$ 29,286
Related to operating activities	**$ (4,783)**	$ (1,121)
Related to investing activities	**15,558**	30,397
Related to financing activities	**250**	10
	$ 11,025	$ 29,286

The following table summarizes interest and taxes paid/(received):

	Year ended December 31, 2012	Year ended December 31, 2011
Interest paid/(received)	**$ (553)**	$ (850)
Taxes paid	**-**	-
	$ (553)	$ (850)

Cash and cash equivalents at December 31, 2012 and December 31, 2011 is cash in bank. There are no short-term investments.

11. Exploration and evaluation assets

Balance at December 31, 2010	$ 19,836
Property acquisitions	158,454
Property dispositions	(433)
Capital expenditures	66,279
Transferred to property, plant and equipment	(123,428)
Balance at December 31, 2011	$ 120,708
Property acquisitions	5,496
Property dispositions	(1,721)
Capital expenditures	90,205
Exploration and evaluation assets expensed, previously capitalized	(13,306)
Transferred to property, plant and equipment	(50,271)
Balance at December 31, 2012	**$ 151,111**

Exploration and evaluation assets ("E&E assets") consist of the Company's exploration projects, principally undeveloped land, 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 year.

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For the year ended December 31, 2012, the Company has capitalized $0.2 million of general and administrative expenses and $0.3 million of stock-based compensation, which are directly attributable to the acquisition or exploration activities of the Company (for the year ended December 31, 2011: $1.0 million and $0.8 million, respectively).

At December 31, 2012, the Company expensed $13.3 million of exploration and evaluation costs related to projects that were deemed uneconomic and that the Company no longer intended to pursue. The remainder of the Company's exploration and evaluation assets were not impaired.

12. Property, plant and equipment

Cost:		
Balance at December 31, 2010		-
Capital expenditures		10,376
Change in decommissioning obligations		815
Transferred from exploration and evaluation assets		123,428
Balance at December 31, 2011		134,619
Property acquisitions		4,289
Capital expenditures		38,279
Corporate acquisition (note 7)		164,726
Change in decommissioning obligations		1,808
Transferred from exploration and evaluation assets		50,271
Balance at December 31, 2012	**$**	**393,992**
Accumulated depletion and depreciation:		
Balance at December 31, 2010		-
Depletion and depreciation for the year		1,979
Balance at December 31, 2011		1,979
Depletion and depreciation for the year		18,373
Balance at December 31, 2012	**$**	**20,352**
Net amount:		
As at December 31, 2011	$	132,640
As at December 31, 2012	**$**	**373,640**

Included in the net amount of property, plant and equipment at December 31, 2012 is office equipment of $0.2 million, net of depreciation of $0.1 million (December 31, 2011: $0.3 million, net of depreciation of $0.07 million).

At December 31, 2012, the Company had $117.8 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land. Estimated future development costs of $199.6 million were included in the depletion calculation.

For the year ended December 31, 2012, the Company has capitalized $2.2 million of general and administrative expenses and $1.9 million of stock-based compensation, which are directly attributable to the acquisition or exploration activities of the Company (for the year ended December 31, 2011: $1.4 million and $0.9 million, respectively).

Based on the facts and circumstances in place at December 31, 2012, there was no impairment of the Company's property, plant and equipment.

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13. Decommissioning obligations

	Year ended December 31, 2012	Year ended December 31, 2011
Balance, beginning of year	**$ 877**	$ -
Obligations incurred	**1,808**	804
Obligations acquired	**8,762**	60
Obligations settled	**(98)**	-
Change in discount rate	**-**	11
Accretion	**59**	2
Balance, end of year	**$ 11,408**	$ 877

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 $15.3 million as at December 31, 2012 (at December 31, 2011: $0.9 million) to be incurred over the next 25 years. For the year ended December 31, 2012, the Company's risk-free rate of 2.4 percent and an inflation rate of 2.0 percent per annum were used to calculate the net present value of the decommissioning obligations (year ended December 31, 2011: risk-free rate of 2.4 percent and inflation rate of 2.0 percent per annum). Actual costs may differ from estimated costs due to changes in laws and regulations, timing of costs, changes in technology and market conditions.

14. Taxes

<u>Tax expense/(recovery)</u>

The combined provision for taxes in the statement of loss and comprehensive loss reflects an effective tax rate which differs from the expected statutory rate. The reasons for the difference are as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Loss before taxes	**$ (21,022)**	$ (2,858)
Statutory income tax rate	**25.0%**	26.5%
Expected income tax (recovery)	**(5,256)**	(757)
Add (deduct):		
Non-deductible stock-based compensation	**449**	370
Flow-through share liability	**2,539**	2,164
Rate adjustments	**-**	23
Other non-deductible items	**13**	9
Other	**-**	-
Deferred income tax (recovery)	**$ (2,255)**	$ 1,809

As a result of the Federal statutory income tax rate decreasing from 16.5% in 2011 to 15.0% in 2012, the combined Federal and Provincial statutory income tax rate decreased from 26.5% in 2011 to 25.0% in 2012.

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Deferred tax liability/(asset)

The components of the deferred tax liability/(asset) are as follows:

	As at December 31, 2012	As at December 31, 2011
E&E and PP&E	**$ 39,762**	$ 14,112
Decommissioning obligations	**(2,852)**	(219)
Loss carryforwards	**(29,486)**	(8,948)
Financial derivative asset	**381**	-
Deferred lease incentives	**(158)**	-
Share issue costs	**(3,938)**	(2,987)
	$ 3,709	$ 1,958

The following table summarizes the continuity of the deferred tax liability/(asset):

	As at Dec 31, 2010	Recognized in profit or loss	Recognized in equity	Flow-through share premium	As at Dec 31, 2011
E&E and PP&E	$ -	$ 10,185	$ -	$ 3,927	$ 14,112
Decommissioning obligations	-	$ (219)	$ -	$ -	(219)
Loss carryforwards	(102)	(8,157)	(689)	-	(8,948)
Share issue costs	(20)	-	(2,967)	-	(2,987)
	$ (122)	$ 1,809	$ (3,656)	$ 3,927	$ 1,958

	As at Dec 31, 2011	Recognized in profit or loss	Recognized in equity	Corporate acquisition (note 7)	Flow-through share premium	As at Dec 31, 2012
E&E and PP&E	$ 14,112	$ 11,641	$ -	$ 9,052	$ 4,957	$ 39,762
Decommissioning obligations	(219)	(797)	-	(1,836)	-	(2,852)
Loss carryforwards	(8,948)	(13,819)	-	(6,719)	-	(29,486)
Financial derivative asset	-	(223)	-	604	-	381
Deferred lease incentives	-	(158)	-	-	-	(158)
Share issue costs	(2,987)	1,101	(1,607)	(445)	-	(3,938)
	1,958	(2,255)	(1,607)	656	4,957	3,709

As at December 31, 2012, the Company has tax deductions of approximately $480 million (2011: $227 million) available to shelter future taxable income, as follows:

	As at December 31, 2012	As at December 31, 2011
CEE	**$ 84,330**	$ 13,643
CDE	**109,931**	19,155
COGPE	**133,220**	140,631
UCC	**18,356**	5,783
20(1)(e)	**15,753**	11,949
Loss carry forwards	**117,945**	35,786
	$ 479,535	$ 226,947

As further described in note 20, at December 31, 2012, the Company has an obligation to incur $32.4 million of expenditures that qualify as flow-through share costs by December 31, 2013.

15. Share capital

The corporate acquisition of Vero has been accounted for as a reverse takeover. As a result, the number of outstanding common shares, stock options, incentive shares and warrants of comparative periods have been reduced by a factor of 0.87 (the Arrangement exchange ratio), in order for the comparative common share, stock options, incentive shares, warrants, per share and per diluted share amounts to be equivalent.

Share capital - authorized

At December 31, 2012, the Company was authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares and an unlimited number of preferred shares. The Company has not issued any Class B non-voting common shares nor any preferred shares.

Share capital - issued and outstanding

On January 6, 2011, stock options granted in December 2010 were exercised resulting in the issuance of 981,221 Common Shares for $1.15 per Common Share for gross proceeds of $1.1 million.

On January 6, 2011, the Company completed a private placement equity financing by issuing 3,480,000 Common Shares at $1.72 per Common Share for gross proceeds of $6.0 million, before share issue costs.

On February 3, 2011, the Company completed a private placement equity financing by issuing 36,308,580 Common Shares at $3.45 per Common Share for gross proceeds of $125.2 million, before share issue costs.

On February 18, 2011, as part of the consideration paid to acquire exploration and evaluation assets, the Company issued 6,586,752 Common Shares valued at a deemed price of $3.45 per share.

On June 14, 2011, the Company completed a private placement equity financing by issuing 27,187,500 Common Shares at $4.60 per Common Share for gross proceeds of $125.0 million, before share issue costs.

On September 29, 2011, the Company completed a private placement equity financing by issuing 7,569,870 Common Shares on a flow-through basis at $5.52 per Common Share for gross proceeds of $41.8 million, before share issue costs.

On November 19, 2012, the Company completed an equity financing by issuing 26,796,000 Common Shares at $3.00 per Common Share for gross proceeds of $80.1 million, before share issue costs.

On November 19, 2012, the Company completed an equity financing by issuing 11,231,700 Common Shares on a flow-through basis at $3.56 per Common Share for gross proceeds of $40.0 million, before share issue costs.

On November 19, 2012, the Company issued 48,992,479 Common Shares valued at a deemed price of $2.43 per share as consideration for the Arrangement with Vero.

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Warrants

On December 17, 2010, the Company closed a private placement (the "Private Placement") to insiders and service providers whereby 4.4 million units ("Units") were issued at $4.60 per Unit, for gross proceeds of $20.0 million. Each Unit is comprised of 2.61 common shares, 0.87 common shares issued on a flow-through basis (the "Flow-through Shares") and 3.48 common share purchase warrants ("Warrants"). Each Warrant entitles the holder to acquire one common share at a price of $1.44, subject to the following conditions:

- one-third of the Warrants may be exercised after the Company's stock price (the "Stock Price") exceeds $2.30;
- one-third of the Warrants may be exercised after the Company's Stock Price exceeds $2.87;
- one-third of the Warrants may be exercised after the Company's Stock Price exceeds $3.45; 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.

At December 31, 2012, 5.8 million of the Warrants were exercisable. The Warrants expire on December 17, 2015, which is five years from the date of grant.

16. Stock-based compensation

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

The corporate acquisition of Vero Energy Inc. described in note 7 has been accounted for as a reverse takeover. As a result, the number of Stock Options and Incentive Shares related to periods before November 19, 2012 have been reduced by a factor of 0.87 (the Arrangement exchange ratio), and the corresponding Stock Option exercise prices have been increased by a factor of 0.87, in order for comparative amounts to be equivalent.

The following table summarizes Stock Option activity:

(thousands, except exercise prices)	Number of Stock Options		Weighted average exercise price
Balance at December 31, 2010	981	$	1.15
Granted	5,479		3.52
Exercised	(981)		1.15
Balance at December 31, 2011	5,479	$	3.52
Granted	2,474		3.00
Forfeited	(49)		3.45
Balance at December 31, 2012	**7,904**	**$**	**3.35**
Exercisable at December 31, 2012	**1,826**	**$**	**3.51**

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The following table summarizes Stock Options outstanding and exercisable at December 31, 2012:

(thousands, unless otherwise noted)	Number outstanding	Number exercisable	Weighted average remaining term (years)
Exercise price:			
$2.33 to $3.00	2,339	-	4.7
$3.45	5,113	1,720	3.3
$4.60	452	106	3.8
$2.33 to $4.60	7,904	1,826	3.8

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

	Year ended December 31, 2012	Year ended December 31, 2011
Risk free interest rate	**1.7%**	1.4%
Expected life (years)	**3.9**	3.0
Expected volatility (%)	**40.0%**	40.0%
Forfeiture rate (%)	**0.0%**	0.0%
Weighted average fair value of options	**$ 3.06**	$ 3.51

The following table summarizes Incentive Share activity:

(thousands)	Number of Incentive Shares
Balance at December 31, 2010	-
Granted	783
Balance at December 31, 2011	783
Granted	363
Forfeited	(5)
Common shares issued upon vesting	(261)
Balance at December 31, 2012	**880**
Convertible into Common Shares at December 31, 2012	**-**

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. For the year ended December 31, 2012, the weighted average fair value of incentive shares granted was $2.98 per incentive share (year ended December 31, 2011: $3.51 per incentive share).

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17. Earnings per share

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

For the period ended December 31, 2012, the diluted number of shares is equivalent to the basic number of shares due to 7,904,017 stock options, 879,702 incentive shares and 17,400,000 warrants, all of which are outstanding and antidilutive. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

	Year ended December 31, 2012	Year ended December 31, 2011
Loss for the year	**$ (18,767)**	$ (4,667)
Weighted average number of Common Shares	**115,802,518**	83,375,451
Basic and diluted loss per Common Share	**$ (0.16)**	$ (0.06)

18. Credit facility

At December 31, 2012, the Company had available a $100.0 million syndicated reserves-based revolving credit facility. The credit facility provides that advances may be made by way of direct advances, banker's acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank’s prime lending rate plus an applicable margin for Canadian dollar advances and at the bank’s U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent on the Company’s debt to trailing cash flow ratio. The banker’s acceptances bear interest at the applicable banker’s acceptance rate plus a stamping fee, based on the Company’s debt to trailing cash flow ratio.

The credit facility is secured by a fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the bank and was confirmed on November 19, 2012. The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The Company's next credit facility evaluation is due to be completed by April 30, 2013.

As at December 31, 2012, the credit facility remained undrawn.

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

19. Financial derivatives

As part of the Arrangement with Vero, TORC assumed commodity contracts that resulted in a realized gain of $0.3 million between November 19, 2012 and December 31, 2012. During that period, a 10% decrease in the WTI price would have resulted in an additional $0.5 million realized net gain on financial derivatives.

The following table presents a reconciliation of the change in the unrealized amounts for the year ended December 31, 2012:

		Fair value
Balance at December 31, 2011	$	-
Additions (note 7)		2,416
Unrealized loss on financial derivatives		(890)
Balance at December 31, 2012	$	1,526

Commodity contracts outstanding as at December 31, 2012:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Oct 1, 2012 to Mar 31, 2013	Oil swap	500	$95.05	WTI
Apr 1, 2012 to Mar 31, 2013	Costless Collar	250	$90.00 - $110.00	WTI
Jan 1, 2013 to Mar 31, 2013	Costless Collar	250	$95.00 - $107.15	WTI
Jan 1, 2013 to Dec 31, 2013	Costless Collar	250	$95.00 - $106.00	WTI
Jan 1, 2013 to Dec 31, 2013	Costless Collar	250	$95.00 - $106.00	WTI
Apr 1, 2013 to Dec 31, 2013	Costless Collar	500	$90.00 - $100.00	WTI

20. Commitments

Flow-through shares issued in September 2011

In September 2011, the Company issued 7,569,870 flow-through shares at a price of $5.52 per share for gross proceeds of $41.8 million. As a result, the Company must incur qualifying resource expenditures amounting to $41.8 million before December 31, 2012. The qualifying expenditures were renounced to shareholders as at December 31, 2011. As at December 31, 2012, all qualifying resource expenditures were incurred and as a result, there is no obligation remaining for this flow-through share issue.

A flow-through share liability of $7.0 million was recorded which reflected the fair value of the liability associated with these shares at that date. This flow-through share liability was reduced on a pro-rata basis as the Company incurred qualifying expenditures. As at December 31, 2012, there was no remaining flow-through share liability as all required expenditures had been incurred.

Flow-through shares issued in November 2012

In November 2012, the Company issued 11,231,700 flow-through shares at a price of $3.56 per share for gross proceeds of $40.0 million. As a result, the Company must incur qualifying resource expenditures amounting to $40.0 million before December 31, 2013. The qualifying expenditures were renounced to shareholders as at December 31, 2012. The obligation remaining for this flow-through share issue was $32.4 million as at December 31, 2012.

A flow-through share liability of $6.5 million was recorded which reflected the fair value of the liability associated with these shares at that date. This flow-through share liability was reduced on a pro-rata basis as the Company incurred qualifying expenditures. As at December 31, 2012, the remaining flow-through share liability was $5.2 million.

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Operating lease commitment

(a) Deferred lease incentives

The Company has entered into a lease commitment for office space. The term of the lease is 64 months commencing April 1, 2011, totaling $5.8 million. Under the terms of the lease, the period from April 1, 2011 until December 31, 2011 did not require any payments. However, the total expenditure will be amortized over the full term. This resulted in a liability being recorded and accumulated during the rent free period, which will then reverse and be amortized to income over the remaining term of the office space lease when payments are made. The short-term and long-term components of the deferred rent expense liability represent those portions of the accumulated liability that will be amortized within 12 months and beyond that, respectively.

(b) Future lease payments

Future minimum lease payments for the Company's office space as at December 31, 2012 are as follows:

2013	$	1,257
2014		1,257
2015		1,257
2016		733
	$	4,504

Farm-in transactions

The Company has entered into a number of farm-in agreements with third parties to earn interests in additional prospective acreage. At December 31, 2012, the Company’s required future commitments are estimated to be $0.5 million, which are expected to be completed by the end of 2013 and form part of the Company’s on-going capital program.