



Management's Discussion and Analysis

For the three months and years ended

December 31, 2017 and 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("the MD&A") is dated February 28, 2018. 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 years ended December 31, 2017 and December 31, 2016. The reader should be aware that historical results are not necessarily indicative of future performance.

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

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

Barrel of Oil Equivalent

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

Non-IFRS Measurements

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

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

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Net cash from operating activities (defined by IFRS)	\$55,611	\$41,315	\$187,815	\$125,474
Changes in non-cash operating working capital	4,020	9,603	19,715	(1,375)
Funds flow	\$59,631	\$50,918	\$207,530	\$124,099
Settlement of decommissioning obligations	342	337	801	365
Adjusted funds flow, including transaction related costs	\$59,973	\$51,255	\$208,331	\$124,464
Transaction related costs	616	-	616	673
Adjusted funds flow, excluding transaction related costs	\$60,589	\$51,255	\$208,947	\$125,137

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

	As at December 31, 2017	As at December 31, 2016
Current assets (excluding financial derivative assets)	\$46,094	\$36,794
Less: current liabilities (excluding financial derivative liabilities)	(83,548)	(88,951)
Less: bank debt	(242,684)	(218,743)
Net debt	(\$280,138)	(\$270,900)

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

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Forward-Looking Statements

This MD&A contains forward-looking statements. More specifically, it contains forward-looking statements respecting: (i) the anticipated sources of funding for the Company's capital program, (ii) the sufficiency of liquidity and capital resources to fund the Company's capital program, ongoing operations, and execution of its business plan, (iii) planned 2018 annual exploration and development expenditures and the allocation thereof, and (iv) the Company's risk management activities and the benefits to be obtained therefrom.

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

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

Asset Transactions

During the three months ended December 31, 2017, the Company closed various acquisitions of complementary light oil assets, and disposed of certain non-core assets, all within TORC's existing Cardium and southeast Saskatchewan areas (together, the "Fourth Quarter Net Asset Acquisitions"). Total consideration paid for the Fourth Quarter Net Asset Acquisitions (net of the cash proceeds from the non-core dispositions) included cash of \$39.0 million as well as the issuance of 5.8 million common shares of TORC, valued at \$7.04 per common share on the acquisition closing date, for total net consideration of \$79.8 million including customary adjustments. The Fourth Quarter Net Asset Acquisitions included approximately 1,100 boepd of low decline, high netback, light oil producing assets.

Throughout the year ended December 31, 2017, including the Fourth Quarter Net Asset Acquisitions, the Company closed various acquisitions and non-core dispositions, adding approximately 1,850 boepd of low decline, high netback, light oil producing assets (the "2017 Net Asset Acquisitions"). Total consideration paid for the 2017 Net Asset Acquisitions (net of the cash proceeds from the non-core dispositions) included cash of \$54.7 million as well as the issuance of 8.6 million common shares of TORC, valued at \$6.99 (weighted average) per common share on the acquisition closing dates, for total net consideration of \$114.7 million including customary adjustments.

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

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Results of Operations

Production

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Crude oil (Bbl per day) ⁽¹⁾	18,350	16,440	17,642	15,588
NGL (Bbl per day) ⁽¹⁾⁽²⁾	985	640	790	607
Natural gas (Mcf per day) ⁽³⁾	15,306	15,245	14,634	14,755
Total (Boe per day)	21,886	19,621	20,871	18,654
Production mix:				
Crude oil	84%	84%	85%	84%
NGL	4%	3%	3%	3%
Crude oil and NGL ("Liquids")	88%	87%	88%	87%
Natural gas	12%	13%	12%	13%

⁽¹⁾ "Bbl" refers to barrels.

⁽²⁾ "NGL" refers to natural gas liquids.

⁽³⁾ "Mcf" refers to thousand cubic feet.

Production in the three months and year ended December 31, 2017 both increased 12%, compared to the three months and year ended December 31, 2016 (the "Corresponding Periods" or "Corresponding Period") due to ongoing successful drilling activities and the additions from the 2017 Net Asset Acquisitions.

Pricing

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
<i>Average realized prices:</i>				
Crude oil (\$ per Bbl)	\$64.58	\$56.42	\$58.55	\$47.92
NGL (\$ per Bbl)	30.30	21.46	24.64	15.60
Crude oil and NGL (\$ per Bbl)	\$62.83	\$55.11	\$57.10	\$46.71
Natural gas (\$ per Mcf)	1.40	2.68	1.81	1.88
Boe (\$ per Boe)	\$56.49	\$50.05	\$51.70	\$42.04

During the three months and year ended December 31, 2017, TORC realized crude oil prices of \$64.58 per Bbl and \$58.55 per Bbl, respectively (Corresponding Periods: \$56.42 per Bbl and \$47.92 per Bbl, respectively).

During the three months and year ended December 31, 2017, TORC's crude oil discount to WTI converted to Canadian dollars approximated \$5.81 per Bbl and \$7.56 per Bbl, respectively (Corresponding Periods: \$9.38 per Bbl and \$9.57 per Bbl, respectively). In the three months and year ended December 31, 2017, TORC's crude oil discount to Edmonton Par averaged approximately \$4.37 per Bbl and \$4.30 per Bbl, respectively (Corresponding Periods: \$5.22 per Bbl and \$5.07 per Bbl, respectively). The crude oil pricing differentials are largely a function of North American refinery supply/demand fundamentals as well as crude oil quality and transportation.

(continued)

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In the three months and year ended December 31, 2017, the Company realized gas prices of \$1.40 per Mcf and \$1.81 per Mcf, respectively (Corresponding Periods: \$2.68 per Mcf and \$1.88 per Mcf, respectively). In the three months and year ended December 31, 2017, the Company's realized gas prices were 17% and 16% below AECO benchmarks, respectively (Corresponding Periods: 13% below AECO benchmarks). Gas price differentials are a function of North American supply/demand fundamentals, heat content of gas as well as available pipeline capacity.

In the three months and year ended December 31, 2017, the average realized price across all products was \$56.49 per Boe and \$51.70 per Boe, respectively. For the three months and year ended December 31, 2017, the average realized price was higher by \$6.44 per Boe and \$9.66 per Boe, respectively, compared to the Corresponding Periods.

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Average Benchmark Prices:				
Crude oil – WTI (US\$ per Bbl)	\$55.35	\$49.33	\$50.94	\$43.37
Crude oil – Edmonton Par (CDN\$ per Bbl)	\$68.95	\$61.63	\$62.85	\$52.98
Natural gas – AECO Daily Spot (\$ per Mcf)	\$1.68	\$3.09	\$2.15	\$2.16
Natural gas – AECO Monthly Spot (\$ per Mcf)	\$1.95	\$2.81	\$2.42	\$2.09
Exchange rate – (CDN\$/US\$)	1.27	1.33	1.30	1.33

Revenues

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
<i>(\$ thousands)</i>				
Crude oil	\$109,078	\$85,365	\$377,327	\$273,555
NGL	2,700	1,243	6,922	3,375
Natural gas	1,963	3,746	9,591	10,059
	\$113,741	\$90,354	\$393,840	\$286,989

Revenues in the three months and year ended December 31, 2017 increased 26% and 37%, respectively, compared to the Corresponding Periods, primarily due to increased commodity prices and increased production volumes from drilling activity and asset acquisitions (previously described).

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

Royalties

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
<i>(\$ thousands, unless otherwise noted)</i>				
Royalties	\$20,446	\$13,403	\$67,646	\$48,492
\$ per Boe	\$10.15	\$7.43	\$8.88	\$7.10
Percentage of revenue	18%	15%	17%	17%

The Company's corporate royalty rate (as a percentage of revenue) for the three months ended December 31, 2017 was 18%, compared to 15% for the same period in the prior year. While the 18% royalty rate in the quarter ended December 31, 2017 is more indicative of normal operations, the lower 15% royalty rate realized in the quarter ended December 31, 2016 was the result of more favorable royalty incentives on select wells drilled in 2016, as well as a one-time adjustment related to prior period acquisitions where forecast royalties were higher than what was actually realized.

For the year ended December 31, 2017, the Company's corporate royalty rate was consistent compared to the prior year.

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Operating and Transportation Expenses

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Operating expenses	\$25,079	\$19,916	\$89,415	\$84,449
\$ per Boe	\$12.46	\$11.03	\$11.74	\$12.37
Transportation expenses	\$2,471	\$1,150	\$8,876	\$9,987
\$ per Boe	\$1.23	\$0.64	\$1.17	\$1.46
Operating and transportation expenses	\$27,550	\$21,066	\$98,291	\$94,436
\$ per Boe	\$13.69	\$11.67	\$12.91	\$13.83

For the three months ended December 31, 2017, the Company's combined operating and transportation expenses ("Operating Costs") were \$13.69 per Boe, an increase of 17% compared to the Corresponding Period. This increase is partly reflective of slightly higher costs as crude oil prices recover, but also because of a one-time cost adjustment benefit in the Corresponding Period, which related to 2016's asset acquisitions, where initial cost estimates were higher than the actuals eventually achieved.

For the year ended December 31, 2017, the Company's Operating Costs were \$12.91 per Boe, a decrease of 7% compared to the Corresponding Period. This decrease reflects the Company's ongoing cost reduction efforts and efficiency improvements throughout 2017, including benefits associated with further development of infrastructure and economies of scale associated with greater volumes.

Operating Netbacks

<i>(\$ per Boe, unless otherwise noted)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Average daily production (<i>Boepd</i>)	21,886	19,621	20,871	18,654
Crude oil (\$ per Bbl)	\$64.58	\$56.42	\$58.55	\$47.92
NGL (\$ per Bbl)	\$30.30	\$21.46	\$24.64	\$15.60
Natural gas (<i>\$ per Mcf</i>)	\$1.40	\$2.68	\$1.81	\$1.88
Average price	\$56.49	\$50.05	\$51.70	\$42.04
Realized loss on financial derivatives (hedging)	-	(\$0.02)	-	(\$0.01)
Royalties	(\$10.15)	(\$7.43)	(\$8.88)	(\$7.10)
Operating	(\$12.46)	(\$11.03)	(\$11.74)	(\$12.37)
Transportation	(\$1.23)	(\$0.64)	(\$1.17)	(\$1.46)
Operating netback	\$32.65	\$30.93	\$29.91	\$21.10
Operating netback (prior to hedging)	\$32.65	\$30.95	\$29.91	\$21.11

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General and Administrative Expenses

During the three months and year ended December 31, 2017, the Company incurred the following general and administrative expenses ("G&A"):

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
General and administrative expenses	\$3,956	\$3,450	\$13,020	\$13,299
Capitalized general and administrative expenses ⁽¹⁾	(1,170)	(1,111)	(3,391)	(4,121)
Total general and administrative	\$2,786	\$2,339	\$9,629	\$9,178
\$ per Boe	\$1.38	\$1.30	\$1.26	\$1.34

⁽¹⁾ Capitalized general and administrative expenses are those G&A expenditures which are directly attributable to the acquisition or exploration activities of the Company, and are therefore reclassified to property, plant and equipment, dependent on their nature.

In the three months and year ended December 31, 2017, total general and administrative expenses increased 19% and 5%, respectively, compared to the Corresponding Periods. The increase is due to increases in staffing and administrative costs associated with the continued growth of the Company.

On a per Boe basis, in the three months and year ended December 31, 2017, G&A remained relatively consistent, compared to the Corresponding Periods.

Transaction Related Costs

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Transaction related costs	\$616	-	\$616	\$673
\$ per Boe	\$0.31	-	\$0.08	\$0.10

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

The transaction related costs in the year ended December 31, 2017 are associated with the 2017 Net Asset Acquisitions (previously described) and reflect less than 1% of the cost of these acquisitions.

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Finance Costs

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Interest expense and financing charges	\$2,370	\$2,248	\$9,327	\$9,703
\$ per Boe	\$1.18	\$1.24	\$1.22	\$1.42
Accretion on decommissioning obligations	\$1,906	\$1,369	\$6,869	\$4,668
\$ per Boe	\$0.95	\$0.76	\$0.90	\$0.68
Total	\$4,276	\$3,617	\$16,196	\$14,371
\$ per Boe	\$2.13	\$2.00	\$2.12	\$2.10

For the three months and year ended December 31, 2017, interest expense and financing charges increased 5% and decreased 4%, respectively, compared to the Corresponding Periods. The increase for the three months ended December 31, 2017 is a result of higher average bank debt for the quarter, largely due to the cash consideration paid for the Fourth Quarter Net Asset Acquisitions. The decrease for the year ended December 31, 2017 is a result of lower average bank debt for the year, largely due to higher funds flow as crude oil prices improve. On a per Boe basis, interest expense and financing charges for the three months and year ended December 31, 2017 decreased 5% and 14%, respectively, compared to the Corresponding Periods, primarily as a result of higher production volumes relative to debt levels.

For the three months and year ended December 31, 2017, accretion on decommissioning obligations increased 39% and 47%, respectively, compared to the Corresponding Periods. On a per Boe basis, accretion on decommissioning obligations increased 25% and 32%, respectively, compared to the Corresponding Periods. The increases are largely due to the additional decommissioning liabilities associated with asset acquisitions and new wells drilled during the year.

Stock-Based Compensation Expenses

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

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Stock-based compensation expenses	\$2,024	\$1,434	\$15,449	\$15,385
Capitalized stock-based compensation expenses	(946)	(672)	(7,254)	(7,241)
Total	\$1,078	\$762	\$8,195	\$8,144
\$ per Boe	\$0.54	\$0.42	\$1.08	\$1.19

For the three months ended December 31, 2017, stock-based compensation expenses increased 41%, compared to the Corresponding Period. This increase is due to the continued growth of the Company. For the year ended December 31, 2017, stock-based compensation expense remained relatively consistent, compared to the Corresponding Period.

On a per Boe basis, similar to the changes realized in G&A expenses, for the three months and year ended December 31, 2017, stock-based compensation expenses increased 29% and decreased 9%, respectively, compared to the Corresponding Periods.

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Depletion and Depreciation Expenses

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Depletion and depreciation expenses	\$46,941	\$44,240	\$185,827	\$174,119
\$ per Boe	\$23.31	\$24.51	\$24.39	\$25.50

For the three months and year ended December 31, 2017, depletion and depreciation expenses on a total dollar basis increased 6% and 7%, respectively, compared to the Corresponding Periods. This increase is largely due to depletable base additions from asset acquisitions, as well as ongoing drilling operations. On a per Boe basis, for the three months and year ended December 31, 2017, depletion and depreciation expenses decreased 5% and 4%, respectively, compared to the Corresponding Periods.

Impairment

Property, Plant and Equipment ("PP&E")

At December 31, 2017, the Company determined there to be indicators of impairment primarily due to the prolonged decline in the price of natural gas in Canada. Consequently, the Company recognized an impairment charge of \$23.0 million on its PP&E assets related to the Cardium CGU (the "Impaired PP&E Assets") due to the carrying values in the Cardium CGU exceeding the recoverable amounts. The recoverable amount (determined using fair value less costs to sell) of a CGU is the greater of (i) its value in use, and (ii) its fair value less selling costs. The recoverable amount for the Impaired PP&E Assets was \$376.0 million, which was based on the proved plus probable reserve values from TORC's December 31, 2017 reserve report prepared by its independent reserve engineer. The recoverable amount of the CGU was estimated based on proved plus probable reserve values using before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the CGU and values for undeveloped land. The discount rates used in the valuation range from 8% to 15%.

In determining the future cash flows, the Company utilized the following benchmark pricing forecasts from its independent reserves evaluator:

Year	Canadian Light Sweet Crude (\$/Bbl)	Western Canada Select (\$/Bbl)	Alberta AECO - C Spot (\$/MMBtu)	Edmonton Pentanes Plus (\$/Bbl)	Edmonton Butane (\$/Bbl)	Edmonton Propane (\$/Bbl)	Exchange Rate (\$US/\$CAD)
2018	65.44	51.05	2.85	67.72	48.73	26.06	0.79
2019	74.51	59.61	3.11	75.61	55.49	32.84	0.82
2020	78.24	64.94	3.65	78.82	57.65	35.41	0.85
2021	82.45	68.43	3.80	82.35	60.12	37.85	0.85
2022	84.10	69.80	3.95	84.07	61.32	39.29	0.85
2023	85.78	71.20	4.05	85.82	62.55	40.25	0.85
2024	87.49	72.62	4.15	87.61	63.80	41.23	0.85
2025	89.24	74.07	4.25	89.43	65.07	42.23	0.85
2026	91.03	75.55	4.36	91.29	66.37	43.26	0.85
2027	92.85	77.06	4.46	93.19	67.70	44.30	0.85
2028	94.71	78.61	4.57	95.12	69.06	45.36	0.85

Taxes

For the three months and year ended December 31, 2017, the Company recorded deferred tax recoveries of \$3.9 million and \$1.8 million, respectively (Corresponding Periods: deferred income tax expense of \$1.4 million and deferred income tax recovery of \$13.1 million, respectively), which is consistent with the Company's pre-tax losses in the three months and year ended December 31, 2017.

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Net Loss

Net loss for the three months and year ended December 31, 2017 was \$9.4 million and \$10.5 million, respectively (Corresponding Periods: net income of \$2.5 million and net loss of \$50.4 million, respectively). The net losses in the three months and year ended December 31, 2017 is due to the impairment of property, plant and equipment of \$23.0 million.

Basic and diluted net losses per share for the three months and year ended December 31, 2017 were \$0.05 and \$0.06, respectively (Corresponding Periods: basic and diluted net income per share of \$0.01 and basic and diluted net loss per share of \$0.30, respectively).

Adjusted Funds Flow

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Adjusted funds flow, including transaction related costs	\$59,973	\$51,255	\$208,331	\$124,464
Transaction related costs	616	-	616	673
Adjusted funds flow, excluding transaction related costs	\$60,589	\$51,255	\$208,947	\$125,137
<i>On a weighted average basic common share basis:</i>				
Adjusted funds flow, including transaction related costs	\$0.31	\$0.28	\$1.11	\$0.73
Adjusted funds flow, excluding transaction related costs	\$0.32	\$0.28	\$1.11	\$0.74
<i>On a weighted average diluted common share basis:</i>				
Adjusted funds flow, including transaction related costs	\$0.31	\$0.28	\$1.10	\$0.73
Adjusted funds flow, excluding transaction related costs	\$0.31	\$0.28	\$1.11	\$0.73

In the three months and year ended December 31, 2017, adjusted funds flow, excluding transaction related costs, increased 18% and 67%, respectively, compared to the Corresponding Periods. The increase reflects the improved crude oil price environment, lower cash costs, as well as more funds flow from increased production related to ongoing drilling operations and asset acquisitions.

Net Cash from Operating Activities

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Net cash from operating activities	\$55,611	\$41,315	\$187,815	\$125,474
Net cash from operating activities per basic share	\$0.29	\$0.23	\$1.00	\$0.74
Net cash from operating activities per diluted share	\$0.29	\$0.22	\$0.99	\$0.73

In the three months and year ended December 31, 2017, net cash from operating activities per basic and diluted share increased compared to the Corresponding Periods. This increase largely reflects the improved crude oil price environment compared to the Corresponding Periods.

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Capital Expenditures

Capital expenditures are summarized as follows:

<i>(\$ thousands)</i>	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Cash:				
Land retention costs	\$218	\$68	\$552	\$379
Geological and geophysical	200	(20)	435	277
Drilling and completions	23,284	16,829	91,061	59,682
Equipment and facilities	8,960	10,954	37,237	21,813
Administrative assets	72	103	136	194
Exploration and development expenditures	32,734	27,934	129,421	82,345
Capitalized general and administrative expenses	1,170	1,111	3,391	4,121
Exploration and development expenditures, including capitalized G&A	33,904	29,045	132,812	86,466
Property acquisitions, net of dispositions	38,967	212	54,734	94,990
Total capital expenditures - cash items	\$72,871	\$29,257	\$187,546	\$181,456
Non-cash:				
Property acquisitions	39,411	-	65,574	-
Gain on disposition ⁽¹⁾	-	-	1,876	-
Decommissioning obligations	24,426	(35,019)	29,079	20,488
Capitalized stock-based compensation	946	672	7,254	7,241
Total capital expenditures	\$137,654	(\$5,090)	\$291,328	\$209,185

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

In the three months and year ended December 31, 2017, the Company drilled 15 (12.8 net) wells and 63 (47.4 net) wells, respectively, compared to 12 (10.9 net) wells and 39 (35.7 net) wells, respectively, in the Corresponding Periods.

The Company anticipates that its 2018 exploration and development capital program (excluding acquisitions) will be financed primarily through funds flow, bank debt and proceeds from equity issuances, if any. The 2018 exploration and development expenditures continue to be concentrated on the Company's primary core areas in southeast Saskatchewan, focused on both conventional and unconventional opportunities, as well as the Cardium play in central Alberta.

Throughout the year ended December 31, 2017, the Company closed various property acquisitions and non-core property dispositions. Total consideration paid (net of the cash proceeds from the non-core dispositions) included cash of \$54.7 million as well as the issuance of 8.6 million common shares of TORC, valued at \$6.99 (weighted average) per common share on the acquisition closing dates, for total net consideration of \$114.7 million including customary adjustments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share Capital

	Three months ended Dec 31, 2017	Three months ended Dec 31, 2016	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Weighted average outstanding common shares:				
Basic	191,240,108	182,698,207	187,416,719	169,923,413
Diluted	191,240,108	184,415,782	187,416,719	169,923,413
Outstanding Securities:				
Common shares	196,061,445	183,099,008	196,061,445	183,099,008
Stock options	110,961	501,804	110,961	501,804
Incentive shares	-	220	-	220
Restricted awards	1,049,410	1,003,073	1,049,410	1,003,073
Performance awards	1,868,406	1,666,806	1,868,406	1,666,806

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

As at February 28, 2018, the Company had 196,454,647 common shares issued and outstanding, 1,877,421 performance awards outstanding, 1,055,687 restricted awards outstanding and 25,265 stock options outstanding.

Liquidity and Capital Resources

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

	As at Dec 31, 2017	As at Dec 31, 2016
Current assets (excluding financial derivative assets)	\$46,094	\$36,794
Less: current liabilities (excluding financial derivative liabilities)	(83,548)	(88,951)
Less: bank debt	(242,684)	(218,743)
Net debt	(\$280,138)	(\$270,900)

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

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company may access the following capital resources:

Bank debt

At December 31, 2017, the Company had a reserves-based revolving credit facility of \$400 million with a syndicate of banks (the "Credit Facility"), comprised of a \$55 million operating facility from the operating lender (the "Operating Facility") and a \$345 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). As at December 31, 2017 the amount drawn from the Credit Facility was \$242.7 million. On October 31, 2017, the Credit Facility was renewed at \$400 million, comprised of a \$55 million operating facility and a \$345 million syndicated facility. Advances under the Credit Facility are available by way of direct advances, bankers' acceptances and standby letters of credit/guarantees. Direct advances bear interest at the prime rate, U.S. base rate or LIBOR rate, as applicable, plus a margin which is dependent on the Company's debt to trailing funds flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing funds flow ratio.

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 27, 2018. On or before April 27, 2018, at TORC's request and subject to the approval of the lending syndicate, the Credit Facility may be extended for an additional 364 day period. In the event of non-extension, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding will convert to a 364 day non-revolving term facility with repayment of the Credit Facility due on April 28, 2019. The Credit Facility is secured by a fixed and floating charge debenture on all of the Company's assets.

The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The borrowing base of the Company's Credit Facility is subject to review and redetermination by the lenders on a semi-annual basis and in the event of a change in the Company's borrowing base properties (including due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders). In the normal course, the Company's next credit facility evaluation is due to be completed by April 27, 2018.

Significant investor

The Company has a significant investor, the Canada Pension Plan Investment Board ("CPPIB"), with approximately 25% ownership in the outstanding common shares of the Company. As long as CPPIB owns greater than 10% of the outstanding common shares of the Company, it has the right to participate in future offerings of securities by the Company, whether by way of public offering or private placement. This includes any offering of common shares and securities convertible or exchangeable into common shares, up to its pro rata ownership interest immediately prior to such offering in the case of a public offering or a private placement to five or more investors, in order to maintain its pro rata percentage ownership interest in the Company, and up to all of the offering in the case of a private placement to less than five investors.

Risk Management - Financial Derivatives

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

Commodity contracts outstanding as at December 31, 2017:

Remaining term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Jan 1, 2018 - Dec 31, 2018	Costless Collar	500	\$55.00 - \$78.05	C\$WTI
Jan 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$81.80	C\$WTI
Jan 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$82.00	C\$WTI
Jan 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$83.75	C\$WTI
Jan 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$84.00	C\$WTI

At December 31, 2017, the mark-to-market value of these commodity contracts totalled a liability of \$0.3 million.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent to December 31, 2017, the Company entered into the following commodity contracts:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Feb 1, 2018 - Dec 31, 2018	Costless Collar	250	\$60.00 - \$89.50	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$90.50	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$86.50	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Fixed Price Put	250	\$60.00	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Fixed Price Put	500	\$60.00	C\$WTI
Mar 1, 2018 - Dec 31, 2018	Costless Collar	250	\$60.00 - \$89.00	C\$WTI

Contractual Obligations

The following table lists the Company's contractual obligations as at December 31, 2017 and the expected timing of these obligations:

<i>(\$ thousands)</i>	Total	Less than 1 year	1-2 years	3-5 years	Thereafter
Trade and other payables	\$79,627	\$79,627	-	-	-
Dividends payable	3,921	3,921	-	-	-
Operating leases (office rent)	5,181	1,970	2,018	1,193	-
Bank debt	242,684	-	242,684	-	-
Total	\$331,413	\$85,518	\$244,702	\$1,193	-

Operating commitments

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

Working capital

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

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

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

Business Conditions and Risks

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

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

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

TORC relies on appropriate sources of funding to support the various stages of its business strategy:

- Internally-generated cash flow from production is used to fund business activities;
- New equity, if available on favourable terms, may be utilized to fund acquisitions and to expand capital programs, when appropriate; and
- Debt may be utilized to fund acquisitions and to expand capital programs.

The Company is exposed to commodity price and market risk for its principal products of crude oil and natural gas. Commodity prices are influenced by a wide variety of factors, most of which are beyond TORC's control. To manage this risk, from time to time, the Company may enter into a number of financial derivative contracts for hedging purposes. These derivative contracts may include contracts related to crude oil and natural gas prices, as well as foreign exchange and interest rates. The Company may also, from time to time, enter into fixed physical contracts. The Company monitors the cost and associated benefit of these instruments and contracts as well as any debt levels and utilization rates on bank lines, and utilizes these derivatives and contracts when warranted.

Inflation risks subject the Company to potential erosion of product netbacks. For example, increasing domestic prices for oil and natural gas production equipment and services can inflate the costs of operations. In addition, increasing costs of undeveloped land can inflate costs of both asset and corporate acquisitions.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a reasonable cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors and maintaining an appropriate inventory of production equipment.

Demand for crude oil, NGL and natural gas produced by the Company exists within Canada and the United States; however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are currently primarily affected by North American supply and demand fundamentals. Demand for natural gas liquids is influenced mainly by the demand for petrochemicals in North American and off-shore markets. TORC mitigates these risks as follows:

- TORC attempts to explore for and produce crude oil that is of high quality, mitigating its exposure to adverse quality differentials;
- Natural gas production will generally be connected to established pipeline infrastructures that operate with minimal interruptions;
- Sale arrangements will vary in term and pricing structure creating a diverse portfolio that minimizes risk of exposure to any one market; and
- Financial derivative contracts may be used where appropriate to manage commodity price volatility.

Off Balance Sheet Arrangements

TORC is not involved with any contractual arrangement under which a non-consolidated entity may have an obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to a non-consolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. TORC has no obligation under financial instruments or a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Critical Accounting Estimates

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

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment, as well as exploration and evaluation assets acquired, generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates.

Reserves

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

Decommissioning obligations

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

Stock-based compensation

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

Financial derivatives

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

Deferred income taxes

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

Future accounting pronouncements

IFRS 15 Revenue from Contracts with Customers

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a comprehensive revenue recognition and measurement framework that applies to all contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. TORC will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed the review of its various revenue streams and underlying contracts with customers. TORC has concluded that the adoption of IFRS 15 will not have a material impact on the Company's net income and financial position. TORC anticipates there will be additional enhanced disclosures related to revenue.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

IFRS 9 *Financial Instruments*

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments* ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. TORC has determined that IFRS 9 will not result in any material changes to its classification of financial assets or liabilities, nor will it have a material impact to the measurement and carrying value of the Company's financial instruments. The standard will come into effect for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

In January 2016 the IASB issued IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The standard will come into effect for annual periods beginning on or after January 1, 2019. TORC is still finalizing its assessment as to whether or not this standard will have a material impact on the Company's financial statements.

Environmental Regulation and Risk

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

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

Disclosure Controls and Internal Controls Over Financial Reporting

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

In accordance with National Instrument NI 52-109, the Chief Executive Officer and Chief Financial Officer have filed certifications that DCP and ICFR have been adequately designed and are operating effectively at the year ended December 31, 2017, and that there have been no changes in ICFR that materially affected, or are reasonably likely to materially affect, ICFR, during the three months ended December 31, 2017.

Additional Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Quarterly and Annual Results

<i>(in \$000's of dollars, except per share amounts)</i>	Q4 2017 ⁽¹⁾	Q3 2017 ⁽¹⁾	Q2 2017	Q1 2017	Q4 2016	Q3 2016 ⁽¹⁾	Q2 2016 ⁽¹⁾	Q1 2016 ⁽¹⁾
Petroleum and natural gas sales	113,741	90,038	96,432	93,629	90,354	74,966	69,551	52,118
Net income (loss)	(9,431)	(6,335)	2,532	2,744	2,530	(11,963)	(15,750)	(25,260)
Per share – basic	(0.05)	(0.03)	0.01	0.01	0.01	(0.07)	(0.10)	(0.16)
Per share – diluted	(0.05)	(0.03)	0.01	0.01	0.01	(0.07)	(0.10)	(0.16)
Adjusted funds flow, including transaction related costs ⁽²⁾	59,973	44,404	52,471	51,483	51,255	31,606	27,521	14,082
Per share – basic	0.31	0.24	0.28	0.28	0.28	0.18	0.17	0.09
Per share – diluted	0.31	0.24	0.28	0.28	0.28	0.18	0.17	0.09
Adjusted funds flow, excluding transaction related costs ⁽²⁾	60,589	44,404	52,471	51,483	51,255	32,279	27,521	14,082
Per share – basic	0.32	0.24	0.28	0.28	0.28	0.19	0.17	0.09
Per share – diluted	0.31	0.24	0.28	0.28	0.28	0.19	0.17	0.09
Net cash from operating activities ⁽³⁾	55,611	35,853	56,955	39,396	41,315	29,910	33,506	20,743
Per share – basic	0.29	0.19	0.30	0.21	0.23	0.17	0.21	0.13
Per share – diluted	0.29	0.19	0.30	0.21	0.22	0.17	0.20	0.13
Total assets	2,036,212	1,978,868	1,961,822	1,939,751	1,947,618	1,993,631	1,881,093	1,880,672
Total long-term financial liabilities	242,684	230,000	198,000	218,044	218,743	225,000	247,000	251,265
Dividends declared per share	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0850
Net debt ⁽⁴⁾	280,138	259,116	241,912	258,582	270,900	287,264	298,613	305,824

(footnotes on next page)

MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>(in \$000's of dollars, except per share amounts)</i>	Year ended Dec 2017	Year ended Dec 2016 ⁽¹⁾	Year ended Dec 2015 ⁽¹⁾
Petroleum and natural gas sales	393,840	286,989	262,588
Net loss	(10,490)	(50,443)	(172,655)
Per share – basic	(0.06)	(0.30)	(1.27)
Per share – diluted	(0.06)	(0.30)	(1.27)
Adjusted funds flow, including transaction related costs ⁽²⁾	208,331	124,464	128,128
Per share – basic	1.11	0.73	0.94
Per share – diluted	1.10	0.73	0.93
Adjusted funds flow, excluding transaction related costs ⁽²⁾	208,947	125,137	132,983
Per share – basic	1.11	0.74	0.98
Per share – diluted	1.11	0.73	0.96
Net cash from operating activities ⁽³⁾	187,815	125,474	137,562
Per share – basic	1.00	0.74	1.01
Per share – diluted	0.99	0.73	1.00
Total assets	2,036,212	1,947,618	1,894,082
Total long-term financial liabilities	242,684	218,743	230,087
Dividends declared per share	0.2400	0.2650	0.5400
Net debt ⁽⁴⁾	280,138	270,900	297,080

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

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

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

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

From 2015 to 2017, the Company successfully closed numerous strategic asset acquisitions, and sustainably managed the business through a highly volatile commodity price environment. In February 2015, the Company issued 16 million common shares to acquire assets in southeast Saskatchewan. In June 2015, the Company acquired additional assets in southeast Saskatchewan and southwest Manitoba for net consideration of \$428.5 million; concurrently, the Company issued 43.4 million common shares for gross proceeds of \$438.0 million. In the third quarter of 2015, the Company recorded impairment charges of \$16.0 million and \$43.0 million related to its E&E and PP&E assets, respectively, contributing to a net loss in this period. Similarly, in the fourth quarter of 2015, the Company recorded impairment charges of \$38.2 million and \$71.0 million related to its E&E and PP&E assets, respectively. In September 2016, the Company acquired assets in southeast Saskatchewan for net consideration of \$90.1 million; concurrently, the Company issued 15.8 million common shares for gross proceeds of \$111.3 million. In the second quarter of 2017, the Company closed two asset acquisitions, as well as disposed of certain non-core assets within the Company's existing southeast Saskatchewan area. Total consideration paid, net of the proceeds from the non-core disposition, included cash of \$9.8 million as well as the issuance of 2.8 million common shares of TORC. In the fourth quarter of 2017, the Company closed various asset acquisitions and dispositions within TORC's existing Cardium and southeast Saskatchewan area. Total consideration paid, net of the cash proceeds from the non-core dispositions, included cash of \$39.0 million as well as the issuance of 5.8 million common shares. Also in the fourth quarter of 2017, the Company recorded an impairment charge of \$23.0 million related to its PP&E assets, resulting in a net loss in this year. These notable events, along with organic drilling growth, have resulted in an increase in total assets, comprised largely of land and wells, as well as increased petroleum and natural gas sales, influenced by commodity prices and commodity mix.



Financial Statements

As at and for the years ended

December 31, 2017 and 2016

FINANCIAL STATEMENTS

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, 2017.

KPMG LLP, an independent firm of chartered professional 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

February 28, 2018
Calgary, Canada

(signed)

Jason Zabinsky
Vice President, Finance and
Chief Financial Officer

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

KPMG LLP
Chartered Professional Accountants

February 28, 2018
Calgary, Canada

FINANCIAL STATEMENTS

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

	Note	As at December 31, 2017	As at December 31, 2016
Assets			
Trade and other receivables		\$44,206	\$34,386
Deposits and prepaid expenses		1,888	2,408
Total current assets		46,094	36,794
Property, plant and equipment	11	1,978,156	1,893,631
Deferred tax asset	13	11,962	17,193
Total non-current assets		1,990,118	1,910,824
Total assets		\$2,036,212	\$1,947,618
Liabilities			
Trade and other payables		\$79,627	\$85,289
Dividends payable	15	3,921	3,662
Financial derivative liability	19	309	1,112
Total current liabilities		83,857	90,063
Bank debt	18	242,684	218,743
Decommissioning obligations	12	324,640	289,493
Total non-current liabilities		567,324	508,236
Total liabilities		\$651,181	\$598,299
Equity			
Share capital	14	\$1,860,907	\$1,771,238
Contributed surplus		16,460	14,858
Deficit		(492,336)	(436,777)
Total equity		1,385,031	1,349,319
Total liabilities and equity		\$2,036,212	\$1,947,618

Commitment (note 20)
Subsequent event (note 21)

See accompanying notes to the financial statements.

Approved on behalf of the Board

(signed)

Raymond Chan
Director

(signed)

Brett Herman
Director

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Statements of Loss and Comprehensive Loss

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

	Note	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Revenues			
Petroleum and natural gas sales		\$393,840	\$286,989
Royalties		(67,646)	(48,492)
		326,194	238,497
Realized gain (loss) on financial derivatives		-	(43)
Unrealized gain (loss) on financial derivatives	19	803	(1,112)
Petroleum and natural gas sales net of royalties and derivatives		326,997	237,342
Expenses			
Operating		89,415	84,449
Transportation		8,876	9,987
General and administrative		9,629	9,178
Transaction related costs	6, 7	616	673
Finance costs	9	16,196	14,371
Stock-based compensation	16	8,195	8,144
Depletion and depreciation	11	185,827	174,119
Gain on disposition	11	(2,431)	-
Impairment	11	23,000	-
		339,323	300,921
Loss before income taxes		(12,326)	(63,579)
Deferred income tax recovery	13	(1,836)	(13,136)
Loss and comprehensive loss		(\$10,490)	(\$50,443)
Loss per share:			
Basic and diluted	17	(\$0.06)	(\$0.30)

See accompanying notes to the financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Statements of Changes in Equity

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

	Number of common shares (000's)	Share capital	Contributed surplus	Deficit	Total equity
Balance at December 31, 2015	161,242	\$1,621,035	\$19,992	(\$341,280)	\$1,299,747
Common shares issued (note 14)	15,782	111,264	-	-	111,264
Stock-based compensation	-	-	15,385	-	15,385
Issued on vesting of:					
Share Awards and incentive shares	2,691	-	-	-	-
Transfer of stock-based compensation on vesting of:					
Share Awards and incentive shares	-	20,519	(20,519)	-	-
Share issue costs, net of tax of \$1.3 million	-	(3,435)	-	-	(3,435)
Dividends to shareholders	-	-	-	(45,054)	(45,054)
Issued pursuant to the share dividend program (note 15)	3,384	21,855	-	-	21,855
Loss for the year	-	-	-	(50,443)	(50,443)
Balance at December 31, 2016	183,099	\$1,771,238	\$14,858	(\$436,777)	\$1,349,319
Balance at December 31, 2016	183,099	\$1,771,238	\$14,858	(\$436,777)	\$1,349,319
Common shares issued (note 14)	8,586	59,975	-	-	59,975
Stock-based compensation	-	-	15,449	-	15,449
Issued on vesting of:					
Share Awards	1,817	-	-	-	-
Transfer of stock-based compensation on vesting of:					
Share Awards	-	13,847	(13,847)	-	-
Dividends to shareholders	-	-	-	(45,069)	(45,069)
Issued pursuant to the share dividend program (note 15)	2,559	15,847	-	-	15,847
Loss for the year	-	-	-	(10,490)	(10,490)
Balance at December 31, 2017	196,061	\$1,860,907	\$16,460	(\$492,336)	\$1,385,031

See accompanying notes to the financial statements.

FINANCIAL STATEMENTS

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

	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Cash flows from operating activities:		
Loss for the year	(\$10,490)	(\$50,443)
Depletion and depreciation	185,827	174,119
Stock-based compensation	8,195	8,144
Deferred income tax recovery	(1,836)	(13,136)
Accretion on decommissioning obligations	6,869	4,668
Unrealized loss (gain) on financial derivatives	(803)	1,112
Gain on disposition	(2,431)	-
Impairment	23,000	-
Settlement of decommissioning obligations	(801)	(365)
Change in non-cash working capital	(19,715)	1,375
Net cash from operating activities	187,815	125,474
Cash flows used in investing activities:		
Additions to property, plant and equipment	(132,812)	(86,287)
Property acquisitions	(63,809)	(95,730)
Proceeds from property dispositions	9,075	740
Change in non-cash working capital	4,753	(12,617)
Net cash used in investing activities	(182,793)	(193,894)
Cash flows from (used in) financing activities:		
Proceeds from (repayment of) bank debt	23,941	(11,344)
Proceeds from issue of share capital	-	111,264
Share issue costs	-	(4,707)
Dividends	(28,963)	(26,793)
Net cash from (used in) financing activities	(5,022)	68,420
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	-	-

See accompanying notes to the financial statements.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

1. Reporting entity

TORC Oil & Gas Ltd. (the "Company" or "TORC") was incorporated pursuant to the Business Corporations Act (Alberta) on March 23, 2010 as 1525893 Alberta Ltd. The Company's name was changed to TORC Oil & Gas Ltd. on December 17, 2010. The Company's principal business activity is the exploration for and production of petroleum and natural gas in the Western Canadian Sedimentary Basin.

The Company's principal place of business is located at Suite 1800, Eighth Avenue Place, 525 - 8th Avenue SW, Calgary, Alberta, Canada T2P 1G1.

2. Basis of preparation

(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 February 28, 2018.

(b) Basis of measurement and presentation

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

Operating expenses in the statement of loss and comprehensive loss 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.

(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.

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.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

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 proved 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 proved and probable reserves being acquired.

The Company's estimate of stock-based compensation is dependent upon estimates of historic volatility, forfeiture rates and an assessment of achieving performance conditions.

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

A deferred tax asset/liability is based on estimates as to the timing of the reversal of temporary differences, the amount of future taxable earnings, the availability of cash flows and substantively enacted tax rates.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

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, substantive potential voting rights are taken into consideration. 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 loss and comprehensive loss.

(ii) Jointly owned assets

Many of the Company's oil and natural gas activities involve jointly owned assets. The financial statements include the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs. The relationships with jointly owned asset partners have been referred to as joint venture in the remainder of the financial statements as is common in the Canadian oil and gas industry.

(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 loss and comprehensive loss.

(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, dividends payable and bank debt. 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)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

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 bank debt, trade and other receivables, trade and other payables and dividends payable, are measured at amortized cost using the effective interest method, less any impairment losses for financial assets.

Derivative financial instruments

The Company may enter into certain financial derivative contracts (also 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 with changes in fair value recognized in earnings. Related transaction costs such as trading commissions are recognized in the statement of loss and comprehensive loss 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 loss and comprehensive loss.

Share capital

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 loss and comprehensive loss 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 a project area is proved based on proved and probable reserves being determined to exist in the broader project area. Upon determination of proved and probable reserves, the related E&E assets in the associated project area are typically reclassified to a different long-term asset category, *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)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

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 loss and comprehensive loss.

(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 proved and probable reserves, (ii) that have been reclassified from E&E assets because proved and probable 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 proved 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.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

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 loss and comprehensive loss.

(ii) Proved and probable reserves

Proved 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 proved 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 loss and comprehensive loss as incurred. These improvement costs include capital costs of further developing proved and probable reserves or enhancing production. The costs of routine maintenance of D&P assets are recognized in the statement of loss and comprehensive loss 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 proved and probable reserves. The carrying value to be depleted includes estimated future development costs necessary to produce proved and probable reserves. Future development costs are estimated by considering the level of development required to produce the proved and probable reserves and are reviewed by independent reserve engineers at least annually. Undeveloped land related to a proved project area, for which specific proved and probable reserves have not yet been assigned, are withheld from depletion.

For Other PP&E, depreciation is recognized in the statement of loss and comprehensive loss 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.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

(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 loss and comprehensive loss. 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 loss and comprehensive loss. 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 loss and comprehensive loss 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 on equity instruments, such as stock options, incentive shares and restricted and performance awards 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-based compensation equity instruments that vest including adjustments for performance conditions. 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 loss and comprehensive loss.

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

(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 or expensed in the statement of loss and comprehensive loss.

Decommissioning obligations

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. The increase in the provision due to the passage of time, known as accretion, is recognized in the statement of loss and comprehensive loss 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 bank debt, 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 loss and comprehensive loss, using the effective interest method.

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of loss and comprehensive loss 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.

(continued)

FINANCIAL STATEMENTS

TORC Oil & Gas Ltd.

Notes to the Financial Statements

As at and for the years ended December 31, 2017 and December 31, 2016

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

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 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 attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options, incentive shares, and restricted and performance awards granted to employees.

(o) Future accounting pronouncements

IFRS 15 Revenue from Contracts with Customers

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a comprehensive revenue recognition and measurement framework that applies to all contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. TORC will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed the review of its various revenue streams and underlying contracts with customers. TORC has concluded that the adoption of IFRS 15 will not have a material impact on the Company's net income and financial position. TORC anticipates there will be additional enhanced disclosures related to revenue.

IFRS 9 Financial Instruments

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments* ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. TORC has determined that IFRS 9 will not result in any material changes to its classification of financial assets or liabilities, nor will it have a material impact to the measurement and carrying value of the Company's financial instruments. The standard will come into effect for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases

In January 2016 the IASB issued IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The standard will come into effect for annual periods beginning on or after January 1, 2019. TORC is still finalizing its assessment as to whether or not this standard will have a material impact on the Company's financial statements.

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4. 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, dividends payable and bank debt

The fair value of cash and cash equivalents, bank overdrafts, trade and other receivables, trade and other payables, dividends payable and bank debt 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, 2017 and 2016, the fair value of cash and cash equivalents, trade and other receivables, trade and other payables and dividends payable approximated their carrying value due to their short term to maturity. The fair value of bank debt approximates its carrying value as it bears a floating rate of interest and the margin charged by the lenders are indicative of current credit spreads.

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. Level 2 values are 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.

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). Incentive shares and restricted and performance awards are fair valued based on the share price on the measurement date with a forfeiture rate applied.

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5. 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 trade and other receivables 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, 2017 or 2016.

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

	December 31, 2017	December 31, 2016
Petroleum and natural gas marketing companies	\$40,599	\$32,548
Joint venture partners and other parties	3,607	1,838
Total trade and other receivables	\$44,206	\$34,386

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The Company's trade and other receivables are aged as follows:

	December 31, 2017	December 31, 2016
Current (less than 90 days)	\$43,906	\$34,282
Past due (greater than 90 days)	300	104
Total	\$44,206	\$34,386

(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, dividends payable and bank debt. Trade and other payables and dividends payable are considered due within one year. The terms for bank debt are outlined in note 18. 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, 2017 and 2016, 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. For the years ended December 31, 2017 and 2016, the Company did not enter into any interest rate derivative contracts. Assuming all other variables remain constant, an increase or decrease of one percent in market interest rates in the year ended December 31, 2017 would have decreased or increased shareholders' equity and net income by \$2.2 million.

(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, bank debt and shareholders' equity.

The same as in the prior year, in order to optimize capital and operating efficiency, the Company monitors its net debt. Net debt is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities), ii) bank debt, and iii) non-current deferred lease incentives. In times of net debt, the Company monitors debt levels based on a ratio of net debt to annualized adjusted funds flow. The Company defines adjusted funds flow as cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations.

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6. Cardium and southeast Saskatchewan asset acquisitions

During the year ended December 31, 2017, the Company acquired various properties and working interests in and around its core southeast Saskatchewan and Cardium areas (together the "Asset Acquisitions"). The Asset Acquisitions included:

- On April 4, 2017, the Company closed an acquisition of various properties and working interests in southeast Saskatchewan (the "April Acquisition") for cash consideration of \$6.8 million and the issuance of 2.8 million common shares of TORC, valued at \$6.88 per common share on the closing date, for total consideration of \$26.0 million including customary adjustments.
- On December 11, 2017, the Company closed an acquisition of various properties and working interests in southeast Saskatchewan (the "December Acquisition") for cash consideration of \$21.5 million and the issuance of 5.8 million common shares of TORC, valued at \$7.04 per common share on the closing date, for total consideration of \$62.3 million including customary adjustments.
- At various times in 2017, the Company closed multiple acquisitions of various properties and working interests for total cash consideration of \$34.5 million ("Other Acquisitions").

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

Transaction costs incurred by the Company totaling \$0.6 million related to the Asset Acquisitions were expensed.

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

	April Acquisition	December Acquisition	Other Acquisitions	Total
Consideration paid				
Cash	\$6,785	\$21,538	\$34,484	\$62,807
Common shares issued	19,166	40,809	-	59,975
Consideration paid	\$25,951	\$62,347	\$34,484	\$122,782
Net assets acquired, at estimated fair value				
Property, plant and equipment	\$35,421	\$65,543	\$37,927	\$138,891
Deferred tax liability	(7,067)	-	-	(7,067)
Decommissioning obligations	(2,403)	(3,196)	(3,443)	(9,042)
	\$25,951	\$62,347	\$34,484	\$122,782

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

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

Included in the statement of income and comprehensive income are the following amounts relating to the Asset Acquisitions, from their respective closing dates to December 31, 2017:

Petroleum and natural gas sales	\$13,817
Operating income (revenue less royalties, operating and transportation costs)	\$7,995

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If the Asset Acquisitions had occurred on January 1, 2017, the Company's pro forma results of petroleum and natural gas sales and net income and comprehensive income for the year ended December 31, 2017 would have been as follows:

	TORC, as stated in the statement of loss and comprehensive loss	Asset Acquisitions (from Jan 1, 2017 to closing dates)	Pro forma (unaudited)
Petroleum and natural gas sales	\$393,840	\$31,479	\$425,319
Operating income (revenue less royalties, operating and transportation costs)	\$227,903	\$18,216	\$246,119

7. Southeast Saskatchewan asset acquisition

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

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

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

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

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

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

Included in the statement of loss and comprehensive loss are the following amounts relating to the September Acquisition, from the September 1, 2016 closing date to December 31, 2016:

Petroleum and natural gas sales	\$6,619
Operating income (revenue less royalties, operating and transportation costs)	\$3,323

If the September Acquisition had occurred on January 1, 2016, the Company's pro forma results of petroleum and natural gas sales and net loss and comprehensive loss for the year ended December 31, 2016 would have been as follows:

	TORC, as stated in the statement of loss and comprehensive loss	September Acquisition (from Jan 1, 2016 to closing date)	Pro forma (unaudited)
Petroleum and natural gas sales	\$238,497	\$11,435	\$249,932
Operating income (revenue less royalties, operating and transportation costs)	\$144,061	\$5,740	\$149,801

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8. Key management personnel compensation

	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Remuneration and short-term benefits	\$3,725	\$2,780
Stock-based compensation	6,477	6,121
	\$10,202	\$8,901
Capitalized portion of total compensation	(5,101)	(4,327)
	\$5,101	\$4,574

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

	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Interest expense and financing charges	\$9,327	\$9,703
Accretion on decommissioning obligations	6,869	4,668
	\$16,196	\$14,371

10. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Source/(use) of cash:		
Trade and other receivables	(\$9,820)	(\$4,359)
Deposits and prepaid expenses	520	117
Trade and other payables	(5,662)	(6,897)
Deferred lease incentives	-	(103)
	(\$14,962)	(\$11,242)
Related to operating activities	(\$19,715)	\$1,375
Related to investing activities	4,753	(12,617)
	(\$14,962)	(\$11,242)

The following table summarizes interest and taxes paid:

	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Interest paid	\$8,820	\$8,903
Taxes paid	-	-
	\$8,820	\$8,903

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11. Property, plant and equipment

Cost:	
Balance at December 31, 2015	\$2,309,434
Property acquisitions	105,384
Property dispositions	(740)
Capital expenditures	93,526
Change in decommissioning obligations	10,835
Balance at December 31, 2016	\$2,518,439
Property acquisitions	139,893
Property dispositions	(15,264)
Capital expenditures	140,066
Change in decommissioning obligations	26,633
Balance at December 31, 2017	\$2,809,767
Accumulated depletion, depreciation and impairment:	
Balance at December 31, 2015	\$450,689
Depletion and depreciation	174,119
Balance at December 31, 2016	\$624,808
Depletion and depreciation	185,827
Accumulated depletion pursuant to the Property Dispositions	(2,024)
Impairment	23,000
Balance at December 31, 2017	\$831,611
Net amount:	
As at December 31, 2016	\$1,893,631
As at December 31, 2017	\$1,978,156

At December 31, 2017, the Company had \$81.5 million of property, plant and equipment which was excluded from depletion at the time and largely related to undeveloped land (December 31, 2016: \$132.2 million). Estimated future development costs of \$746.3 million were included in the depletion calculation (December 31, 2016: \$617.6 million).

During the year ended December 31, 2017, the Company closed dispositions of certain non-core assets within the Company's existing southeast Saskatchewan area (the "Property Dispositions") for cash proceeds of \$9.1 million (before customary adjustments). The carrying value was \$6.7 million including decommissioning obligations, resulting in a gain on disposition of \$2.4 million.

For the year ended December 31, 2017, the Company has capitalized \$3.4 million of general and administrative expenses and \$7.3 million of stock-based compensation, which are directly attributable to the acquisition or exploration activities of the Company (for the year ended December 31, 2016: \$4.1 million and \$7.2 million, respectively).

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Impairment

At December 31, 2017, the Company determined there to be indicators of impairment primarily due to the prolonged decline in the price of natural gas in Canada. Consequently, the Company recognized an impairment charge of \$23.0 million on its PP&E assets related to the Cardium CGU (the "Impaired PP&E Assets") due to the carrying values in the Cardium CGU exceeding the recoverable amounts. The recoverable amount (determined using fair value less costs to sell) of a CGU is the greater of (i) its value in use, and (ii) its fair value less selling costs. The recoverable amount for the Impaired PP&E Assets was \$376.0 million, which was based on the proved plus probable reserve values from TORC's December 31, 2017 reserve report prepared by its independent reserve engineer. The recoverable amount of the CGU was estimated based on proved plus probable reserve values using before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the CGU and values for undeveloped land. The discount rates used in the valuation range from 8% to 15%.

In determining the future cash flows, the Company utilized the following benchmark pricing forecasts from its independent reserves evaluator:

Year	Canadian Light Sweet Crude (\$/Bbl)	Western Canada Select (\$/Bbl)	Alberta AECO - C Spot (\$/MMBtu)	Edmonton Pentanes Plus (\$/Bbl)	Edmonton Butane (\$/Bbl)	Edmonton Propane (\$/Bbl)	Exchange Rate (\$US/\$CAD)
2018	65.44	51.05	2.85	67.72	48.73	26.06	0.79
2019	74.51	59.61	3.11	75.61	55.49	32.84	0.82
2020	78.24	64.94	3.65	78.82	57.65	35.41	0.85
2021	82.45	68.43	3.80	82.35	60.12	37.85	0.85
2022	84.10	69.80	3.95	84.07	61.32	39.29	0.85
2023	85.78	71.20	4.05	85.82	62.55	40.25	0.85
2024	87.49	72.62	4.15	87.61	63.80	41.23	0.85
2025	89.24	74.07	4.25	89.43	65.07	42.23	0.85
2026	91.03	75.55	4.36	91.29	66.37	43.26	0.85
2027	92.85	77.06	4.46	93.19	67.70	44.30	0.85
2028	94.71	78.61	4.57	95.12	69.06	45.36	0.85

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12. Decommissioning obligations

	As at December 31, 2017	As at December 31, 2016
Balance, beginning of year	\$289,493	\$264,703
Obligations incurred	4,680	3,559
Obligations acquired	9,042	9,652
Obligations disposed	(6,596)	-
Obligations settled	(801)	(365)
Change in discount rate, pursuant to asset acquisitions	17,815	20,479
Change in estimates	4,138	(13,203)
Accretion	6,869	4,668
Balance, end of year	\$324,640	\$289,493

The total future decommissioning obligations are based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated an undiscounted and uninflated total future liability of \$340.3 million as at December 31, 2017 (at December 31, 2016: \$314.0 million) to be incurred on average in 25 years.

For the year ended December 31, 2017, the Company used a risk free rate of 2.26 percent and an inflation rate of 1.8 percent to calculate the net present value of the decommissioning obligations, compared to the year ended December 31, 2016 when the risk free rate was 2.31 percent and the inflation rate was 1.8 percent, resulting in a change in estimate of \$4.1 million. Actual costs may differ from estimated costs due to changes in laws and regulations, timing of costs, changes in technology and market conditions.

The decommissioning obligations acquired pursuant to the Asset Acquisitions, during the year ended December 31, 2017, were initially recognized using a fair value interest rate of 7 percent. They were subsequently revalued using the respective risk free rates at the time of the acquisition, resulting in a combined change of \$17.8 million.

13. Taxes

Tax recovery

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 Dec 31, 2017	Year ended Dec 31, 2016
Loss before taxes	(\$12,326)	(\$63,579)
Statutory income tax rate	27.0%	27.0%
Expected income tax recovery	(3,328)	(17,166)
Add (deduct):		
Non-deductible stock-based compensation	815	2,153
Permanent depletion	584	575
Rate adjustments	59	1
Other	34	1,301
Deferred income tax recovery	(\$1,836)	(\$13,136)

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Deferred tax asset

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

	As at Dec 31, 2015	Recognized in profit or loss	Recognized in equity	Asset acquisition	As at Dec 31, 2016
E&E and PP&E	\$148,983	29,141	-	-	\$178,124
Decommissioning obligations	(71,376)	(6,732)	-	-	(78,108)
Loss carryforwards	(73,345)	(38,689)	-	-	(112,034)
Stock based compensation	-	(86)	-	-	(86)
Financial derivatives	-	(300)	-	-	(300)
Deferred lease incentives	(28)	28	-	-	-
Share issue costs	(7,019)	3,502	(1,272)	-	(4,789)
	(\$2,785)	(\$13,136)	(\$1,272)	-	(\$17,193)

	As at Dec 31, 2016	Recognized in profit or loss	Recognized in equity	Asset acquisitions (note 6)	As at Dec 31, 2017
E&E and PP&E	\$178,124	\$21,422	-	9,508	\$209,054
Decommissioning obligations	(78,108)	(7,104)	-	(2,441)	(87,653)
Loss carryforwards	(112,034)	(15,898)	-	-	(127,932)
Stock based compensation	(86)	(2,714)	-	-	(2,800)
Financial derivatives	(300)	216	-	-	(84)
Share issue costs	(4,789)	2,242	-	-	(2,547)
	(\$17,193)	(\$1,836)	-	7,067	(\$11,962)

As at December 31, 2017, the Company has tax deductions of approximately \$1.6 billion (2016: \$1.6 billion) available to shelter future taxable income.

	As at December 31, 2017	As at December 31, 2016
CEE	\$48,673	\$74,435
CDE	155,003	147,578
COGPE	748,877	762,637
UCC	207,759	205,895
Share issue costs	9,433	17,739
Loss carry forwards (expiring between 2026 to 2037)	473,823	414,936
	\$1,643,568	\$1,623,220

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14. Share capital

Share capital - authorized

At December 31, 2017, 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

During the year ended December 31, 2017, the Company closed various Asset Acquisitions (note 6). Related to the Asset Acquisitions, TORC issued 8.6 million common shares valued at \$6.99 (weighted average) per common share on the acquisition closing dates.

In September 2016, the Company closed the September Acquisition described in note 7. Related to this acquisition, TORC secured an equity investment by the CPPIB for gross proceeds of \$25.0 million through a private placement of 3.55 million common shares. In addition, TORC also closed a bought deal prospectus offering of 12.24 million common shares for gross proceeds of \$86.3 million. The combined gross proceeds were \$111.3 million.

Significant investor

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

15. Dividends

<i>(thousands, except per share amounts)</i>	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Dividends declared per share	\$0.240	\$0.265
Cash dividends paid	\$28,963	\$26,793
Dollar value of common shares issued under the Share Dividend Program	15,847	21,855
Total dividends	\$44,810	\$48,648

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

During the period between January 1, 2018 and February 28, 2018, \$7.9 million of dividends have been declared.

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16. Stock-based compensation

In September 2013, the Company's shareholders approved an award plan (the "Share Award Plan") whereby restricted awards and performance awards (collectively, "Share Awards") may be granted to the directors, officers and employees of the Company. The maximum number of common shares issuable under the Share Award Plan, combined with the Company's existing stock option and incentive share plans, cannot exceed ten percent of the outstanding common shares. In addition, the combined number of restricted and performance awards cannot exceed 3.75 percent of the outstanding common shares. Share Awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, a holder of restricted awards is entitled to a notional payment equal to the equivalent number of common shares (plus accrued dividend equivalents). A holder of performance awards is entitled to a similar payment equal to the equivalent number of common shares, converted using a multiplier between zero and two (plus accrued dividend equivalents), dependent on the Company's performance on a set criteria as determined by the Board of Directors. The Corporation has the discretion to settle the awards in common shares, cash or a combination thereof.

Stock options

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

<i>(thousands, except exercise prices)</i>	Number of stock options	Weighted average exercise price
Balance at December 31, 2015	1,532	\$16.42
Expired	(994)	17.61
Forfeited	(36)	14.08
Balance at December 31, 2016	502	\$14.22
Expired	(366)	15.31
Forfeited	(25)	13.05
Balance and exercisable at December 31, 2017	111	\$10.91

The following table summarizes stock options outstanding and exercisable at December 31, 2017:

<i>(thousands, unless otherwise noted)</i>	Number outstanding and exercisable	Weighted average remaining term (years)
Exercise price:		
\$7.15 to \$9.85	30	0.34
\$11.65 to \$13.05	81	0.02
\$7.15 to \$13.05	111	0.11

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

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Restricted awards

The following table summarizes restricted award activity:

<i>(thousands)</i>	Number of restricted awards
Balance at December 31, 2015	1,264
Granted	572
Adjustment for payment of dividends	45
Forfeited	(20)
Vested	(858)
Balance at December 31, 2016	1,003
Granted	582
Adjustment for payment of dividends	46
Forfeited	(32)
Vested	(550)
Balance at December 31, 2017	1,049

Restricted awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, a holder of restricted awards is entitled to a notional payment equal to the equivalent number of common shares (plus accrued dividend equivalents). The Corporation has the discretion to settle the awards in common shares, cash or a combination thereof. The fair value of restricted awards is deemed to equal the stock price on the date of grant. For the year ended December 31, 2017, the weighted average fair value of restricted awards granted was \$6.73 (year ended December 31, 2016 - \$7.96) per restricted award. There is no forfeiture rate included in the calculation of fair values of restricted awards granted.

Performance awards

The following table summarizes performance award activity:

<i>(thousands)</i>	Number of performance awards
Balance at December 31, 2015	2,159
Granted	739
Granted pursuant to performance multiplier ⁽¹⁾	565
Adjustment for payment of dividends	73
Forfeited	(42)
Vested	(1,827)
Balance at December 31, 2016	1,667
Granted	1,084
Granted pursuant to performance multiplier ⁽¹⁾	335
Adjustment for payment of dividends	89
Forfeited	(35)
Vested	(1,272)
Balance at December 31, 2017	1,868

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

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Performance awards are earned over various periods, generally up to three years from the date of grant. Upon being earned, a holder of performance awards is entitled to a notional payment equal to the equivalent number of common shares, converted using a multiplier between zero and two (plus accrued dividend equivalents), dependent on the Company's performance on a set criteria as determined by the Board of Directors. The Corporation has the discretion to settle the awards in common shares, cash or a combination thereof. The multiplier, which was determined during the earning period, is considered to have been applied at the grant date. As performance multipliers are known, past grants are adjusted to reflect the multiplier. The fair value of performance awards is deemed to equal the stock price on the date of grant. For the year ended December 31, 2017, the weighted average fair value of performance awards granted was \$7.12 (year ended December 31, 2016 - \$8.50) per performance award. There is no forfeiture rate included in the calculation of fair values of performance awards granted.

Stock-based compensation

The following table summarizes the stock-based compensation:

<i>(thousands)</i>	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Stock-based compensation on performance awards	\$11,234	\$10,638
Stock-based compensation on restricted awards	4,215	4,740
Stock-based compensation on options	-	4
Stock-based compensation on incentive awards	-	3
Capitalized stock-based compensation	(7,254)	(7,241)
Total stock-based compensation	\$8,195	\$8,144

17. Loss per share

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

<i>(thousands, except number of common shares and per share amounts)</i>	Year ended Dec 31, 2017	Year ended Dec 31, 2016
Loss for the year	(\$10,490)	(\$50,443)
Basic weighted average number of common shares	187,416,719	169,923,413
Diluted weighted average number of common shares	187,416,719	169,923,413
Basic and diluted loss per common share	(\$0.06)	(\$0.30)

For the years ended December 31, 2017 and December 31, 2016, the diluted number of shares is equivalent to the basic number of shares due to antidilutive stock options, incentive shares, performance and restricted awards. Therefore, the diluted per share amounts for net loss are equivalent to the basic per share amounts.

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18. Bank debt

At December 31, 2017, the Company had a reserves-based revolving credit facility of \$400 million with a syndicate of banks (the "Credit Facility"), comprised of a \$55 million operating facility from the operating lender (the "Operating Facility") and a \$345 million syndicated facility with a syndicate of banks (the "Syndicated Facility"). As at December 31, 2017 the amount drawn from the Credit Facility was \$242.7 million. On October 31, 2017, the Credit Facility was renewed at \$400 million, comprised of a \$55 million operating facility and a \$345 million syndicated facility. Advances under the Credit Facility are available by way of direct advances, bankers' acceptances and standby letters of credit/guarantees. Direct advances bear interest at the prime rate, U.S. base rate or LIBOR rate, as applicable, plus a margin which is dependent on the Company's debt to trailing funds flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing funds flow ratio.

Both the Syndicated Facility and the Operating Facility are available on a revolving basis until April 27, 2018. On or before April 27, 2018, at TORC's request and subject to the approval of the lending syndicate, the Credit Facility may be extended for an additional 364 day period. In the event of non-extension, the undrawn portion of the Credit Facility will be cancelled and the amount outstanding will convert to a 364 day non-revolving term facility with repayment of the Credit Facility due on April 28, 2019. The Credit Facility is secured by a fixed and floating charge debenture on all of the Company's assets.

The borrowing base is primarily based on reserves and commodity prices estimated by the lenders. The borrowing base of the Company's Credit Facility is subject to review and redetermination by the lenders on a semi-annual basis and in the event of a change in the Company's borrowing base properties (including due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders). In the normal course, the Company's next credit facility evaluation is due to be completed by April 27, 2018.

19. Financial derivatives

The following table presents a reconciliation of the change in the unrealized amounts for the years ended December 31, 2017 and December 31, 2016:

	Fair value
Financial derivative asset at December 31, 2015	\$0
Unrealized loss on financial derivatives	(1,112)
Financial derivative liability at December 31, 2016	(1,112)
Unrealized gain on financial derivatives	803
Financial derivative liability at December 31, 2017	(\$309)

Commodity contracts outstanding as at December 31, 2017:

Remaining term	Reference	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Fair value at Dec 31, 2017 (\$000s)
Jan 1, 2018 - Dec 31, 2018	C\$WTI	Costless Collar	500	\$55.00 - \$78.05	(\$183)
Jan 1, 2018 - Dec 31, 2018	C\$WTI	Costless Collar	250	\$55.00 - \$81.80	(56)
Jan 1, 2018 - Dec 31, 2018	C\$WTI	Costless Collar	250	\$55.00 - \$82.00	(53)
Jan 1, 2018 - Dec 31, 2018	C\$WTI	Costless Collar	250	\$55.00 - \$83.75	(9)
Jan 1, 2018 - Dec 31, 2018	C\$WTI	Costless Collar	250	\$55.00 - \$84.00	(8)
					(\$309)

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20. Commitment

Future minimum lease payments for the Company's office space as at December 31, 2017 are as follows:

2018	1,970
2019	2,018
2020	1,193
Total	\$5,181

21. Subsequent event

Subsequent to December 31, 2017, the Company entered into the following commodity contracts:

Term	Type	Volume (Bbl/d)	Price (per Bbl in Canadian dollars)	Reference
Feb 1, 2018 - Dec 31, 2018	Costless Collar	250	\$60.00 - \$89.50	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$90.50	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Costless Collar	250	\$55.00 - \$86.50	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Fixed Price Put	250	\$60.00	C\$WTI
Feb 1, 2018 - Dec 31, 2018	Fixed Price Put	500	\$60.00	C\$WTI
Mar 1, 2018 - Dec 31, 2018	Costless Collar	250	\$60.00 - \$89.00	C\$WTI