

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30,	December 31,
<i>(000s) (unaudited)</i>	2017	2016
Assets		
Current assets:		
Accounts receivable	\$ 182,536	\$ 201,288
Prepaid expenses and deposits	14,422	10,575
Fair value of financial instruments <i>(note 3)</i>	11,042	895
Total current assets	208,000	212,758
Long-term asset	5,548	6,034
Fair value of financial instruments <i>(note 3)</i>	13,430	2,990
Exploration and evaluation assets <i>(note 4)</i>	689,459	678,531
Property, plant and equipment <i>(note 5)</i>	9,000,367	8,457,210
Total Assets	\$ 9,916,804	\$ 9,357,523
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 547,070	\$ 396,127
Fair value of financial instruments <i>(note 3)</i>	12,998	40,412
Total current liabilities	560,068	436,539
Bank debt <i>(note 7)</i>	1,422,046	1,406,586
Fair value of financial instruments <i>(note 3)</i>	9,684	40,266
Deferred premium on flow-through shares <i>(note 9)</i>	2,624	16,167
Decommissioning obligations <i>(note 6)</i>	234,842	212,669
Deferred taxes	600,285	477,015
Shareholders' equity:		
Share capital <i>(note 9)</i>	5,855,618	5,818,867
Non-controlling interest <i>(note 8)</i>	27,324	27,549
Contributed surplus	212,637	188,883
Retained earnings	991,676	732,982
Total shareholders' equity	7,087,255	6,768,281
Total Liabilities and Shareholders' Equity	\$ 9,916,804	\$ 9,357,523

Commitments (note 12).

Subsequent events (note 3).

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(000s) except per-share amounts (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Oil and natural gas sales	\$ 303,654	\$ 283,124	\$ 1,216,078	\$ 722,662
Royalties	(12,265)	(11,985)	(59,525)	(27,105)
Net revenue from oil and natural gas sales	291,389	271,139	1,156,553	695,557
Realized gain on risk management activities	106,937	21,356	140,427	108,049
Unrealized gain (loss) on financial instruments (note 3)	3,071	16,728	78,583	(75,985)
Marketing revenue	3,845	–	4,263	–
Other income	8,097	6,124	21,613	19,774
Total net revenue	413,339	315,347	1,401,439	747,395
Expenses:				
Operating	65,412	50,754	207,850	174,274
Transportation	65,523	43,998	186,248	112,409
Marketing purchases	4,229	–	4,687	–
General and administration	9,958	7,693	29,960	23,239
Share-based payments (note 11)	4,447	5,273	14,711	17,580
Depletion, depreciation and amortization	193,365	159,861	571,532	509,186
Realized foreign exchange loss	1,257	–	1,139	–
Unrealized foreign exchange (gain) loss	(185)	–	568	–
(Gain) on divestitures	(17,614)	–	(21,815)	(7,074)
Total expenses	326,392	267,579	994,880	829,614
Income (loss) from operations	86,947	47,768	406,559	(82,219)
Finance expenses	13,306	11,431	38,246	35,640
Income (loss) before taxes	73,641	36,337	368,313	(117,859)
Deferred taxes (recovery)	23,137	11,793	109,844	(24,991)
Net income (loss) and comprehensive income (loss) before non-controlling interest	50,504	24,544	258,469	(92,868)
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	50,580	24,738	258,694	(91,592)
Non-controlling interest (note 8)	(76)	(194)	(225)	(1,276)
	\$ 50,504	\$ 24,544	\$ 258,469	\$ (92,868)
Net income (loss) per share attributable to common shareholders (note 10)				
Basic	\$ 0.19	\$ 0.11	\$ 0.96	\$ (0.40)
Diluted	\$ 0.19	\$ 0.10	\$ 0.96	\$ (0.40)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(000s) (unaudited)</i>	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2016	\$ 5,818,867	\$ 188,883	\$ 732,982	\$ 27,549	\$ 6,768,281
Issue of common shares on acquisitions (<i>note 9</i>)	14,854	–	–	–	14,854
Share issue costs, net of tax	(320)	–	–	–	(320)
Share-based payments	–	14,711	–	–	14,711
Capitalized share-based payments	–	14,711	–	–	14,711
Options exercised (<i>notes 9 and 11</i>)	22,217	(5,668)	–	–	16,549
Income attributable to common shareholders	–	–	258,694	–	258,694
Loss attributable to non-controlling interest	–	–	–	(225)	(225)
Balance at September 30, 2017	\$ 5,855,618	\$ 212,637	\$ 991,676	\$ 27,324	\$ 7,087,255

<i>(000s) (unaudited)</i>	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2015	\$ 4,266,234	\$ 171,958	\$ 764,953	\$ 28,431	\$ 5,231,576
Issue of common shares (<i>note 9</i>)	319,423	–	–	–	319,423
Share issue costs, net of tax (<i>note 9</i>)	(10,009)	–	–	–	(10,009)
Share-based payments	–	17,580	–	–	17,580
Capitalized share-based payments	–	17,580	–	–	17,580
Options exercised (<i>notes 9 and 11</i>)	75,153	(19,932)	–	–	55,221
Loss attributable to common shareholders	–	–	(91,592)	–	(91,592)
Loss attributable to non-controlling interest	–	–	–	(1,276)	(1,276)
Balance at September 30, 2016	\$ 4,650,801	\$ 187,186	\$ 673,361	\$ 27,155	\$ 5,538,503

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ 50,580	\$ 24,738	\$ 258,694	\$ (91,592)
Items not involving cash:				
Depletion, depreciation and amortization	193,365	159,861	571,532	509,186
Accretion	1,369	775	3,829	2,278
Share-based payments	4,447	5,273	14,711	17,580
Deferred taxes (recovery)	23,137	11,793	109,844	(24,991)
Unrealized (gain) loss on financial instruments	(3,071)	(16,728)	(78,583)	75,985
(Gain) on divestitures	(17,614)	-	(21,815)	(7,074)
Amortization on long-term asset	161	166	486	492
Non-controlling interest	(76)	(194)	(225)	(1,276)
Unrealized foreign exchange (gain) loss	(185)	-	568	-
Decommissioning expenditures	(786)	(153)	(1,510)	(1,329)
Changes in non-cash operating working capital	15,198	(464)	25,576	25,508
Total cash flow from operating activities	266,525	185,067	883,107	504,767
Financing:				
Issue of common shares	-	23,365	16,549	383,684
Share issue costs	-	-	(437)	(13,642)
Increase (decrease) in bank debt	(1,945)	(89,124)	15,460	(25,634)
Total cash flow from (used in) financing activities	(1,945)	(65,759)	31,572	344,408
Investing:				
Exploration and evaluation	(20,890)	(24,026)	(74,969)	(38,030)
Property, plant and equipment	(418,051)	(162,788)	(956,064)	(442,836)
Property acquisitions	(26,525)	(37,634)	(27,350)	(225,449)
Proceeds from divestitures	-	-	4,000	18,000
Changes in non-cash investing working capital	200,886	105,140	139,704	(160,860)
Total cash flow used in investing activities	(264,580)	(119,308)	(914,679)	(849,175)
Changes in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(tabular amounts in thousands of dollars, unless otherwise noted) (unaudited)

Corporate Information:

Tourmaline Oil Corp. (the “Company”) was incorporated under the laws of the Province of Alberta on July 21, 2008. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas properties.

The Company’s registered office is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1.

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”. These unaudited interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2016.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars and include the accounts of Tourmaline Oil Corp., and its 90.6% owned subsidiary Exshaw Oil Corp. (note 8), which both have a functional currency of Canadian dollars. Tourmaline Oil Corp. also includes its 100% owned subsidiary Tourmaline Oil Marketing Corp., which has a functional currency of US dollars.

The accounting policies and significant accounting judgments, estimates, and assumptions used in these unaudited interim condensed consolidated financial statements are consistent with those described in Notes 1 and 2 of the Company’s consolidated financial statements for the year ended December 31, 2016, except as noted below.

On January 1, 2017, the Company adopted the amendments made to IAS 7 – Statement of Cash Flows, which require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. There was no impact to the Company as a result of adopting the amended standard.

These unaudited interim condensed consolidated financial statements reflect only the Company’s proportionate interest in such activities. The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2017.

Future accounting changes

The following pronouncements from the IASB will become effective or were amended for financial reporting periods beginning on or after January 1, 2018 and have not yet been adopted by the Company. These new or

revised standards permit early adoption with transitional arrangements depending upon the date of initial application.

IFRS 9 – Financial Instruments replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company currently does not apply hedge accounting to its financial instruments and does not currently intend to apply hedge accounting to any of its financial instruments upon adoption of IFRS 9. The Company will continue to monitor industry trends on the treatment of physical delivery contracts.

IFRS 15 – Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently finalizing the review of its revenue contracts with customers and does not expect the adoption of IFRS 15 to have material impact on the consolidated financial statements. The adoption of IFRS 15 will result in enhanced disclosure of disaggregated revenue streams by product type and any impairment losses recognized on receivables from contracts with customers.

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and replaces the previous leases standard, IAS 17 *Leases*. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the early stages of evaluating the impact of IFRS 16 on its consolidated financial statements and the extent of the impact has not yet been determined.

2. DETERMINATION OF FAIR VALUE

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.

Tourmaline classifies the fair value of transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short term nature. Bank debt bears interest at a floating market rate with applicable variable margins, and accordingly the fair market value approximates the carrying amount. The Company's financial instruments have been assessed on the fair value hierarchy described above and classified as Level 2.

3. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board 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 adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 5 of the Company's consolidated financial statements for the year ended December 31, 2016.

As at September 30, 2017, the Company has entered into certain financial derivative contracts in order to manage commodity price, foreign exchange and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity and interest rate contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income (loss) and comprehensive income (loss).

The Company has the following financial derivative contracts in place as at September 30, 2017 ⁽¹⁾:

		2017	2018	2019	2020	Fair Value (000s)
Gas						
AECO swaps	<i>mmbtu/d</i>	18,956	–	–	–	\$ 1,784
	<i>CAD\$/mmbtu</i>	\$ 3.15				
NYMEX swaps	<i>mmbtu/d</i>	90,000	105,493	7,397	–	\$ 1,937
	<i>USD\$/mmbtu</i>	\$ 3.21	\$ 3.06	\$ 2.98		
Basis differentials – other ⁽²⁾	<i>mmbtu/d</i>	–	26,274	12,466	2,486	\$ 621
	<i>USD\$/mmbtu</i>		\$ (0.12)	\$ (0.30)	\$ (0.30)	
NYMEX call options (writer) ⁽³⁾	<i>mmbtu/d</i>	110,000	110,000	105,000	20,000	\$ (11,407)
	<i>USD\$/mmbtu</i>	\$ 3.67	\$ 3.68	\$ 3.83	\$ 3.75	
Oil						
Financial swaps	<i>bbls/d</i>	4,500	5,000	–	–	\$ (597)
	<i>USD\$/bbl</i>	\$ 51.56	\$ 51.67			
Financial call swaptions ⁽⁴⁾	<i>bbls/d</i>	2,000	3,125	–	–	\$ (4,545)
	<i>USD\$/bbl</i>	\$ 69.45	\$ 54.29			
Total fair value						\$ (12,207)

(1) The volumes and prices reported are the weighted average volumes and prices for the period.

(2) These are basis differentials for Non-AECO markets. A portion of these financial basis deals have a cap on NYMEX, 8.6 mmcf/d at USD \$3.93/mcf for 2018-2020.

(3) These are European calls whereby the counterparty can exercise the option monthly on a particular day to purchase NYMEX at a specified price.

(4) These are European and Asian swaptions whereby the Company provides the option to extend an oil swap into the period subsequent to the call date, or retroactively fix the price on the volumes under the contract.

The Company has entered into the following financial derivative contracts subsequent to September 30, 2017:

Type of Contract	Quantity	Time Period	Contract Price
Gas Basis differentials – other ⁽¹⁾	10,000 mmbtu/d	July 2018 – October 2018	USD\$(0.22)/mmbtu
Oil Financial Swap	500 bbls/d	January 2018 – December 2018	USD\$52.30/bbl

⁽¹⁾ This is a basis differential for a non-AECO market. This trade has a cap on NYMEX, 10 mmcf/d at USD\$3.00/mcf.

The Company has entered into multiple interest rate swaps over the next seven years at an annual average interest rate as detailed below:

	2017	2018	2019	2020	2021	2022	2023	Fair Value
Effective interest rate ⁽¹⁾	1.54%	1.54%	1.58%	1.43%	1.54%	1.71%	1.97%	
Notional amount hedged (000s)	\$ 725,000	\$ 725,000	\$ 707,000	\$ 571,000	\$ 509,000	\$ 282,000	\$ 94,000	\$ 13,997

⁽¹⁾ Canadian Dealer offer rate, excluding stamping and stand-by fees.

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Unrealized gain (loss) on financial instruments – commodity contracts	\$ (7,058)	\$ 15,689	\$ 62,256	\$ (76,420)
Unrealized gain (loss) on financial instruments – interest rate swaps	10,129	1,039	16,327	435
Total unrealized gain (loss) on financial instruments	\$ 3,071	\$ 16,728	\$ 78,583	\$ (75,985)

In addition to the financial commodity contracts discussed above, the Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements.

The Company has the following physical contracts in place at September 30, 2017 ⁽¹⁾⁽⁷⁾:

		2017	2018	2019	2020	2021
Gas						
Fixed price ⁽²⁾	<i>mcf/d</i>	285,532	142,404	–	–	–
	<i>CAD\$/mcf</i>	\$ 3.22	\$ 2.97			
Basis differentials - AECO ⁽³⁾⁽⁴⁾	<i>mmbtu/d</i>	115,707	189,363	187,500	187,500	94,062
	<i>USD\$/mmbtu</i>	\$ (0.66)	\$ (0.76)	\$ (0.75)	\$ (0.75)	\$ (0.68)
Basis differentials - Dawn	<i>mmbtu/d</i>	–	18,836	25,000	25,000	6,164
	<i>USD\$/mmbtu</i>		\$ (0.15)	\$ (0.15)	\$ (0.15)	\$ (0.15)
Basis differentials – Stn 2	<i>mcf/d</i>	57,391	51,255	39,478	37,812	29,478
	<i>CAD\$/mcf</i>	\$ (0.18)	\$ (0.17)	\$ (0.16)	\$ (0.20)	\$ (0.20)
AECO Monthly Calls / Call Swaptions ⁽³⁾	<i>mcf/d</i>	3,194	71,086	37,913	–	–
	<i>CAD\$/mcf</i>	\$ 2.85	\$ 4.26	\$ 2.74		
Oil						
Fixed differential - Oil ⁽⁵⁾	<i>bbls/d</i>	776	1,552	–	–	–
	<i>USD\$/bbl</i>	\$ (6.75)	\$ (6.95)			
Fixed differential - Condensate ⁽⁶⁾	<i>bbls/d</i>	–	1,034	–	–	–
	<i>USD\$/bbl</i>		\$ 1.05			

(1) The volumes and prices reported are the weighted-average volumes and prices for the period.

(2) These include AECO and Dawn.

(3) Tourmaline also has an average of 60.8 mmcf/d of NYMEX-AECO basis differentials at \$(0.70) from 2022-2024. A portion of these basis deals have a cap on NYMEX, 35.7 mmcf/d at USD\$4.18/mcf for 2017, 170.5 mmcf/d at USD\$4.10/mcf from 2018-2020 and 52.5 mmcf/d at USD\$4.45/mcf from 2021-2024.

(4) These are monthly calls for 2017 that are European Swaptions, whereby the Company provides the option to extend a gas swap into the period subsequent to the call date or increase the volumes under contract. In 2018, there is a combination of monthly calls and European Swaptions.

(5) Tourmaline sells physical crude at a fixed differential to NYMEX.

(6) Tourmaline sells physical condensate at a fixed differential to NYMEX.

(7) Tourmaline also has entered into deals to sell 30,000 mmbtu/d at Chicago GDD pricing less transportation costs from April 2015 to October 2020; 20,000 mmbtu/d at Chicago GDD pricing less transportation costs from April 2015 to March 2020; 5,000 mmbtu/d at Chicago GDD pricing less transportation costs from November 2017 to March 2023; 25,000 mmbtu/d at Emerson GDD pricing less transportation costs from November 2016 to October 2017; and 20,000 mmbtu/d at Ventura GDD pricing less transportation costs from April 2015 to October 2020.

The Company has entered into the following physical contracts subsequent to September 30, 2017:

Type of Contract	Quantity	Time Period	Contract Price
Gas Fixed Price – AECO	10,000 GJs/d	April 2018 – October 2018	CAD\$1.80/GJ

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2016	\$ 678,531
Capital expenditures	74,969
Transfers to property, plant and equipment (note 5)	(52,001)
Acquisitions	18,482
Divestitures	(9,374)
Expired mineral leases	(21,148)
As at September 30, 2017	\$ 689,459

Exploration and evaluation (“E&E”) assets consist of the Company’s exploration projects which are pending the determination of proven and probable reserves, as well as undeveloped land. Additions represent the Company’s share of costs on E&E assets during the period.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At September 30, 2017 and December 31, 2016, the Company determined that no indicators of impairment existed on its E&E assets; therefore, an impairment test was not performed.

5. PROPERTY, PLANT AND EQUIPMENT

Cost

(000s)

As at December 31, 2016	\$11,008,617
Capital expenditures	970,775
Transfers from exploration and evaluation (note 4)	52,001
Change in decommissioning liabilities (note 6)	19,549
Acquisitions	63,394
Divestiture	(12,178)
As at September 30, 2017	\$12,102,158

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2016	\$ 2,551,407
Depletion, depreciation and amortization	550,384
As at September 30, 2017	\$ 3,101,791

Net Book Value

(000s)

As at December 31, 2016	\$ 8,457,210
As at September 30, 2017	\$ 9,000,367

Future development costs of \$6,971.9 million were included in the depletion calculation at September 30, 2017 (December 31, 2016 – \$6,417.4 million).

Capitalization of G&A and Share-Based Payments

A total of \$17.8 million in G&A expenditures have been capitalized and included in PP&E at September 30, 2017 (December 31, 2016 – \$23.7 million). Also included in PP&E are non-cash year to date share-based payments of \$14.7 million (December 31, 2016 - \$22.8 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment. At September 30, 2017 and December 31, 2016, the Company determined that there were no indicators of impairment on any of the Company's CGUs; therefore impairment tests were not performed.

Business Combinations

Minehead-Edson-Ansell

On January 29, 2016, the Company acquired assets in the Minehead-Edson-Ansell area of the Alberta Deep Basin for cash consideration of \$183.0 million before customary adjustments. The acquisition resulted in an increase in lands, production, reserves and facilities in a core area of the Alberta Deep Basin.

Results from operations are included in the Company's consolidated financial statements from the closing date of the transaction. The acquisition has been accounted for using the purchase method based on fair values as follows:

<i>(000s)</i>	Minehead-Edson-Ansell
Fair value of net assets acquired:	
Property, plant and equipment	\$ 179,230
Exploration and evaluation	4,753
Decommissioning obligations	(983)
Total	\$ 183,000
Consideration:	
Cash	\$ 183,000

Shell Canada

On November 30, 2016, the Company acquired assets in the Alberta Deep Basin and the Northeast B.C. Gundy area ("Gundy assets") for total consideration of \$1,367.8 million, including cash consideration of \$1,000.1 million before customary adjustments and 10,017,938 Tourmaline common shares at a deemed price of \$36.70 per share. Total transaction costs incurred by the Company of \$1.6 million associated with this acquisition were expensed in the consolidated statement of income (loss) and comprehensive income (loss). The Deep Basin assets acquired resulted in significant increases in lands, production, reserves and facilities in a core development area of the Company. The Gundy assets acquired include land, production and reserves and now provide the Company with sufficient size and scope in the Northeast BC Montney play to drive strategic Company-operated infrastructure development.

Results from operations are included in the Company's audited consolidated financial statements from the closing date of the transaction. The acquisition has been accounted for using the purchase method based on fair values as follows:

<i>(000s)</i>	Shell Canada
Fair value of net assets acquired:	
Property, plant and equipment	\$ 1,333,367
Exploration and evaluation	38,493
Decommissioning obligations	(4,106)
Total	\$ 1,367,754
Consideration:	
Cash	\$ 1,000,096
Common Shares	367,658
Total	\$ 1,367,754

Acquisitions and Dispositions of Oil and Natural Gas Properties

For the nine months ended September 30, 2017, the Company completed property acquisitions for cash of \$27.4 million (December 31, 2016 - \$42.5 million) and, a further \$54.5 million in acquisitions involving non-cash consideration (December 31, 2016 - \$8.0 million). Of the \$54.5 million, \$14.9 million relates to assets acquired by issuing 475,000 Tourmaline common shares at a price \$31.27 per share with the remaining relating to asset swaps completed in the period. The Company also assumed \$0.4 million in decommissioning liabilities as a result of these acquisitions (December 31, 2016 - \$1.4 million).

The Company also completed property dispositions for the nine months ended September 30, 2017 for total cash consideration of \$4.0 million (December 31, 2016 - \$48.0 million).

6. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately \$428.9 million (December 31, 2016 - \$392.0 million), with some abandonments expected to commence in 2034. A risk-free rate of 2.31% (December 31, 2016 - 2.31%) and an inflation rate of 2.0% (December 31, 2016 - 2.0%) were used to calculate the decommissioning obligations.

<i>(000s)</i>	As at September 30, 2017	As at December 31, 2016
Balance, beginning of period	\$ 212,669	\$ 163,459
Obligation incurred	16,913	14,798
Obligation incurred on property acquisitions	391	6,520
Obligation divested	(86)	(1,406)
Obligation settled	(1,510)	(1,367)
Accretion expense	3,829	3,607
Change in future estimated cash outlays	2,636	27,058
Balance, end of period	\$ 234,842	\$ 212,669

7. BANK DEBT

The Company has a covenant-based, unsecured, credit facility in place with a syndicate of banks, the details of which are described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2016. This is an extendible revolving facility in the amount of \$1,800.0 million with a maturity date of June 2022. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to \$500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The Company also has a \$50.0 million operating revolver, resulting in a total bank credit facility capacity of \$1,850.0 million without giving effect to the accordion feature. The facility can be drawn in either Canadian or U.S. funds and bears interest at the bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

The Company also has a term loan with a syndicate of banks. On February 3, 2017, the Company increased the term loan from \$250.0 million to \$650.0 million and extended its maturity date to February 2022. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus 200 basis points. With the exception of the increase in amount and maturity date extension the term debt was renewed under the same terms and conditions as those outlined in note 9 of the Company's consolidated financial statements for the year ended December 31, 2016. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The covenants for the term loan are the same as those under the Company's current credit facility and the term loan will rank equally with the obligation under the Company's credit facility.

The Company's aggregate borrowing capacity is now \$2.5 billion.

As at September 30, 2017, the Company had \$648.1 million in long-term debt outstanding and \$773.9 million drawn against the bank credit facility for total bank debt of \$1,422.0 million (net of prepaid interest and debt issue costs) (December 31, 2016 - \$1,406.6 million). In addition, Tourmaline has outstanding letters of credit of \$17.1 million (December 31, 2016 - \$18.6 million), which reduce the credit available on the facility. The effective interest rate for the nine months ended September 30, 2017 was 2.50% (nine months ended September 30, 2016 - 2.52%). As at September 30, 2017, the Company is in compliance with all debt covenants.

8. NON-CONTROLLING INTEREST

The Company owns 90.6 percent of Exshaw Oil Corp., a private company engaged in oil and gas exploration in Canada. A reconciliation of the non-controlling interest is provided below:

<i>(000s)</i>	As at September 30, 2017	As at December 31, 2016
Balance, beginning of period	\$ 27,549	\$ 28,431
Share of subsidiary's net income (loss) for the period	(225)	(882)
Balance, end of period	\$ 27,324	\$ 27,549

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

Unlimited number of non-voting Preferred Shares, issuable in series.

(b) Common Shares Issued

	As at September 30, 2017		As at December 31, 2016	
	Number of Shares	Amount	Number of Shares	Amount
<i>(000s) except share amounts</i>				
Balance, beginning of period	268,595,812	\$ 5,818,867	221,335,925	\$ 4,266,234
For cash on public offering of common shares ⁽¹⁾⁽⁴⁾	–	–	32,146,200	1,037,722
For cash on public offering of flow-through common shares ⁽²⁾⁽³⁾	–	–	2,210,500	69,760
Issued on corporate and property acquisitions (note 5)	475,000	14,854	10,017,938	367,658
For cash on exercise of stock options	713,134	16,549	2,885,249	82,217
Contributed surplus on exercise of stock options	–	5,668	–	28,717
Share issue costs	–	(437)	–	(45,684)
Tax effect of share issue costs	–	117	–	12,243
Balance, end of period	269,783,946	\$ 5,855,618	268,595,812	\$ 5,818,867

(1) On April 5, 2016, the Company issued 10.388 million common shares at a price of \$27.11 per share for total gross proceeds of \$281.6 million. A total of 37,500 common shares were purchased by insiders.

(2) On May 17, 2016, the Company issued 1.320 million flow-through shares at a price of \$35.50 per share for total gross proceeds of \$46.9 million. The implied premium on the flow-through common shares was determined to be \$9.0 million or \$6.85 per share. As at September 30, 2017, the Company had spent the full committed amount. The expenditures were renounced to investors in January 2017 with an effective renunciation date of December 31, 2016.

(3) On October 20, 2016, the Company issued 0.891 million flow-through shares at a price of \$44.50 per share for total gross proceeds of \$39.6 million. The implied premium on the flow-through common shares was determined to be \$7.7 million or \$8.63 per share. As at September 30, 2017, the Company is committed to spend \$13.5 million on qualified exploration expenditures by December 31, 2017. The expenditures were renounced to investors in January 2017 with an effective renunciation date of December 31, 2016.

(4) On November 30, 2016, the Company issued 21.759 million common shares at a price of \$34.75 per share for total gross proceeds of \$756.1 million. A total of 175,000 common shares were purchased by insiders.

10. EARNINGS (LOSS) PER SHARE

Basic earnings-per-share attributed to common shareholders was calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings (loss) for the period (000s)	\$ 50,580	\$ 24,738	\$ 258,694	\$ (91,592)
Weighted average number of common shares – basic	269,783,946	234,600,727	269,400,351	229,507,106
Earnings (loss) per share – basic	\$ 0.19	\$ 0.11	\$ 0.96	\$ (0.40)

Diluted earnings-per-share attributed to common shareholders was calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings (loss) for the period (000s)	\$ 50,580	\$ 24,738	\$ 258,694	\$ (91,592)
Weighted average number of common shares – diluted	269,784,882	235,627,273	269,439,702	229,507,106
Earnings (loss) per share – fully diluted	\$ 0.19	\$ 0.10	\$ 0.96	\$ (0.40)

There were 19,897,864 and 16,903,165 options excluded from the weighted-average share calculations for the three and nine month periods ended September 30, 2017 because they were anti-dilutive (three and nine months ended September 30, 2016 – 11,637,666 and 18,282,566 options were anti-dilutive).

11.SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 22,931,635 shares of common stock, which represents 8.5% of the current outstanding common shares. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is seven years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

	Nine Months Ended September 30,			
	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	20,037,497	\$ 37.26	19,746,414	\$ 36.50
Granted	1,281,500	27.75	620,300	33.74
Exercised	(713,134)	23.21	(1,922,480)	28.72
Expired	(75,000)	28.92	-	-
Forfeited	(617,499)	38.83	(161,668)	38.94
Stock options outstanding, end of period	19,913,364	\$ 37.13	18,282,566	\$ 37.20

The average trading price of the Company's common shares was \$27.95 during the nine months ended September 30, 2017 (nine months ended September 30, 2016 – \$30.29).

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

Range of Exercise Price	Number Outstanding at Period End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Period End	Weighted Average Exercise Price
\$22.49 - \$29.26	4,165,499	4.03	26.57	972,298	26.49
\$30.06 - \$39.57	7,066,365	3.39	34.59	3,307,165	34.52
\$40.18 - \$48.99	7,104,000	1.45	42.13	6,124,667	41.97
\$51.47 - \$56.76	1,577,500	1.77	53.85	1,577,500	53.85
	19,913,364	2.70	37.13	11,981,630	40.22

The fair value of options granted during the nine-month period ended September 30, 2017 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	September 30,	
	2017	2016
Fair value of options granted (weighted average)	\$ 8.55	\$ 9.65
Risk-free interest rate	1.32%	1.89%
Estimated hold period prior to exercise	5 years	4 years
Expected volatility	33%	33%
Forfeiture rate	2%	2%
Dividend per share	\$ 0.00	\$ 0.00

12.COMMITMENTS

In the normal course of business, the Company is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating leases	\$ 5,614	\$ 8,130	\$	\$ –	\$ 13,744
Firm transportation and processing agreements	311,116	710,515	646,835	1,771,802	3,440,268
Capital commitments ⁽¹⁾	314,684	531,388	159,122	39,301	1,044,495
Flow-through share commitments	13,539	–	–	–	13,539
Credit facility ⁽²⁾	–	–	885,193	–	885,193
Term debt ⁽³⁾	21,462	42,924	678,281	–	742,667
	\$ 666,415	\$ 1,292,957	\$ 2,369,431	\$ 1,811,103	\$ 6,139,906

(1) Includes drilling commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of \$300.0 million per year until 2019. The capital spending commitment can be deferred to future periods in the event of an economic downturn, and as agreed upon by both parties. At September 30, 2017, an economic downturn event, as defined in the joint arrangement in the Spirit River complex had occurred and as a result the 2017 capital budget has been adjusted downward and the original planned capital will be deferred to future periods.

(2) Includes interest expense at an annual rate of 2.75% being the rate applicable to outstanding debt on the credit facility at September 30, 2017.

(3) Includes interest expense at an annual rate of 3.30% being the fixed rate on the term debt at September 30, 2017.