

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	December 31,
<i>(000s) (unaudited)</i>	2017	2016
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 194,921	\$ 201,288
Prepaid expenses and deposits	18,121	10,575
Fair value of financial instruments <i>(note 3)</i>	14,712	895
Total current assets	227,754	212,758
Long-term asset	5,709	6,034
Fair value of financial instruments <i>(note 3)</i>	10,028	2,990
Exploration and evaluation assets <i>(note 4)</i>	690,583	678,531
Property, plant and equipment <i>(note 5)</i>	8,696,394	8,457,210
Total Assets	\$ 9,630,468	\$ 9,357,523
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 347,254	\$ 396,127
Fair value of financial instruments <i>(note 3)</i>	10,837	40,412
Total current liabilities	358,091	436,539
Bank debt <i>(note 7)</i>	1,423,991	1,406,586
Fair value of financial instruments <i>(note 3)</i>	15,184	40,266
Deferred premium on flow-through shares <i>(note 9)</i>	6,676	16,167
Decommissioning obligations <i>(note 6)</i>	225,573	212,669
Deferred taxes	573,096	477,015
Shareholders' equity:		
Share capital <i>(note 9)</i>	5,855,618	5,818,867
Non-controlling interest <i>(note 8)</i>	27,400	27,549
Contributed surplus	203,743	188,883
Retained earnings	941,096	732,982
Total shareholders' equity	7,027,857	6,768,281
Total Liabilities and Shareholders' Equity	\$ 9,630,468	\$ 9,357,523

*Commitments (note 12).*

*See accompanying notes to the interim condensed consolidated financial statements.*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s) except per-share amounts (unaudited)	2017	2016	2017	2016
<b>Revenue:</b>				
Oil and natural gas sales	\$ 463,352	\$ 205,994	\$ 912,424	\$ 439,538
Royalties	(19,409)	(8,551)	(47,260)	(15,120)
Net revenue from oil and natural gas sales	443,943	197,443	865,164	424,418
Realized gain on financial instruments	15,917	41,129	33,490	86,693
Unrealized gain (loss) on financial instruments (note 3)	35,669	(64,070)	75,512	(92,713)
Marketing Revenue	418	-	418	-
Other income	6,337	7,169	13,516	13,650
Total net revenue	502,284	181,671	988,100	432,048
<b>Expenses:</b>				
Operating	69,005	57,630	142,438	123,520
Transportation	61,626	34,786	120,725	68,411
Marketing Purchases	458	-	458	-
General and administration	9,938	8,005	20,002	15,546
Share-based payments (note 11)	5,127	6,098	10,264	12,307
Depletion, depreciation and amortization	189,493	168,386	378,167	349,325
Realized foreign exchange (gain) loss	559	-	(118)	-
Unrealized foreign exchange loss	594	-	753	-
(Gain) on divestitures	(968)	(2,621)	(4,201)	(7,074)
Total expenses	335,832	272,284	668,488	562,035
<b>Income (loss) from operations</b>	<b>166,452</b>	<b>(90,613)</b>	<b>319,612</b>	<b>(129,987)</b>
Finance expenses	12,865	11,482	24,940	24,209
<b>Income (loss) before taxes</b>	<b>153,587</b>	<b>(102,095)</b>	<b>294,672</b>	<b>(154,196)</b>
Deferred taxes (recovery)	45,311	(23,841)	86,707	(36,784)
<b>Net income (loss) and comprehensive income (loss) before non-controlling interest</b>	<b>108,276</b>	<b>(78,254)</b>	<b>207,965</b>	<b>(117,412)</b>
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	108,580	(77,940)	208,114	(116,330)
Non-controlling interest (note 8)	(304)	(314)	(149)	(1,082)
	\$ 108,276	\$ (78,254)	\$ 207,965	\$ (117,412)
<b>Net income (loss) per share attributable to common shareholders (note 10)</b>				
Basic	\$ 0.40	\$ (0.34)	\$ 0.77	\$ (0.51)
Diluted	\$ 0.40	\$ (0.34)	\$ 0.77	\$ (0.51)

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	–	10,264	–	–	10,264
Capitalized share-based payments	–	10,264	–	–	10,264
Options exercised ( <i>notes 9 and 11</i> )	22,217	(5,668)	–	–	16,549
Income attributable to common shareholders	–	–	208,114	–	208,114
Loss attributable to non-controlling interest	–	–	–	(149)	(149)
<b>Balance at June 30, 2017</b>	<b>\$ 5,855,618</b>	<b>\$ 203,743</b>	<b>\$ 941,096</b>	<b>\$ 27,400</b>	<b>\$ 7,027,857</b>

<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	–	12,307	–	–	12,307
Capitalized share-based payments	–	12,307	–	–	12,307
Options exercised ( <i>notes 9 and 11</i> )	43,691	(11,837)	–	–	31,854
Loss attributable to common shareholders	–	–	(116,330)	–	(116,330)
Loss attributable to non-controlling interest	–	–	–	(1,082)	(1,082)
Balance at June 30, 2016	\$ 4,619,339	\$ 184,735	\$ 648,623	\$ 27,349	\$ 5,480,046

See accompanying notes to the interim condensed consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(000s) (unaudited)</i>	2017	2016	2017	2016
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net income (loss)	\$ 108,580	\$ (77,940)	\$ 208,114	\$ (116,330)
Items not involving cash:				
Depletion, depreciation and amortization	189,493	168,386	378,167	349,325
Accretion	1,262	713	2,460	1,503
Share-based payments	5,127	6,098	10,264	12,307
Deferred taxes (recovery)	45,311	(23,841)	86,707	(36,784)
Unrealized (gain) loss on financial instruments	(35,669)	64,070	(75,512)	92,713
(Gain) on divestitures	(968)	(2,621)	(4,201)	(7,074)
Amortization on long-term asset	162	163	325	326
Non-controlling interest	(304)	(314)	(149)	(1,082)
Unrealized foreign exchange loss	594	–	753	–
Decommissioning expenditures	(317)	(416)	(724)	(1,176)
Changes in non-cash operating working capital	(34,694)	9,094	10,378	25,972
Total cash flow from operating activities	278,577	143,392	616,582	319,700
<b>Financing:</b>				
Issue of common shares	14,332	356,626	16,549	360,319
Share issue costs	(400)	(13,533)	(437)	(13,642)
Increase (decrease) in bank debt	65,901	(245,003)	17,405	63,490
Total cash flow from financing activities	79,833	98,090	33,517	410,167
<b>Investing:</b>				
Exploration and evaluation	(22,299)	(9,370)	(54,079)	(14,004)
Property, plant and equipment	(171,203)	(34,533)	(538,013)	(280,048)
Property acquisitions	(30)	(5,107)	(825)	(187,815)
Proceeds from divestitures	4,000	–	4,000	18,000
Changes in non-cash investing working capital	(168,878)	(192,472)	(61,182)	(266,000)
Total cash flow used in investing activities	(358,410)	(241,482)	(650,099)	(729,867)
<b>Changes in cash</b>	–	–	–	–
<b>Cash, beginning of period</b>	–	–	–	–
<b>Cash, end of period</b>	\$ –	\$ –	\$ –	\$ –

*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 JUNE 30, 2017 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

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

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## 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 – 8<sup>th</sup> 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 in Canadian dollars. Tourmaline Oil Corp. also includes its 100% owned subsidiary Tourmaline Oil Marketing Corp., which has a functional currency in 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 August 2, 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.

**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 in the process of identifying and reviewing revenue contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, including enhanced disclosures of disaggregation of revenue.

**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 June 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 June 30, 2017<sup>(1)</sup>:

		2017	2018	2019	2020	Fair Value (000s)
<b>Gas</b>						
AECO swaps	<i>mmbtu/d</i>	18,956	–	–	–	\$ 2,127
	<i>CAD\$/mmbtu</i>	\$ 3.15				
NYMEX swaps	<i>mmbtu/d</i>	90,000	51,164	–	–	\$ 3,974
	<i>USD\$/mmbtu</i>	\$ 3.16	\$ 3.15			
Basis differentials – other <sup>(2)</sup>	<i>mmbtu/d</i>	–	40,932	12,466	2,486	\$ (1)
	<i>USD\$/mmbtu</i>		\$ (0.21)	\$ (0.30)	\$ (0.30)	
NYMEX call options (writer) <sup>(3)</sup>	<i>mmbtu/d</i>	110,000	110,000	105,000	20,000	\$ (16,231)
	<i>USD\$/mmbtu</i>	\$ 3.56	\$ 3.68	\$ 3.83	\$ 3.75	
<b>Oil</b>						
Financial swaps	<i>bbls/d</i>	4,500	1,000	–	–	\$ 9,092
	<i>USD\$/bbl</i>	\$ 51.56	\$ 55.65			
Financial call swaptions <sup>(4)</sup>	<i>bbls/d</i>	2,000	3,125	–	–	\$ (4,110)
	<i>USD\$/bbl</i>	\$ 69.45	\$ 54.30			
<b>Total fair value</b>						<b>\$ (5,149)</b>

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

(2) Includes basis differentials for Malin and PG&E.

(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 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 <sup>(1)</sup>	1.52%	1.51%	1.54%	1.29%	1.38%	1.45%	1.68%	
Notional amount hedged (000s)	\$ 675,000	\$ 675,000	\$ 639,726	\$ 461,027	\$ 384,452	\$ 157,808	\$ 15,890	\$ 3,868

(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 six months ended June 30, 2017 and 2016:

(000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Unrealized gain (loss) on financial instruments – commodity contracts	\$ 28,709	\$ (64,346)	\$ 69,314	\$ (92,109)
Unrealized gain (loss) on financial instruments – interest rate swaps	6,960	276	6,198	(604)
Total unrealized gain (loss) on financial instruments	\$ 35,669	\$ (64,070)	\$ 75,512	\$ (92,713)

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 June 30, 2017 <sup>(1)(5)</sup>:

		2017	2018	2019	2020	2021
<b>Gas</b>						
Fixed price – AECO	<i>mcf/d</i>	237,078	131,915	–	–	–
	<i>CAD\$/mcf</i>	\$ 3.15	\$ 2.97			
Basis differentials - AECO <sup>(2)(3)</sup>	<i>mmbtu/d</i>	104,103	147,500	147,500	147,500	76,664
	<i>USD\$/mmbtu</i>	\$ (0.66)	\$ (0.72)	\$ (0.72)	\$ (0.72)	\$ (0.64)
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	47,913	19,478	17,807	9,478
	<i>CAD\$/mcf</i>	\$ (0.32)	\$ (0.26)	\$ (0.21)	\$ (0.21)	\$ (0.26)
AECO Monthly Calls / Call Swaptions <sup>(3)</sup>	<i>mcf/d</i>	6,336	71,086	37,913	–	–
	<i>CAD\$/mcf</i>	\$ 2.85	\$ 4.26	\$ 2.74		
<b>Oil</b>						
Fixed differential <sup>(4)</sup>	<i>bbls/d</i>	776	1,552	–	–	–
	<i>USD\$/bbl</i>	\$ (6.75)	\$ (6.95)			

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

(2) Tourmaline also has an average of 54.2 mmcf/d of NYMEX-AECO basis differentials at \$(0.68) from 2022-2024. A portion of these basis deals have a cap on NYMEX, 19.1 mmcf/d at USD\$4.24/mcf for 2017, 92.5 mmcf/d at USD\$4.18/mcf from 2018-2020 and 40.0 mmcf/d at USD\$4.57/mcf from 2021-2024.

(3) 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.

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

(5) 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.

## 4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2016	\$ 678,531
Capital expenditures	54,079
Transfers to property, plant and equipment (note 5)	(28,973)
Acquisitions	673
Divestitures	(1,542)
Expired mineral leases	(12,185)
<b>As at June 30, 2017</b>	<b>\$ 690,583</b>

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 June 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	548,277
Transfers from exploration and evaluation (note 4)	28,973
Change in decommissioning liabilities (note 6)	11,003
Acquisitions	19,945
Divestiture	(3,032)
<b>As at June 30, 2017</b>	<b>11,613,783</b>

### Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2016	\$ 2,551,407
Depletion, depreciation and amortization	365,982
<b>As at June 30, 2017</b>	<b>\$ 2,917,389</b>

### Net Book Value

(000s)

As at December 31, 2016	\$ 8,457,210
<b>As at June 30, 2017</b>	<b>\$ 8,696,394</b>

Future development costs of \$6,429.8 million were included in the depletion calculation at June 30, 2017 (December 31, 2016 – \$6,417.4 million).

### Capitalization of G&A and Share-Based Payments

A total of \$11.6 million in G&A expenditures have been capitalized and included in PP&E assets at June 30, 2017 (December 31, 2016 – \$23.7 million). Also included in PP&E are non-cash share-based payments of \$10.3 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 June 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>	<b>Minehead-Edson-Ansell</b>
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>	<b>Shell Canada</b>
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 six months ended June 30, 2017, the Company completed property acquisitions for cash of \$0.8 million (December 31, 2016 - \$42.5 million) and, a further \$19.8 million in acquisitions involving non-cash consideration (December 31, 2016 - \$8.0 million). Of the \$19.8 million, \$14.9 million relates to assets acquired by issuing 475,000 Tourmaline common shares at a price \$31.27 per share. The Company also assumed \$0.2 million in decommissioning liabilities as a result of these acquisitions (December 31, 2016 - \$1.4 million).

The Company also completed property dispositions for the six months ended June 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 \$413.0 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 June 30, 2017	As at December 31, 2016
Balance, beginning of period	\$ 212,669	\$ 163,459
Obligation incurred	9,879	14,798
Obligation incurred on property acquisitions	165	6,520
Obligation divested	-	(1,406)
Obligation settled	(724)	(1,367)
Accretion expense	2,460	3,607
Change in future estimated cash outlays	1,124	27,058
Balance, end of period	\$ 225,573	\$ 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 an initial 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 total bank credit facility capacity of \$1,850.0 million. 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, which range from 0.50% to 3.90% depending on the type of borrowing and the Company's senior debt to adjusted EBITDA ratio.

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 June 30, 2017, the Company had \$648.0 million in long-term debt outstanding and \$776.0 million drawn against the bank credit facility for total bank debt of \$1,424.0 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 \$14.4 million (December 31, 2016 - \$18.6 million), which reduce the credit available on the facility. The effective interest rate for the six months ended June 30, 2017 was 2.45% (six months ended June 30, 2016 – 2.45%). As at June 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 June 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	(149)	(882)
Balance, end of period	\$ 27,400	\$ 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 June 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 <sup>(1)(4)</sup>	–	–	32,146,200	1,037,722
For cash on public offering of flow-through common shares <sup>(2)(3)</sup>	–	–	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 June 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 June 30, 2017, the Company is committed to spend \$34.4 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings (loss) for the period (000s)	\$ 108,580	\$ (77,940)	\$ 208,114	\$ (116,330)
Weighted average number of common shares – basic	269,353,945	232,460,854	269,205,374	226,932,309
Earnings (loss) per share – basic	\$ 0.40	\$ (0.34)	\$ 0.77	\$ (0.51)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings (loss) for the period (000s)	\$ 108,580	\$ (77,940)	\$ 208,114	\$ (116,330)
Weighted average number of common shares – diluted	269,355,639	232,460,854	269,302,667	226,932,309
Earnings (loss) per share – fully diluted	\$ 0.40	\$ (0.34)	\$ 0.77	\$ (0.51)

There were 19,944,530 and 16,808,165 options excluded from the weighted-average share calculations for the three and six month periods ended June 30, 2017 because they were anti-dilutive (three and six months ended June 30, 2016 – 18,672,713 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.

	Six Months Ended June 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	754,000	29.55	205,300	28.73
Exercised	(713,134)	23.21	(1,117,333)	28.51
Forfeited	(118,333)	42.30	(161,668)	38.94
Stock options outstanding, end of period	19,960,030	\$ 37.44	18,672,713	\$ 36.87

The average trading price of the Company's common shares was \$29.05 during the six months ended June 30, 2017 (six months ended June 30, 2016 – \$28.02).

The following table summarizes stock options outstanding and exercisable at June 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	3,779,665	3.78	26.81	1,069,520	26.66
\$30.06 - \$39.57	7,241,365	3.67	34.61	3,028,498	34.45
\$40.18 - \$48.99	7,324,000	1.70	42.11	6,319,667	41.95
\$51.47 - \$56.76	1,615,000	2.02	53.79	1,353,333	54.02
	19,960,030	2.84	37.44	11,771,018	40.02

The fair value of options granted during the six-month period ended June 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:

	June 30,	
	2017	2016
Fair value of options granted (weighted average)	\$ 9.13	\$ 8.43
Risk-free interest rate	1.12%	2.02%
Estimated hold period prior to exercise	5 years	4 years
Expected volatility	33%	34%
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	\$ 5,692	\$ 9,486	\$ –	\$ –	\$ 15,178
Firm transportation and processing agreements	290,479	665,870	619,752	1,738,361	3,314,462
Capital commitments <sup>(1)</sup>	310,921	607,795	141,174	35,367	1,095,257
Flow-through share commitments	34,436	–	–	–	34,436
Credit facility <sup>(2)</sup>	–	–	891,705	–	891,705
Term debt <sup>(3)</sup>	17,481	34,961	677,342	–	729,784
	\$ 659,009	\$ 1,318,112	\$ 2,329,973	\$ 1,773,728	\$ 6,080,822

(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 June 30, 2017, an economic downturn event, as defined in the joint arrangement in the Spirit River complex had occurred and as a result \$75.0 million of the 2017 originally planned capital will be deferred to future periods. To date, the total deferred capital to be spent in future periods is \$291.0 million.

(2) Includes interest expense at an annual rate of 2.70% being the rate applicable to outstanding debt on the credit facility at June 30, 2017.

(3) Includes interest expense at an annual rate of 2.99% being the fixed rate on the term debt at June 30, 2017.