

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(000s) (unaudited)</i>	September 30, 2018	December 31, 2017
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 201,905	\$ 270,861
Prepaid expenses and deposits	18,082	11,268
Fair value of financial instruments <i>(note 3)</i>	9,635	17,338
Total current assets	229,622	299,467
Long-term asset	5,751	6,307
Fair value of financial instruments <i>(note 3)</i>	22,617	14,729
Exploration and evaluation assets <i>(note 4)</i>	632,908	664,552
Property, plant and equipment <i>(note 5)</i>	9,538,607	9,196,473
<b>Total Assets</b>	<b>\$ 10,429,505</b>	<b>\$ 10,181,528</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 561,947	\$ 484,613
Fair value of financial instruments <i>(note 3)</i>	79,362	34,022
Total current liabilities	641,309	518,635
Bank debt <i>(note 7)</i>	1,346,894	1,534,757
Fair value of financial instruments <i>(note 3)</i>	25,186	7,398
Deferred premium on flow-through shares <i>(note 9)</i>	3,907	8,396
Decommissioning obligations <i>(note 6)</i>	267,159	252,222
Deferred taxes	745,305	644,363
Shareholders' equity:		
Share capital <i>(note 9)</i>	5,909,664	5,886,709
Non-controlling interest <i>(note 8)</i>	28,508	27,816
Contributed surplus	244,571	221,477
Retained earnings	1,217,002	1,079,755
Total shareholders' equity	7,399,745	7,215,757
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 10,429,505</b>	<b>\$ 10,181,528</b>

*Commitments (note 12).*

*Subsequent events (note 3).*

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

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(000s) except per-share amounts (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenue:</b>				
Oil and natural gas sales (note 13)	\$ 407,181	\$ 303,654	\$ 1,299,767	\$ 1,216,078
Royalties	(21,880)	(12,265)	(61,989)	(59,525)
Net revenue from oil and natural gas sales	385,301	291,389	1,237,778	1,156,553
Realized gain on risk management activities (note 13)	89,530	106,937	210,955	140,427
Unrealized gain (loss) on financial instruments (note 3)	(7,572)	3,071	(62,943)	78,583
Marketing revenue	7,909	3,845	19,107	4,263
Other income	8,768	8,097	26,532	21,613
Total net revenue	483,936	413,339	1,431,429	1,401,439
<b>Expenses:</b>				
Operating	80,370	65,412	237,202	207,850
Transportation	86,818	65,523	248,125	186,248
Marketing purchases	7,614	4,229	18,344	4,687
General and administration	12,718	9,958	36,574	29,960
Share-based payments (note 11)	4,820	4,447	13,334	14,711
Depletion, depreciation and amortization	192,593	193,365	586,629	571,532
Realized foreign exchange loss	1,155	1,257	1,275	1,139
Unrealized foreign exchange (gain) loss	595	(185)	(189)	568
(Gain) on divestitures	-	(17,614)	(54,989)	(21,815)
Total expenses	386,683	326,392	1,086,305	994,880
<b>Income from operations</b>	<b>97,253</b>	<b>86,947</b>	<b>345,124</b>	<b>406,559</b>
Finance expenses	15,493	13,306	43,288	38,246
<b>Income before taxes</b>	<b>81,760</b>	<b>73,641</b>	<b>301,836</b>	<b>368,313</b>
Deferred taxes	26,190	23,137	90,621	109,844
<b>Net income and comprehensive income before non-controlling interest</b>	<b>55,570</b>	<b>50,504</b>	<b>211,215</b>	<b>258,469</b>
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	55,296	50,580	210,523	258,694
Non-controlling interest (note 8)	274	(76)	692	(225)
	\$ 55,570	\$ 50,504	\$ 211,215	\$ 258,469
<b>Net income per share attributable to common shareholders (note 10)</b>				
Basic	\$ 0.20	\$ 0.19	\$ 0.78	\$ 0.96
Diluted	\$ 0.20	\$ 0.19	\$ 0.78	\$ 0.96

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, 2017	\$ 5,886,709	\$ 221,477	\$1,079,755	\$ 27,816	\$ 7,215,757
Issue of common shares ( <i>note 9</i> )	23,840	–	–	–	23,840
Share issue costs, net of tax	(885)	–	–	–	(885)
Share-based payments	–	13,334	–	–	13,334
Capitalized share-based payments	–	9,760	–	–	9,760
Dividends paid ( <i>note 9</i> )	–	–	(73,276)	–	(73,276)
Income attributable to common shareholders	–	–	210,523	–	210,523
Income attributable to non-controlling interest	–	–	–	692	692
<b>Balance at September 30, 2018</b>	<b>\$ 5,909,664</b>	<b>\$ 244,571</b>	<b>\$1,217,002</b>	<b>\$ 28,508</b>	<b>\$ 7,399,745</b>

<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

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,	
	2018	2017	2018	2017
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net income	\$ 55,296	\$ 50,580	\$ 210,523	\$ 258,694
Items not involving cash:				
Depletion, depreciation and amortization	192,593	193,365	586,629	571,532
Accretion	1,425	1,369	4,132	3,829
Share-based payments	4,820	4,447	13,334	14,711
Deferred taxes	26,190	23,137	90,621	109,844
Unrealized (gain) loss on financial instruments	7,572	(3,071)	62,943	(78,583)
(Gain) on divestitures	–	(17,614)	(54,989)	(21,815)
Amortization on long-term asset	186	161	556	486
Non-controlling interest	274	(76)	692	(225)
Unrealized foreign exchange (gain) loss	595	(185)	(189)	568
Decommissioning expenditures	(1,530)	(786)	(2,322)	(1,510)
Changes in non-cash operating working capital	26,770	15,198	27,564	25,576
<b>Total cash flow from operating activities</b>	<b>314,191</b>	<b>266,525</b>	<b>939,494</b>	<b>883,107</b>
<b>Financing:</b>				
Issue of common shares	–	–	30,000	16,549
Share issue costs	–	–	(1,213)	(437)
Dividends paid	(27,103)	–	(73,276)	–
Increase (decrease) in bank debt	(60,930)	(1,945)	(187,863)	15,460
<b>Total cash flow from (used in) financing activities</b>	<b>(88,033)</b>	<b>(1,945)</b>	<b>(232,352)</b>	<b>31,572</b>
<b>Investing:</b>				
Exploration and evaluation	(24,468)	(20,890)	(64,225)	(74,969)
Property, plant and equipment	(385,333)	(418,051)	(824,442)	(956,064)
Property acquisitions	(118)	(26,525)	(1,810)	(27,350)
Proceeds from divestitures	–	–	71,234	4,000
Changes in non-cash investing working capital	183,761	200,886	112,101	139,704
<b>Total cash flow used in investing activities</b>	<b>(226,158)</b>	<b>(264,580)</b>	<b>(707,142)</b>	<b>(914,679)</b>
<b>Changes in cash</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cash, beginning of period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cash, end of period</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</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 SEPTEMBER 30, 2018 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

*(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.

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 7, 2018.

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, 2017.

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, 2017, except as noted below.

### Changes in Accounting Policies

#### **IFRS 9**

On January 1, 2018, the Company adopted IFRS 9 - Financial instruments, which 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.

The three principal classification categories under the new standard for financial instruments are: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit and loss (“FVTPL”). The classification of financial instruments under IFRS 9 is generally based on the business model in which a financial instrument is managed and its contractual cash flow characteristics. The previous categories under IAS 39 of held to maturity, loans and receivables and available for sale have been removed.

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected loss” model. The new impairment model applies to financial instruments measured at amortized cost, and contract assets and debt investments measured at FVOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank debt continue to be measured at amortized cost and are now classified as “amortized cost”. There were no changes to the Company’s classifications of its financial instrument assets and liabilities as FVTPL. None of the Company’s financial instruments have been classified as FVOCI.

The Company did not formerly apply hedge accounting to its financial instruments and has not elected to apply hedge accounting to any of its financial instruments upon adoption of IFRS 9. There was no impact to the Company as a result of adopting the new standard.

### **IFRS 15**

On January 1, 2018 the Company adopted IFRS 15 – Revenue from Contracts with Customers, which 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*. The Company has adopted IFRS 15 using the modified retrospective approach on January 1, 2018. Based on the Company’s review of contracts with customers and its assessment of various revenue streams using the IFRS 15 five step model there were no material changes to net income, the timing of revenue recognized, income statement line classification or to opening retained earnings as at January 1, 2018. Tourmaline has expanded disclosures in the notes to its interim condensed consolidated financial statements as prescribed by IFRS 15, including disclosing the Company’s disaggregated revenue streams by product type. As a result of adopting IFRS 15 the Company’s revenue recognition policy is now:

#### **Revenue Recognition:**

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer. The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

#### **Future Accounting Changes**

The following pronouncement from the IASB will become effective for financial reporting periods beginning January 1, 2019 and has not yet been adopted by the Company. This new or revised standard permits early adoption with transitional arrangements depending upon the date of initial application.

**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 and IFRIC 4 - Determining whether an Arrangement contains a Lease. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Company will adopt IFRS 16 using the modified retrospective approach. The Company has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Company’s borrowing rate at January 1, 2019, the composition of the Company’s lease portfolio at that date, the Company’s latest assessment of whether it will exercise any lease renewal options, and the extent to which the Company chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Company will now recognize new assets and liabilities on its consolidated statements of financial position for its office leases. In addition, the nature of the expenses related to those leases will change. Straight-line operating lease expense will be replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Company continues to review all existing contracts in detail. The full extent of the impact has not yet been determined. For the remainder of the year, the Company will also be focused on developing and implementing changes to policies, internal controls, information systems and business and accounting processes.

## 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, 2017.

As at September 30, 2018, 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 and comprehensive income.

The Company has the following financial derivative contracts in place as at September 30, 2018 <sup>(1)</sup>:

		2018	2019	2020	2021	Fair Value (000s)
<b>Gas</b>						
NYMEX swaps	<i>mmbtu/d</i>	131,957	15,726	–	–	\$ (681)
	<i>USD\$/mmbtu</i>	\$ 3.00	\$ 2.88			
Basis differentials – other <sup>(2)</sup>	<i>mmbtu/d</i>	51,793	22,466	22,486	20,000	\$ (217)
	<i>USD\$/mmbtu</i>	\$ (0.27)	\$ (0.08)	\$ 0.19	\$ 0.25	
NYMEX call options (writer) <sup>(3)</sup>	<i>mmbtu/d</i>	110,000	105,000	40,000	–	\$ (2,074)
	<i>USD\$/mmbtu</i>	\$ 3.72	\$ 3.83	\$ 3.74		
<b>Oil</b>						
Financial swaps	<i>bbls/d</i>	10,000	10,000	3,000	–	\$ (86,190)
	<i>USD\$/bbl</i>	\$ 55.90	\$ 58.27	\$ 62.68		
Financial call swaptions <sup>(4)</sup>	<i>bbls/d</i>	2,125	500	–	–	\$ (9,714)
	<i>USD\$/bbl</i>	\$ 52.18	\$ 58.35			
<b>Total fair value</b>						<b>\$ (98,876)</b>

(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, 8.2 mmcf/d at USD \$3.67/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. In 2019, 15 mmcf/d are one time European swaptions.

(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, 2018:

Type of Contract	Quantity	Time Period	Contract Price
NYMEX swap	10,000 mmbtu/d	November 2018	USD\$3.27/mmbtu
NYMEX swap	10,000 mmbtu/d	December 2018	USD\$3.30/mmbtu
NYMEX swap	20,000 mmbtu/d	January 2019 – March 2019	USD\$3.26/mmbtu
Sumas basis	10,000 mmbtu/d	December 2018 – January 2019	NYMEX + USD\$1.47/mmbtu
Sumas basis	2,600 mmbtu/d	January 2019	NYMEX + USD\$7.50/mmbtu
Sumas basis	10,000 mmbtu/d	February 2019	NYMEX + USD\$3.00/mmbtu
Sumas basis	5,000 mmbtu/d	March 2019	NYMEX + USD\$2.00/mmbtu
PG&E swap	20,000 mmbtu/d	November 2018	USD\$3.81/mmbtu
Oil swap	500 bbl/d	January 2019 – December 2019	USD\$72.45/bbl

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

	2018	2019	2020	2021	2022	2023	2024	Fair Value
Effective interest rate <sup>(1)</sup>	1.87%	1.86%	1.76%	1.80%	1.88%	1.98%	2.06%	
Notional amount hedged (000s)	\$ 775,000	\$ 796,435	\$ 690,159	\$ 677,974	\$ 605,482	\$ 452,723	\$ 129,167	\$ 26,822

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

The Company has the following financial foreign currency derivative contracts in place at September 30, 2018:

		2018	2019	Fair Value (000s)
Costless collar	\$CAD(000s) Monthly	\$ 12,000	\$ 10,000	\$ 2
	\$CAD/\$USD	\$ 1.250 – \$ 1.319	\$ 1.261 – \$ 1.336	
Average rate forward	\$CAD(000s) Monthly	\$ 9,000	\$ 9,000	\$ (244)
	\$CAD/\$USD	\$ 1.279	\$ 1.286	
Total fair value				\$ (242)

The Company has entered into the following financial foreign currency derivative contracts subsequent to September 30, 2018:

Type of Contract	Monthly Notional (000s)	Time Period	Rate <sup>(1)</sup>
Average rate forward	\$ 1,000	January 2019 – December 2019	\$1.30 \$CAD/\$USD
Costless collar	\$ 2,000	January 2019 – December 2019	\$1.273 – \$1.333 \$CAD/\$USD

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

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2018 and 2017:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Unrealized gain (loss) on financial instruments – commodity contracts	\$ (20,681)	\$ (7,058)	\$ (71,373)	\$ 62,256
Unrealized gain on financial instruments – interest rate swaps	7,558	10,129	9,733	16,327
Unrealized gain (loss) on financial instruments – foreign currency	5,551	–	(1,303)	–
<b>Total unrealized gain (loss) on financial instruments</b>	<b>\$ (7,572)</b>	<b>\$ 3,071</b>	<b>\$ (62,943)</b>	<b>\$ 78,583</b>

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, 2018 <sup>(1)(8)</sup>:

		2018	2019	2020	2021	2022
<b>Gas</b>						
Fixed price <sup>(2)</sup>	<i>mcf/d</i>	246,588	31,427	–	–	–
	<i>CAD\$/mcf</i>	\$ 1.88	\$ 1.57			
Basis differentials - AECO <sup>(3)</sup>	<i>mmbtu/d</i>	214,239	192,432	187,500	94,062	82,500
	<i>USD\$/mmbtu</i>	\$ (0.79)	\$ (0.75)	\$ (0.75)	\$ (0.68)	\$ (0.66)
Basis differentials - Dawn	<i>mmbtu/d</i>	58,370	35,000	25,000	6,164	–
	<i>USD\$/mmbtu</i>	\$ (0.10)	\$ (0.13)	\$ (0.15)	\$ (0.15)	
Basis differentials – Stn 2	<i>mcf/d</i>	61,174	39,478	37,812	29,478	20,000
	<i>CAD\$/mcf</i>	\$ 0.49	\$ 1.09	\$ 0.33	\$ (0.01)	\$ 0.11
Basis differentials – other <sup>(4)</sup>	<i>mmbtu/d</i>	–	15,000	15,000	15,000	15,000
	<i>USD\$/mmbtu</i>		\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19
AECO monthly calls / call swaptions <sup>(5)</sup>	<i>mcf/d</i>	28,435	37,913	–	–	–
	<i>CAD\$/mcf</i>	\$ 3.43	\$ 2.74			
<b>Oil</b>						
Fixed differential - Oil <sup>(6)</sup>	<i>bbls/d</i>	2,328	776	–	–	–
	<i>USD\$/bbl</i>	\$ (6.68)	\$ (11.00)			
Fixed differential - condensate <sup>(7)</sup>	<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 PGE City Gate (converted to CAD).

(3) Tourmaline also has an average of 50 mmcf/d of NYMEX-AECO basis differentials at \$(0.72) from 2023-2024. A portion of these basis deals have a cap on NYMEX, 136.9 mmcf/d at USD\$4.06/mcf from 2018-2020 and 49.8 mmcf/d at USD\$4.46/mcf from 2021-2024.

(4) These are basis differentials for non-AECO markets.

(5) These are monthly calls for 2018 that are European swaptions, whereby the Company provides the option to extend a gas swap into the period subsequent to the calls date. In 2019, these are one-time European swaptions.

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

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

(8) Tourmaline has entered into deals to sell 50,000 mmbtu/d priced off Chicago GDD less transportation costs and 20,000 mmbtu/d priced off Ventura GDD less transportation costs that extend into 2020; 5,000 mmbtu/d priced off Chicago GDD less transportation costs that extends to 2023; 20,000 mmbtu/d that starts in 2020.

The Company has not entered into any physical contracts subsequent to September 30, 2018.

## 4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2017	\$ 664,552
Capital expenditures	64,225
Transfers to property, plant and equipment (note 5)	(45,342)
Acquisitions	2,229
Divestitures	(20,732)
Expired mineral leases	(32,024)
<b>As at September 30, 2018</b>	<b>\$ 632,908</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 September 30, 2018 and December 31, 2017, 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, 2017	\$12,485,523
Capital expenditures	834,202
Transfers from exploration and evaluation (note 4)	45,342
Change in decommissioning liabilities (note 6)	13,716
Acquisitions	15,560
Divestiture	(12,081)
<b>As at September 30, 2018</b>	<b>\$13,382,262</b>

### Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2017	\$ 3,289,050
Depletion, depreciation and amortization	554,605
<b>As at September 30, 2018</b>	<b>\$ 3,843,655</b>

### Net Book Value

(000s)

As at December 31, 2017	\$ 9,196,473
<b>As at September 30, 2018</b>	<b>\$ 9,538,607</b>

Future development costs of \$7,227.9 million were included in the depletion calculation at September 30, 2018 (December 31, 2017 – \$7,095.3 million).

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

A total of \$20.7 million in G&A expenditures have been capitalized and included in PP&E for the nine months ended September 30, 2018 (December 31, 2017 – \$25.6 million). Also included in PP&E are non-cash year-to-date share-based payments of \$9.8 million (December 31, 2017 - \$19.1 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, 2018, the Company determined that there were no indicators of impairment on any of the Company's CGUs; therefore, impairment tests were not performed.

For the year ended December 31, 2017, the Company identified indicators of impairment on all of its CGUs due to the decline in current and forward commodity prices for natural gas and performed impairment tests accordingly. The Company determined that there was no impairment to PP&E at December 31, 2017.

## Acquisitions and Dispositions of Oil and Natural Gas Properties

For the nine months ended September 30, 2018, the Company completed property acquisitions for cash of \$1.8 million (December 31, 2017 - \$47.5 million) and, a further \$15.8 million in acquisitions involving non-cash consideration (December 31, 2017 - \$56.1 million). The Company also assumed \$0.2 million in decommissioning liabilities as a result of these acquisitions (December 31, 2017 - \$0.7 million).

The Company also completed property dispositions for the nine months ended September 30, 2018 for total cash consideration of \$71.2 million (December 31, 2017 - \$4.6 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 \$483.4 million (December 31, 2017 – \$459.8 million), with a number of abandonments expected to commence in 2034. A risk-free rate of 2.31% (December 31, 2017 – 2.31%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%) were used to calculate the decommissioning obligations.

<i>(000s)</i>	As at September 30, 2018	As at December 31, 2017
Balance, beginning of period	\$ 252,222	\$ 212,669
Obligation incurred	13,716	22,508
Obligation incurred on property acquisitions	214	744
Obligation divested	(803)	(86)
Obligation settled	(2,322)	(2,965)
Accretion expense	4,132	5,334
Change in future estimated cash outlays	-	14,018
Balance, end of period	\$ 267,159	\$ 252,222

## 7. BANK DEBT

<i>(000s)</i>	As at September 30, 2018	As at December 31, 2017
Revolving credit facility <sup>(1)</sup>	\$ 404,260	\$ 592,185
Term debt <sup>(1)</sup>	949,027	949,220
Debt issue costs	(6,393)	(6,648)
<b>Bank debt</b>	<b>\$ 1,346,894</b>	<b>\$ 1,534,757</b>

*(1) Amounts shown net of prepaid interest.*

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, in the amount of \$1,800.0 million. In May 2018, the Company extended the maturity date of the revolving credit facility to June 2023. In addition, the financial covenants were amended to a maximum ratio of total debt to total capitalization of 0.6 times and a minimum ratio of adjusted EBITDA to interest expense of 3.0 times, respectively. With the exception of the change in maturity date and the changes to the financial covenants the revolving credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2017. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the revolving credit facility amount by up to \$500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The revolving credit 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 \$950.0 million term loan with a syndicate of banks. In May 2018, the Company extended the maturity date of the term loan resulting in an initial maturity date of June 2023. The covenants for the term loan were also amended and are the same as those under the Company's revolving credit facility. The term loan ranks equally with the obligation under the Company's revolving credit facility. With the exception of the change in maturity date and financial covenants the term loan was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2017. 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 157.5 basis points. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis.

The Company has a covenant based, unsecured, operating credit facility with a Canadian bank in the amount of \$50.0 million. The operating credit facility has a maturity date of June 2019, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. In May 2018, this operating credit facility replaced the revolving operating credit facility that was outstanding at December 31, 2017.

Additionally, the Company has a letter of credit facility payable on demand in the amount of \$50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit of \$9.1 million (December 31, 2017 - \$17.6 million), which reduces the credit available on this facility.

The Company's aggregate borrowing capacity is \$2.85 billion at September 30, 2018.

As at September 30, 2018, the Company had \$947.7 million in long-term debt outstanding and \$399.2 million drawn against the revolving credit facility for total bank debt of \$1,346.9 million (net of prepaid interest and debt

issue costs) (December 31, 2017 - \$1,534.8 million). The effective interest rate for the nine months ended September 30, 2018 was 2.93% (nine months ended September 30, 2017 – 2.50%). As at September 30, 2018, 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, 2018	As at December 31, 2017
Balance, beginning of period	\$ 27,816	\$ 27,549
Share of subsidiary's net income for the period	692	267
Balance, end of period	\$ 28,508	\$ 27,816

## 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

<i>(000s) except share amounts</i>	As at September 30, 2018		As at December 31, 2017	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	271,083,946	\$ 5,886,709	268,595,812	\$ 5,818,867
For cash on public offering of flow-through common shares <sup>(1)(2)</sup>	1,000,000	23,840	1,300,000	32,162
Issued on corporate and property acquisitions	–	–	475,000	14,854
For cash on exercise of stock options	–	–	713,134	16,549
Expired related to corporate acquisitions <sup>(3)</sup>	(41,287)	–	–	–
Contributed surplus on exercise of stock options	–	–	–	5,668
Share issue costs	–	(1,213)	–	(2,005)
Tax effect of share issue costs	–	328	–	614
Balance, end of period	272,042,659	\$ 5,909,664	271,083,946	\$ 5,886,709

(1) On May 15, 2018, the Company issued 1.0 million flow-through shares at a price of \$30.00 per share for total gross proceeds of \$30.0 million. The implied premium on the flow-through common shares was determined to be \$6.2 million or \$6.16 per share. As at September 30, 2018, the Company is committed to spend \$19.0 million on qualified exploration expenditures by December 31, 2019.

(2) On December 5, 2017, the Company issued 1.3 million flow-through shares at a price of \$31.20 per share for total gross proceeds of \$40.6 million. The implied premium on the flow-through common shares was determined to be \$8.4 million or \$6.46 per share. As at September 30, 2018, the Company had spent the full committed amount. The expenditures were renounced to investors in January 2018 with an effective renunciation date of December 31, 2017.

(3) On August 31, 2018, the Company cancelled 41,287 common shares that related to prior acquisitions which had reached their sunset clause expiration date.

For the three and nine months ended September 30, 2018, the Company paid cash dividends of \$0.10 and \$0.27 per common share, respectively, totalling \$27.1 million and \$73.3 million (2017 - nil).

## 10. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings for the period (000s)	\$ 55,296	\$ 50,580	\$ 210,523	\$ 258,694
Weighted average number of common shares – basic	272,070,034	269,783,946	271,588,415	269,400,351
Earnings per share – basic	\$ 0.20	\$ 0.19	\$ 0.78	\$ 0.96

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings for the period (000s)	\$ 55,296	\$ 50,580	\$ 210,523	\$ 258,694
Weighted average number of common shares – diluted	272,072,051	269,784,882	271,588,415	269,439,702
Earnings per share – fully diluted	\$ 0.20	\$ 0.19	\$ 0.78	\$ 0.96

There were 22,527,883 and 22,594,383 options excluded from the weighted-average share calculations for the three and nine month periods ended September 30, 2018 because they were anti-dilutive (three and nine months ended September 30, 2017 – 19,897,864 and 16,903,165 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 23,123,626 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.

	2018		Nine Months Ended September 30, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	20,948,382	\$ 36.13	20,037,497	\$ 37.26
Granted	4,164,100	22.09	1,281,500	27.75
Exercised	–	–	(713,134)	23.21
Expired	(2,082,333)	40.19	(75,000)	28.92
Forfeited	(435,766)	38.25	(617,499)	38.83
Stock options outstanding, end of period	22,594,383	\$ 35.33	19,913,364	\$ 37.13

The average trading price of the Company's common shares was \$22.26 during the nine months ended September 30, 2018 (nine months ended September 30, 2017 – \$27.95).

The following table summarizes stock options outstanding and exercisable at September 30, 2018:

Range of Exercise Price	Number Outstanding at Period End	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at Period End	Weighted Average Exercise Price
\$18.49 - \$24.94	4,493,100	6.75	22.21	74,668	24.36
\$24.95 - \$26.40	3,283,033	2.50	26.30	2,049,083	26.34
\$26.41 - \$33.58	3,739,550	5.51	27.53	605,871	30.42
\$33.59 - \$41.80	6,364,200	2.59	37.38	4,495,455	38.57
\$41.81 - \$56.76	4,714,500	0.95	46.98	4,714,500	46.98
	22,594,383	3.54	33.13	11,939,577	39.29

The fair value of options granted during the nine-month period ended September 30, 2018 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,	
	2018	2017
Fair value of options granted (weighted average)	\$ 6.08	\$ 8.55
Risk-free interest rate	2.1%	1.3%
Estimated hold period prior to exercise	5 years	5 years
Expected volatility	33%	33%
Forfeiture rate	1.8%	2.0%
Dividend per share	\$ 0.37	\$ 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	\$ 5,229	\$ 7,134	\$ 5,989	\$ 10,480	\$ 28,832
Firm transportation and processing agreements	366,187	769,076	657,166	1,825,229	3,617,658
Capital commitments <sup>(1)</sup>	311,625	442,877	8,772	74,792	838,066
Flow-through share commitments	19,037	–	–	–	19,037
Credit facility <sup>(2)</sup>	–	–	468,083	–	468,083
Term debt <sup>(3)</sup>	32,269	64,537	1,003,754	–	1,100,560
	\$ 734,347	\$ 1,283,624	\$ 2,143,764	\$ 1,910,501	\$ 6,072,236

(1) Includes drilling commitments, power commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of \$300.0 million per year until 2020. The capital spending commitment can be deferred to future periods in the event of an economic downturn, and as agreed upon by both parties.

(2) Includes interest expense at an annual rate of 3.30% being the rate applicable to outstanding debt on the credit facility at September 30, 2018.

(3) Includes interest expense at an annual rate of 3.40% being the fixed rate on the term debt at September 30, 2018.

### 13. REVENUE

The Company sells its production pursuant to fixed and variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed volume of crude oil, NGLs or natural gas to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue related specifically to the Company's efforts to deliver production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

The sale of produced commodities are under contracts of varying terms of up to six years. Revenues are typically collected on the 25<sup>th</sup> day of the month following production.

The following table presents the Company's oil, gas and NGL sales disaggregated by revenue source:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue from:				
Natural gas	\$ 185,678	\$ 171,629	\$ 657,259	\$ 825,870
Oil and NGL	221,503	132,025	642,508	390,208
Realized gain (loss) on risk management activities from:				
Natural gas	107,331	103,949	254,527	135,562
Oil and NGL	(17,801)	2,988	(43,572)	4,865
Total revenue from natural gas, oil and NGL sales	\$ 496,711	\$ 410,591	\$ 1,510,722	\$1,356,505