

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, December 31,	
<i>(000s) (unaudited)</i>	2018	2017
Assets		
Current assets:		
Accounts receivable	\$ 186,864	\$ 270,861
Prepaid expenses and deposits	20,953	11,268
Fair value of financial instruments <i>(note 3)</i>	10,822	17,338
Total current assets	218,639	299,467
Long-term asset	5,937	6,307
Fair value of financial instruments <i>(note 3)</i>	17,495	14,729
Exploration and evaluation assets <i>(note 4)</i>	645,227	664,552
Property, plant and equipment <i>(note 5)</i>	9,298,891	9,196,473
Total Assets	\$ 10,186,189	\$ 10,181,528
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 338,651	\$ 484,613
Fair value of financial instruments <i>(note 3)</i>	72,104	34,022
Total current liabilities	410,755	518,635
Bank debt <i>(note 7)</i>	1,407,824	1,534,757
Fair value of financial instruments <i>(note 3)</i>	20,937	7,398
Deferred premium on flow-through shares <i>(note 9)</i>	10,539	8,396
Decommissioning obligations <i>(note 6)</i>	260,847	252,222
Deferred taxes	712,483	644,363
Shareholders' equity:		
Share capital <i>(note 9)</i>	5,909,664	5,886,709
Non-controlling interest <i>(note 8)</i>	28,234	27,816
Contributed surplus	236,097	221,477
Retained earnings	1,188,809	1,079,755
Total shareholders' equity	7,362,804	7,215,757
Total Liabilities and Shareholders' Equity	\$ 10,186,189	\$ 10,181,528

Commitments (note 12).

Subsequent events (note 3).

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(000s) except per-share amounts (unaudited)</i>	2018	2017	2018	2017
Revenue:				
Oil and natural gas sales <i>(note 13)</i>	\$ 395,290	\$ 463,352	\$ 892,586	\$ 912,424
Royalties	(19,990)	(19,409)	(40,109)	(47,260)
Net revenue from oil and natural gas sales	375,300	443,943	852,477	865,164
Realized gain on risk management activities <i>(note 13)</i>	68,555	15,917	121,425	33,490
Unrealized gain (loss) on financial instruments <i>(note 3)</i>	(47,167)	35,669	(55,371)	75,512
Marketing revenue	5,318	418	11,198	418
Other income	8,667	6,337	17,764	13,516
Total net revenue	410,673	502,284	947,493	988,100
Expenses:				
Operating	75,525	69,005	156,832	142,438
Transportation	80,958	61,626	161,307	120,725
Marketing purchases	5,004	458	10,730	458
General and administration	12,365	9,938	23,856	20,002
Share-based payments <i>(note 11)</i>	4,428	5,127	8,514	10,264
Depletion, depreciation and amortization	195,364	189,493	394,036	378,167
Realized foreign exchange (gain) loss	(770)	559	120	(118)
Unrealized foreign exchange (gain) loss	(166)	594	(784)	753
(Gain) on divestitures	(14,809)	(968)	(54,989)	(4,201)
Total expenses	357,899	335,832	699,622	668,488
Income from operations	52,774	166,452	247,871	319,612
Finance expenses	13,826	12,865	27,795	24,940
Income before taxes	38,948	153,587	220,076	294,672
Deferred taxes	12,957	45,311	64,431	86,707
Net income and comprehensive income before non-controlling interest	25,991	108,276	155,645	207,965
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	25,639	108,580	155,227	208,114
Non-controlling interest <i>(note 8)</i>	352	(304)	418	(149)
	\$ 25,991	\$ 108,276	\$ 155,645	\$ 207,965
Net income per share attributable to common shareholders <i>(note 10)</i>				
Basic	\$ 0.09	\$ 0.40	\$ 0.57	\$ 0.77
Diluted	\$ 0.09	\$ 0.40	\$ 0.57	\$ 0.77

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	–	8,514	–	–	8,514
Capitalized share-based payments	–	6,106	–	–	6,106
Dividends paid (<i>note 9</i>)	–	–	(46,173)	–	(46,173)
Income attributable to common shareholders	–	–	155,227	–	155,227
Income attributable to non-controlling interest	–	–	–	418	418
Balance at June 30, 2018	\$ 5,909,664	\$ 236,097	\$1,188,809	\$ 28,234	\$ 7,362,804

<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)
Balance at June 30, 2017	\$ 5,855,618	\$ 203,743	\$ 941,096	\$ 27,400	\$ 7,027,857

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operations:				
Net income	\$ 25,639	\$ 108,580	\$ 155,227	\$ 208,114
Items not involving cash:				
Depletion, depreciation and amortization	195,364	189,493	394,036	378,167
Accretion	1,344	1,262	2,707	2,460
Share-based payments	4,428	5,127	8,514	10,264
Deferred taxes	12,957	45,311	64,431	86,707
Unrealized (gain) loss on financial instruments	47,167	(35,669)	55,371	(75,512)
(Gain) on divestitures	(14,809)	(968)	(54,989)	(4,201)
Amortization on long-term asset	186	162	370	325
Non-controlling interest	352	(304)	418	(149)
Unrealized foreign exchange (gain) loss	(166)	594	(784)	753
Decommissioning expenditures	(201)	(317)	(792)	(724)
Changes in non-cash operating working capital	10,894	(34,694)	794	10,378
Total cash flow from operating activities	283,155	278,577	625,303	616,582
Financing:				
Issue of common shares	30,000	14,332	30,000	16,549
Share issue costs	(1,205)	(400)	(1,213)	(437)
Dividends paid	(24,487)	–	(46,173)	–
Increase (decrease) in bank debt	(8,808)	65,901	(126,933)	17,405
Total cash flow from (used in) financing activities	(4,500)	79,833	(144,319)	33,517
Investing:				
Exploration and evaluation	(21,977)	(22,299)	(39,757)	(54,079)
Property, plant and equipment	(169,553)	(171,203)	(439,109)	(538,013)
Property acquisitions	(243)	(30)	(1,692)	(825)
Proceeds from divestitures	–	4,000	71,234	4,000
Changes in non-cash investing working capital	(86,882)	(168,878)	(71,660)	(61,182)
Total cash flow used in investing activities	(278,655)	(358,410)	(480,984)	(650,099)
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 JUNE 30, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(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.

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 1, 2018.

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, 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. 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 which includes a detailed review of existing contracts 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, 2017.

As at June 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 June 30, 2018 ⁽¹⁾:

		2018	2019	2020	2021	Fair Value (000s)
Gas						
NYMEX swaps	<i>mmbtu/d</i>	158,478	15,726	–	–	\$ 753
	<i>USD\$/mmbtu</i>	\$ 2.98	\$ 2.88			
Basis differentials – other ⁽²⁾	<i>mmbtu/d</i>	63,397	12,466	2,486	–	\$ 5,497
	<i>USD\$/mmbtu</i>	\$ (0.31)	\$ (0.30)	\$ (0.30)		
NYMEX call options (writer) ⁽³⁾	<i>mmbtu/d</i>	110,000	105,000	40,000	–	\$ (2,785)
	<i>USD\$/mmbtu</i>	\$ 3.67	\$ 3.83	\$ 3.74		
Oil						
Financial swaps	<i>bbls/d</i>	9,668	10,000	1,000	–	\$ (68,780)
	<i>USD\$/bbl</i>	\$ 55.59	\$ 58.27	\$ 61.14		
Financial call swaptions ⁽⁴⁾	<i>bbls/d</i>	2,125	500	–	–	\$ (12,880)
	<i>USD\$/bbl</i>	\$ 52.18	\$ 58.35			
Total fair value						\$ (78,195)

(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, 12.4 mmcf/d at USD \$3.52/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 not entered into any financial derivative contracts subsequent to June 30, 2018. 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 ⁽¹⁾	1.87%	1.86%	1.76%	1.80%	1.88%	1.98%	2.05%	
Notional amount hedged (000s)	\$ 775,000	\$ 797,231	\$ 685,274	\$ 678,014	\$ 605,685	\$ 452,808	\$ 130,342	\$ 19,264

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

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

		2018	2019	Fair Value (000s)
Costless collar	\$CAD(000s) Monthly	\$ 12,000	\$ 7,000	\$ (2,385)
	\$CAD/\$USD	\$1.250 – \$1.319	\$1.250 – \$1.334	
Average rate forward	\$CAD(000s) Monthly	\$ 7,000	\$ 5,000	\$ (3,408)
	\$CAD/\$USD	\$ 1.274	\$ 1.276	
Total fair value				\$ (5,793)

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

Type of Contract	Monthly Notional (000s)	Time Period	Rate
Average rate forward	\$ 1,000	January 2019 – December 2019	\$1.31 \$CAD/\$USD
Costless collar	\$ 1,000	January 2019 – December 2019	\$1.280 – \$1.346 \$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 six months ended June 30, 2018 and 2017:

(000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Unrealized gain (loss) on financial instruments – commodity contracts	\$ (42,566)	\$ 28,709	\$ (50,692)	\$ 69,314
Unrealized gain (loss) on financial instruments – interest rate swaps	(316)	6,960	2,175	6,198
Unrealized (loss) on financial instruments – foreign currency	(4,285)	–	(6,854)	–
Total unrealized gain (loss) on financial instruments	\$ (47,167)	\$ 35,669	\$ (55,371)	\$ 75,512

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, 2018 ⁽¹⁾⁽⁸⁾:

		2018	2019	2020	2021	2022
Gas						
Fixed price ⁽²⁾	<i>mcf/d</i>	297,693	20,313	—	—	—
	<i>CAD\$/mcf</i>	\$ 1.84	\$ 1.60			
Basis differentials - AECO ⁽³⁾	<i>mmbtu/d</i>	220,870	192,432	187,500	94,062	82,500
	<i>USD\$/mmbtu</i>	\$ (0.80)	\$ (0.75)	\$ (0.75)	\$ (0.68)	\$ (0.66)
Basis differentials - Dawn	<i>mmbtu/d</i>	61,685	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>	54,543	39,478	37,812	29,478	20,000
	<i>CAD\$/mcf</i>	\$ 0.09	\$ 0.11	\$ (0.01)	\$ (0.11)	\$ (0.04)
Basis differentials – other ⁽⁴⁾	<i>mmbtu/d</i>	—	5,000	5,000	5,000	5,000
	<i>USD\$/mmbtu</i>		\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
AECO monthly calls / call swaptions ⁽⁵⁾	<i>mcf/d</i>	28,435	37,913	—	—	—
	<i>CAD\$/mcf</i>	\$ 3.43	\$ 2.74			
Oil						
Fixed differential - Oil ⁽⁶⁾	<i>bbls/d</i>	2,328	776	—	—	—
	<i>USD\$/bbl</i>	\$ (6.68)	\$ (11.00)			
Fixed differential - condensate ⁽⁷⁾	<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, 138.5 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 June 30, 2018.

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2017	\$ 664,552
Capital expenditures	39,757
Transfers to property, plant and equipment (note 5)	(18,767)
Acquisitions	2,228
Divestitures	(20,732)
Expired mineral leases	(21,811)
As at June 30, 2018	\$ 645,227

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, 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	445,215
Transfers from exploration and evaluation (note 4)	18,767
Change in decommissioning liabilities (note 6)	7,299
Acquisitions	15,443
Divestiture	(12,081)
As at June 30, 2018	\$12,960,166

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2017	\$ 3,289,050
Depletion, depreciation and amortization	372,225
As at June 30, 2018	\$ 3,661,275

Net Book Value

(000s)

As at December 31, 2017	\$ 9,196,473
As at June 30, 2018	\$ 9,298,891

Future development costs of \$7,098.1 million were included in the depletion calculation at June 30, 2018 (December 31, 2017 – \$7,095.3 million).

Capitalization of G&A and Share-Based Payments

A total of \$13.7 million in G&A expenditures have been capitalized and included in PP&E for the six months ended June 30, 2018 (December 31, 2017 – \$25.6 million). Also included in PP&E are non-cash year-to-date share-based payments of \$6.1 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 June 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 six months ended June 30, 2018, the Company completed property acquisitions for cash of \$1.7 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 six months ended June 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 \$472.6 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.

(000s)	As at June 30, 2018	As at December 31, 2017
Balance, beginning of period	\$ 252,222	\$ 212,669
Obligation incurred	7,299	22,508
Obligation incurred on property acquisitions	214	744
Obligation divested	(803)	(86)
Obligation settled	(792)	(2,965)
Accretion expense	2,707	5,334
Change in future estimated cash outlays	–	14,018
Balance, end of period	\$ 260,847	\$ 252,222

7. BANK DEBT

(000s)	As at June 30, 2018	As at December 31, 2017
Revolving credit facility ⁽¹⁾	\$ 465,742	\$ 592,185
Term debt ⁽¹⁾	949,086	949,220
Debt issue costs	(7,004)	(6,648)
Bank debt	\$ 1,407,824	\$ 1,534,757

(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 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 \$9.2 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 June 30, 2018.

As at June 30, 2018, the Company had \$947.6 million in long-term debt outstanding and \$460.2 million drawn against the revolving credit facility for total bank debt of \$1,407.8 million (net of prepaid interest and debt issue costs) (December 31, 2017 - \$1,534.8 million). The effective interest rate for the six months ended June 30,

2018 was 2.85% (six months ended June 30, 2017 – 2.45%). As at June 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:

(000s)	As at June 30, 2018	As at December 31, 2017
Balance, beginning of period	\$ 27,816	\$ 27,549
Share of subsidiary's net income for the period	418	267
Balance, end of period	\$ 28,234	\$ 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

(000s) except share amounts	As at June 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 ⁽¹⁾⁽²⁾	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
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	272,083,946	\$ 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 June 30, 2018, the Company is committed to spend the full amount 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 June 30, 2018, the Company is committed to spend \$21.2 million on qualified exploration expenditures by December 31, 2018. The expenditures were renounced to investors in January 2018 with an effective renunciation date of December 31, 2017.

For the three and six months ended June 30, 2018, the Company paid cash dividends of \$0.09 and \$0.17 per common share totalling \$24.5 million and \$46.2 million (2017 - nil).

10. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings for the period (000s)	\$ 25,639	\$ 108,580	\$ 155,277	\$ 208,114
Weighted average number of common shares – basic	271,600,430	269,353,945	271,343,615	269,205,374
Earnings per share – basic	\$ 0.09	\$ 0.40	\$ 0.57	\$ 0.77

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings for the period (000s)	\$ 25,639	\$ 108,580	\$ 155,277	\$ 208,114
Weighted average number of common shares – diluted	271,603,980	269,355,639	271,343,615	269,302,667
Earnings per share – fully diluted	\$ 0.09	\$ 0.40	\$ 0.57	\$ 0.77

There were 19,227,783 and 19,309,783 options excluded from the weighted-average share calculations for the three and six month periods ended June 30, 2018 because they were anti-dilutive (three and six months ended June 30, 2017 – 19,944,530 and 16,808,165 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 23,127,135 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		Six Months Ended June 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	539,500	21.91	754,000	29.55
Exercised	–	–	(713,134)	23.21
Expired	(1,782,333)	40.19	–	–
Forfeited	(395,766)	37.23	(118,333)	42.30
Stock options outstanding, end of period	19,309,783	\$ 35.33	19,960,030	\$ 37.44

The average trading price of the Company's common shares was \$22.07 during the six months ended June 30, 2018 (six months ended June 30, 2017 – \$29.05).

The following table summarizes stock options outstanding and exercisable at June 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 - \$26.40	4,151,533	3.54	25.53	1,947,914	26.37
\$26.41 - \$33.58	3,739,550	5.77	27.53	528,871	30.21
\$33.59 - \$39.32	3,681,200	4.40	35.08	1,605,791	35.59
\$39.33 - \$41.80	2,983,000	0.64	40.50	2,983,000	40.50
\$41.81 - \$56.76	4,754,500	1.20	46.99	4,754,500	46.99
	19,309,783	3.11	35.33	11,820,076	39.65

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

	June 30,	
	2018	2017
Fair value of options granted (weighted average)	\$ 6.11	\$ 9.53
Risk-free interest rate	2.1%	1.2%
Estimated hold period prior to exercise	5 years	5 years
Expected volatility	33%	33%
Forfeiture rate	1.8%	2.0%
Dividend per share	\$ 0.32	\$ 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	\$ 5,406	\$ 4,080	\$ -	\$ -	\$ 9,486
Firm transportation and processing agreements	354,523	757,125	658,324	1,751,661	3,521,633
Capital commitments ⁽¹⁾	309,248	503,813	6,837	56,713	876,611
Flow-through share commitments	51,158	-	-	-	51,158
Credit facility ⁽²⁾	-	-	543,418	-	543,418
Term debt ⁽³⁾	30,694	61,388	1,008,759	-	1,100,841
	\$ 751,029	\$ 1,326,406	\$ 2,217,338	\$ 1,808,374	\$ 6,103,147

(1) Includes drilling 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 3.13% being the rate applicable to outstanding debt on the credit facility at June 30, 2018.

(3) Includes interest expense at an annual rate of 3.23% being the fixed rate on the term debt at June 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 25th 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Natural gas	\$ 263,839	\$ 347,724	\$ 618,777	\$ 685,854
Crude oil	145,201	96,209	285,381	186,722
NGL	54,805	35,336	109,853	73,338
Oil and natural gas sales and realized gains from risk management activities	\$ 463,845	\$ 479,269	\$ 1,014,011	\$ 945,914