

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(000s) (unaudited)</i>	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Accounts receivable	\$ 169,226	\$ 263,073
Prepaid expenses and deposits	21,126	15,565
Fair value of financial instruments <i>(note 3)</i>	16,587	35,287
Total current assets	206,939	313,925
Long-term asset	5,191	5,565
Fair value of financial instruments <i>(note 3)</i>	5,413	9,551
Exploration and evaluation assets <i>(note 4)</i>	578,385	595,667
Property, plant and equipment <i>(note 5)</i>	10,027,638	9,807,749
Right-of-use asset <i>(note 6)</i>	13,010	–
Total Assets	\$10,836,576	\$ 10,732,457
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 350,453	\$ 520,681
Lease liabilities <i>(note 6)</i>	2,848	–
Fair value of financial instruments <i>(note 3)</i>	13,118	21,647
Total current liabilities	366,419	542,328
Bank debt <i>(note 8)</i>	1,559,474	1,476,099
Lease liabilities <i>(note 6)</i>	10,211	–
Fair value of financial instruments <i>(note 3)</i>	25,322	15,911
Decommissioning obligations <i>(note 7)</i>	341,116	302,750
Deferred taxes	766,688	823,989
Shareholders' equity:		
Share capital <i>(note 10)</i>	5,909,852	5,909,664
Non-controlling interest <i>(note 9)</i>	27,999	28,068
Contributed surplus	266,102	253,055
Retained earnings	1,563,393	1,380,593
Total shareholders' equity	7,767,346	7,571,380
Total Liabilities and Shareholders' Equity	\$10,836,576	\$ 10,732,457

Commitments (note 13).

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue:				
Commodity sales from production (note 14)	\$ 339,362	\$ 395,290	\$ 917,379	\$ 892,586
Realized gain on risk management activities (note 14)	91,869	82,518	180,046	144,120
Marketing revenue (note 14)	10,207	5,318	12,755	11,198
Royalties	(16,194)	(19,990)	(47,817)	(40,109)
Other income	9,309	8,667	16,651	17,764
Realized gain (loss) on financial instruments	12,128	(13,963)	10,235	(22,695)
Unrealized gain (loss) on financial instruments (note 3)	39,713	(47,167)	(23,720)	(55,371)
Total revenue	486,394	410,673	1,065,529	947,493
Expenses:				
Operating	88,463	75,525	180,628	156,832
Transportation	93,635	80,958	194,224	161,307
Marketing purchases	9,318	5,004	12,046	10,730
General and administration	12,609	12,365	24,756	23,856
Share-based payments (note 12)	3,688	4,428	7,353	8,514
Depletion, depreciation and amortization	202,053	195,364	430,849	394,036
Realized foreign exchange (gain) loss	3,213	(770)	5,589	120
Unrealized foreign exchange (gain) loss	869	(166)	2,393	(784)
(Gain) on divestitures	(4,475)	(14,809)	(6,064)	(54,989)
Total expenses	409,373	357,899	851,774	699,622
Income from operations	77,021	52,774	213,755	247,871
Finance expenses	14,212	13,826	28,475	27,795
Income before taxes	62,809	38,948	185,280	220,076
Deferred tax expense (recovery)	(92,097)	12,957	(57,301)	64,431
Net income and comprehensive income before non-controlling interest	154,906	25,991	242,581	155,645
Net income and comprehensive income attributable to:				
Shareholders of the Company	154,940	25,639	242,650	155,227
Non-controlling interest (note 9)	(34)	352	(69)	418
	\$ 154,906	\$ 25,991	\$ 242,581	\$ 155,645
Net income per share attributable to common shareholders (note 11)				
Basic	\$ 0.57	\$ 0.09	\$ 0.89	\$ 0.57
Diluted	\$ 0.57	\$ 0.09	\$ 0.89	\$ 0.57

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, 2018	\$ 5,909,664	\$ 253,055	\$1,380,593	\$ 28,068	\$ 7,571,380
Share-based payments	–	7,353	–	–	7,353
Capitalized share-based payments	–	5,734	–	–	5,734
Options exercised (<i>notes 10 and 12</i>)	188	(40)	–	–	148
Dividends paid (<i>note 10</i>)	–	–	(59,850)	–	(59,850)
Income attributable to common shareholders	–	–	242,650	–	242,650
Income attributable to non-controlling interest	–	–	–	(69)	(69)
Balance at June 30, 2019	\$ 5,909,852	\$ 266,102	\$1,563,393	\$ 27,999	\$ 7,767,346

<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 10</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	–	–	(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

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,	
	2019	2018	2019	2018
Cash provided by (used in):				
Operations:				
Net income	\$ 154,940	\$ 25,639	\$ 242,650	\$ 155,227
Items not involving cash:				
Depletion, depreciation and amortization	202,053	195,364	430,849	394,036
Accretion (note 7)	1,402	1,344	2,747	2,707
Lease interest expense (note 6)	68	–	119	–
Share-based payments (note 12)	3,688	4,428	7,353	8,514
Deferred taxes (recovery)	(92,097)	12,957	(57,301)	64,431
Unrealized (gain) loss on financial instruments (note 3)	(39,713)	47,167	23,720	55,371
(Gain) on divestitures	(4,475)	(14,809)	(6,064)	(54,989)
Amortization on long-term asset	186	186	374	370
Non-controlling interest (note 9)	(34)	352	(69)	418
Unrealized foreign exchange (gain) loss	869	(166)	2,393	(784)
Decommissioning expenditures (note 7)	(429)	(201)	(1,071)	(792)
Changes in non-cash operating working capital	71,824	10,894	35,702	794
Total cash flow from operating activities	298,282	283,155	681,402	625,303
Financing:				
Issue of common shares	–	30,000	148	30,000
Share issue costs	–	(1,205)	–	(1,213)
Lease payments (note 6)	(1,309)	–	(2,477)	–
Dividends paid (note 10)	(32,646)	(24,487)	(59,850)	(46,173)
Increase (decrease) in bank debt	91,727	(8,808)	83,375	(126,933)
Total cash flow from (used in) financing activities	57,772	(4,500)	21,196	(144,319)
Investing:				
Exploration and evaluation (note 4)	(9,791)	(21,977)	(24,070)	(39,757)
Property, plant and equipment (note 5)	(187,990)	(169,553)	(559,735)	(439,109)
Property acquisitions	(473)	(243)	(596)	(1,692)
Proceeds from divestitures	75	–	1,838	71,234
Changes in non-cash investing working capital	(157,875)	(86,882)	(120,035)	(71,660)
Total cash flow used in investing activities	(356,054)	(278,655)	(702,598)	(480,984)
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, 2019 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(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 July 31, 2019.

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, 2018.

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 9), 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, 2018, except as noted below.

Changes in Accounting Policies

The following standard as issued by the International Accounting Standards Board (“IASB”) has been adopted by the Company effective January 1, 2019.

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. The new standard was adopted using the modified retrospective approach and the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for lease with less than 12 months of lease term, and
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leased assets that have a lease term of 12 months or less and leases of low-value assets defined as less than \$5,000 USD or less. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a result of adopting IFRS 16 the Company’s accounting policies for Leased assets are now:

Leased assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to new and existing contracts as at or after January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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 financial instruments 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, 2018.

As at June 30, 2019, 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, 2019 ⁽¹⁾:

		2019	2020	2021	2022	Fair Value (000s)
Gas						
NYMEX swaps	<i>mmbtu/d</i>	60,163	–	–	–	\$ 8,013
	<i>USD\$/mmbtu</i>	\$ 2.85				
PGE swaps	<i>mmbtu/d</i>	10,000	10,000	–	–	\$ 4,205
	<i>USD\$/mmbtu</i>	\$ 3.50	\$ 3.56			
Basis differentials – other ⁽²⁾	<i>mmbtu/d</i>	26,685	37,486	37,500	37,500	\$ (19,792)
	<i>USD\$/mmbtu</i>	\$ 0.07	\$ 0.29	\$ 0.29	\$ 0.29	
NYMEX call options (writer) ⁽³⁾	<i>mmbtu/d</i>	90,000	40,000	–	–	\$ (816)
	<i>USD\$/mmbtu</i>	\$ 3.94	\$ 3.74			
Oil						
Financial swaps	<i>bbls/d</i>	8,500	5,500	–	–	\$ (2,609)
	<i>USD\$/bbl</i>	\$ 55.77	\$ 56.77			
Financial collars	<i>bbls/d</i>	500	1,000	–	–	\$ 1,309
	<i>USD\$/bbl</i>	\$ 55.00 - 65.20	\$ 52.50 - 65.48			
Condensate differentials	<i>bbls/d</i>	1,000	500	–	–	\$ (298)
	<i>USD\$/bbl</i>	\$ (7.48)	\$ (6.00)			
Total fair value						\$ (9,988)

(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, 5.0 mmcf/d at USD \$4.00/mcf for 2019-2020.

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

The Company has entered into the following financial derivative contracts subsequent to June 30, 2019:

Type of Contract	Quantity	Time Period	Contract Price
Oil swap	1,500 bbls/d	August 2019 – December 2020	US\$57.83/bbl

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

	2019	2020	2021	2022	2023	2024	Fair Value
Effective interest rate ⁽¹⁾	1.86%	1.79%	1.86%	1.93%	2.05%	2.21%	
Notional amount hedged (000s)	\$ 800,602	\$ 715,159	\$ 727,974	\$ 655,482	\$ 502,723	\$ 175,000	\$ (6,888)

(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, 2019:

		2019	2020	Fair Value (000s)
Costless collar	\$CAD(000s) Monthly	\$ 14,000	\$ 1,000	\$ (63)
	\$CAD/\$USD	\$ 1.271 – \$ 1.341	\$ 1.310 – \$ 1.364	
Average rate forward	\$CAD(000s) Monthly	\$ 16,000	\$ 1,000	\$ 499
	\$CAD/\$USD	\$ 1.302	\$ 1.340	
Total fair value				\$ 436

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, 2019 and 2018:

(000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Unrealized gain (loss) on financial instruments – commodity contracts	\$ 38,730	\$ (42,566)	\$ (23,765)	\$ (50,692)
Unrealized gain (loss) on financial instruments – interest rate swaps	(5,806)	(316)	(18,624)	2,175
Unrealized gain (loss) on financial instruments – foreign currency	6,789	(4,285)	18,669	(6,854)
Total unrealized gain (loss) on financial instruments	\$ 39,713	\$ (47,167)	\$ (23,720)	\$ (55,371)

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 interim condensed consolidated financial statements.

The Company has the following physical commodity contracts in place at June 30, 2019 ⁽¹⁾⁽⁶⁾:

		2019	2020	2021	2022	2023
Gas						
Fixed price ⁽²⁾	<i>mcf/d</i>	255,617	61,872	10,000	10,000	–
	<i>CAD\$/mcf</i>	\$ 1.62	\$ 2.68	\$ 4.14	\$ 4.14	
Basis differentials - AECO ⁽³⁾	<i>mmbtu/d</i>	187,500	187,500	94,062	82,500	59,164
	<i>USD\$/mmbtu</i>	\$ (0.75)	\$ (0.75)	\$ (0.68)	\$ (0.66)	\$ (0.74)
Basis differentials - Dawn	<i>mmbtu/d</i>	50,000	45,000	6,164	–	–
	<i>USD\$/mmbtu</i>	\$ (0.10)	\$ (0.12)	\$ (0.15)		
Basis differentials – Stn 2	<i>mcf/d</i>	39,478	37,812	29,478	20,000	16,658
	<i>CAD\$/mcf</i>	\$ 0.82	\$ 0.42	\$ 0.13	\$ 0.28	\$ 0.19
Basis differentials – Other ⁽⁴⁾	<i>mcf/d</i>	18,342	20,000	30,000	30,000	27,500
	<i>CAD\$/mcf</i>	\$ 0.12	\$ 0.27	\$ 0.12	\$ 0.12	\$ 0.09
Oil						
Fixed differential – Oil ⁽⁵⁾	<i>bbls/d</i>	1,552	–	–	–	–
	<i>USD\$/bbl</i>	\$ (12.75)				
Basis differentials - Condensate	<i>bbls/d</i>	4,104	3,095	–	–	–
	<i>USD\$/bbl</i>	\$ (6.48)	\$ (6.08)			

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

(2) These include AECO, Dawn, PGE, Chicago and Ventura.

(3) Tourmaline also has 41 mmcf/d of NYMEX-AECO basis differentials at \$(0.71) in 2024. A portion of these basis deals have a cap on NYMEX, 133 mmcf/d at USD\$4.12/mcf from 2019-2020 and 49.8 mmcf/d at USD\$4.46/mcf from 2021-2024.

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

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

(6) Tourmaline also 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. Tourmaline reserves the right to periodically fix or lock in the basis in each market.

The Company has not entered into any physical contracts subsequent to June 30, 2019.

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2018	\$ 595,667
Capital expenditures	24,070
Transfers to property, plant and equipment (note 5)	(10,932)
Acquisitions	4,408
Divestitures	(2,004)
Expired mineral leases	(32,824)
As at June 30, 2019	\$ 578,385

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, 2019 and December 31, 2018, 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, 2018	\$ 13,842,667
Capital expenditures	565,469
Transfers from exploration and evaluation (note 4)	10,932
Change in decommissioning liabilities (note 7)	36,435
Acquisitions	3,544
Divestitures	(873)
As at June 30, 2019	\$ 14,458,174

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2018	\$ 4,034,918
Depletion, depreciation and amortization	395,618
As at June 30, 2019	\$ 4,430,536

Net Book Value

(000s)

As at December 31, 2018	\$ 9,807,749
As at June 30, 2019	\$ 10,027,638

Future development costs of \$7,556.9 million were included in the depletion calculation at June 30, 2019 (December 31, 2018 – \$7,622.0 million).

Capitalization of G&A and Share-Based Payments

A total of \$14.8 million in G&A expenditures have been capitalized and included in PP&E for the six months ended June 30, 2019 (December 31, 2018 – \$27.3 million). Also included in PP&E are non-cash year-to-date share-based payments of \$5.7 million (December 31, 2018 - \$13.3 million). Borrowing costs of \$3.0 million on specified projects have been capitalized and included in PP&E at June 30, 2019 (December 31, 2018 – \$2.8 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, 2019, the Company identified indicators of impairment on its Deep Basin and Northeast BC CGUs due to the decline in the current and forward commodity price for natural gas since December 31, 2018.

An impairment is recognized if the carrying value of a CGU exceeds the recoverable amount for that CGU. The Company determines the recoverable amount by using the greater of fair value less cost to sell and the value-in-use. Value-in-use is generally the future cash flows expected to be derived from production of proven and probable reserves estimated by the Company's third-party reserve evaluators and the internally estimated future cash flows of facility infrastructure, when required. At June 30, 2019, the Company used value-in-use, discounted at pre-tax rates between 8% and 15% depending on the risk profile of the reserve category.

The following forward commodity price estimates were used in determining whether an impairment to the carrying value of the CGUs existed at June 30, 2019:

Year	WTI Oil (USD\$/bbl) ⁽¹⁾	Foreign Exchange Rate ⁽¹⁾	Edmonton Light Crude Oil (Cdn\$/bbl) ⁽¹⁾	AECO Gas (Cdn\$/mmbtu) ⁽¹⁾
2019	59.92	0.7600	71.55	1.39
2020	63.57	0.7817	74.26	1.91
2021	66.67	0.7967	77.10	2.37
2022	69.30	0.8000	80.52	2.66
2023	71.98	0.8000	84.31	2.79
2024	73.76	0.8000	86.46	2.92
2025	75.59	0.8000	88.67	3.00
2026	77.43	0.8000	90.91	3.06
2027	79.20	0.8000	93.04	3.16
2028	80.79	0.8000	94.97	3.23
Thereafter	+2.0%/yr	0.8000	+2.0%/yr	+2.0%/yr

⁽¹⁾ Source: 3 Consultants' average, GLJ Petroleum Consultants, McDaniel & Associates Consultants, and Sproule Associates price forecasts, effective July 1, 2019.

The Company has determined that there was no impairment to PP&E at June 30, 2019.

For the year ended December 31, 2018, the Company identified indicators of impairment on all of its CGUs due to the decline in current and forward commodity prices and performed impairment tests accordingly. The Company determined that there was no impairment to PP&E at December 31, 2018.

Acquisitions and Dispositions of Oil and Natural Gas Properties

For the six months ended June 30, 2019, the Company completed property acquisitions for cash of \$0.6 million (December 31, 2018 - \$25.0 million) and, a further \$7.1 million in acquisitions involving non-cash consideration (December 31, 2018 - \$31.7 million). The Company also assumed \$0.3 million in decommissioning liabilities as a result of these acquisitions (December 31, 2018 - \$1.6 million).

The Company also completed property dispositions, for the six months ended June 30, 2019, for total cash consideration of \$1.8 million (December 31, 2018 - \$72.2 million).

6. LEASES

On transition to IFRS 16, the Company recognized additional right-of-use assets and lease liabilities. The impact of the transition and activity in the period is summarized below.

Right-of-use assets

(000s)

As at January 1, 2019	\$ 12,028
Additions	3,389
Depreciation	(2,407)
As at June 30, 2019	\$ 13,010

Lease liabilities

(000s)

As at January 1, 2019	\$ 12,028
Additions	3,389
Lease interest expense	119
Lease payments	(2,477)
As at June 30, 2019	\$ 13,059

On transition, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019 of 3.75% to calculate the lease liability.

7. 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 \$531.6 million (December 31, 2018 – \$512.5 million), with some abandonments expected to commence in 2034. A risk-free rate of 1.90% (December 31, 2018 – 2.18%) and an inflation rate of 2.0% (December 31, 2018 – 2.0%) were used to calculate the decommissioning obligations. The decommissioning obligations at June 30, 2019 have been adjusted by approximately \$24.6 million (December 31, 2018 – \$28.0 million) reflecting a decrease in the risk-free rate.

<i>(000s)</i>	As at June 30, 2019	As at December 31, 2018
Balance, beginning of period	\$ 302,750	\$ 252,222
Obligation incurred	11,856	19,004
Obligation incurred on property acquisitions	256	1,564
Obligation divested	(1)	(802)
Obligation settled	(1,071)	(2,820)
Accretion expense	2,747	5,613
Change in future estimated cash outlays	24,579	27,969
Balance, end of period	\$ 341,116	\$ 302,750

8. BANK DEBT

<i>(000s)</i>	As at June 30, 2019	As at December 31, 2018
Revolving credit facility	\$ 616,241	\$ 532,855
Term debt	949,097	949,027
Debt issue costs	(5,864)	(5,783)
Bank debt	\$ 1,559,474	\$ 1,476,099

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 2019, the Company extended the maturity date of the revolving credit facility to June 2024. With the exception of the change in maturity date, 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, 2018. 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 facility amount by up to \$500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The facility can be drawn in either Canadian or U.S. funds and bears interest at the agent 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 2019, the Company extended the maturity date of the term loan to June 2024. With the exception of the change in maturity date, 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, 2018. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or

LIBOR (for U.S. borrowings), plus 150 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 covenants for the term loan are the same as those under the Company's revolving credit facility and the term loan ranks equally with the revolving credit facility.

The Company has a covenant based, unsecured, operating credit facility with a Canadian bank in the amount of \$50.0 million. In May 2019, the Company extended the maturity date to June 2021. With the exception of the change in maturity date, the operating 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, 2018. The maturity date 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.

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 in the amount of \$10.6 million (December 31, 2018 - \$9.5 million), which reduce the credit available on this facility.

The Company's aggregate borrowing capacity is \$2.85 billion at June 30, 2019. As at, and for the quarter ending June 30, 2019, the Company is in compliance with all debt covenants.

As at June 30, 2019, the Company had \$947.7 million in term debt outstanding and \$611.8 million drawn against the revolving credit facility for total bank debt of \$1,559.5 million (net of debt issue costs) (December 31, 2018 - \$1,476.1 million). The effective interest rate for the six months ended June 30, 2019 was 3.30% (six months ended June 30, 2018 – 2.85%).

9. 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, 2019	As at December 31, 2018
Balance, beginning of period	\$ 28,068	\$ 27,816
Share of subsidiary's net income for the period	(69)	252
Balance, end of period	\$ 27,999	\$ 28,068

10. 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, 2019		As at December 31, 2018	
	Number of Shares	Amount	Number of Shares	Amount
<i>(000s) except share amounts</i>				
Balance, beginning of period	272,042,659	\$ 5,909,664	271,083,946	\$ 5,886,709
For cash on public offering of flow-through common shares ⁽¹⁾	–	–	1,000,000	23,840
Issued on corporate and property acquisitions	–	–	–	–
For cash on exercise of stock options	7,500	148	–	–
Contributed surplus on exercise of stock options	–	40	–	–
Expired related to corporate acquisitions ⁽²⁾	–	–	(41,287)	–
Share issue costs	–	–	–	(1,213)
Tax effect of share issue costs	–	–	–	328
Balance, end of period	272,050,159	\$ 5,909,852	272,042,659	\$ 5,909,664

(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 December 31, 2018, the Company had spent the full committed amount. The expenditures were renounced to investors in January 2019 with an effective renunciation date of December 31, 2018.

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

During the three and six months ended June 30, 2019, the Company paid cash dividends of \$0.12 and \$0.22 per common share totalling \$32.6 million and \$59.9 million, respectively, compared to \$0.09 and \$0.17 per common share totalling \$24.5 million and \$46.2 million, respectively, for the same periods of the prior year.

11. 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,	
	2019	2018	2019	2018
Net income and comprehensive income attributable to shareholders of the Company for the period (000s)	\$ 154,940	\$ 25,639	\$ 242,650	\$ 155,277
Weighted average number of common shares – basic	272,050,159	271,600,430	272,046,678	271,343,615
Earnings per share – basic	\$ 0.57	\$ 0.09	\$ 0.89	\$ 0.57

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

	Three Months Ended June 30		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income and comprehensive income attributable to shareholders of the Company for the period (000s)	\$ 154,940	\$ 25,639	\$ 242,650	\$ 155,277
Weighted average number of common shares – diluted	272,050,159	271,603,980	272,046,678	271,343,615
Earnings per share – fully diluted	\$ 0.57	\$ 0.09	\$ 0.89	\$ 0.57

There were 19,607,334 options excluded from the weighted-average share calculations for the three and six month periods ended June 30, 2019 because they were anti-dilutive (three and six months ended June 30, 2018 – 19,227,783 and 19,309,783 options were anti-dilutive).

12. 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 23,124,263 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,			
	2019		2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	20,452,467	\$ 32.27	20,948,382	\$ 36.13
Granted	450,250	18.81	539,500	21.91
Exercised	(7,500)	19.74	–	–
Expired	(1,155,000)	52.53	(1,782,333)	40.19
Forfeited	(132,883)	27.97	(395,766)	37.23
Stock options outstanding, end of period	19,607,334	\$ 30.80	19,309,783	\$ 35.33

The average trading price of the Company's common shares was \$19.22 during the six months ended June 30, 2019 (six months ended June 30, 2018 – \$22.07).

The following table summarizes stock options outstanding and exercisable at June 30, 2019:

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
\$16.03 - \$22.27	4,188,750	6.15	\$ 21.45	97,169	\$ 20.43
\$22.28 - \$26.40	4,010,934	2.51	25.83	3,197,840	26.21
\$26.41 - \$33.58	3,703,450	4.76	27.54	1,763,403	28.34
\$33.59 - \$39.32	3,625,200	3.41	35.09	2,663,533	35.25
\$39.32 - \$55.05	4,079,000	0.40	44.44	4,079,000	44.44
	19,607,334	3.44	\$ 30.80	11,800,945	\$ 34.82

The fair value of options granted during the six-month period ended June 30, 2019 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,	
	2019	2018
Fair value of options granted (weighted average)	\$ 4.95	\$ 6.11
Risk-free interest rate	1.7%	2.1%
Estimated hold period prior to exercise	5 years	5 years
Expected volatility	35%	33%
Forfeiture rate	1.8%	1.8%
Dividend per share	\$ 0.41	\$ 0.32

13. 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 commitments ⁽¹⁾	\$ 1,787	\$ 3,575	\$ 3,530	\$ 4,817	\$ 13,709
Firm transportation and processing agreements	463,959	894,993	788,552	2,111,736	4,259,240
Capital commitments ⁽²⁾	200,712	405,353	9,349	79,062	694,476
Credit facility ⁽³⁾	–	–	729,646	–	729,646
Term debt ⁽⁴⁾	32,949	65,899	1,013,348	–	1,112,196
	\$ 699,407	\$ 1,369,820	\$ 2,544,425	\$ 2,195,615	\$ 6,809,267

(1) Operating commitments includes variable operating costs related to the Company's office leases.

(2) 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 at least 2020. The capital spending commitment can be deferred to future periods as agreed upon by both parties.

(3) Includes interest expense at an annual rate of 3.44% being the rate applicable to outstanding debt on the credit facility at June 30, 2019.

(4) Includes interest expense at an annual rate of 3.47% being the fixed rate on the term debt at June 30, 2019.

14. 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 sales 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:

(000s)	Three Months Ended June 30		Six Months Ended June 30,	
	2019	2018	2019	2018
Natural gas				
Sales from production	\$ 166,450	\$ 179,084	\$ 545,077	\$ 471,581
Realized gain on risk management activities	90,168	79,477	177,891	139,819
	256,618	258,561	722,968	611,400
Oil				
Sales from production	42,398	51,374	82,584	92,579
Realized gain on risk management activities	1,701	3,055	2,155	4,257
	44,099	54,429	84,739	96,836
Condensate				
Sales from production	106,328	110,034	202,809	218,579
Realized gain (loss) on risk management activities	–	(14)	–	44
	106,328	110,020	202,809	218,623
NGL				
Sales from production	24,186	54,798	86,909	109,847
Marketing revenue ⁽¹⁾				
	10,207	5,318	12,755	11,198
Total				
Commodity sales from production	339,362	395,290	917,379	892,586
Realized gain on risk management activities	91,869	82,518	180,046	144,120
Marketing revenue	10,207	5,318	12,755	11,198
Revenue from contracts with customers	\$ 441,438	\$ 483,126	\$ 1,110,180	\$ 1,047,904

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the three and six months ended June 30, 2019, the Company had marketing purchases from third parties of \$9.3 million and \$12.0 million, respectively (three and six months ended June 30, 2018 - \$5.0 million and \$10.7 million).