

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(000s) (unaudited)</i>	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Accounts receivable	\$ 290,389	\$ 263,073
Prepaid expenses and deposits	13,451	15,565
Fair value of financial instruments <i>(note 3)</i>	4,523	35,287
Total current assets	308,363	313,925
Long-term asset	5,377	5,565
Fair value of financial instruments <i>(note 3)</i>	3,353	9,551
Exploration and evaluation assets <i>(note 4)</i>	578,779	595,667
Property, plant and equipment <i>(note 5)</i>	10,016,647	9,807,749
Right-of-use asset <i>(note 6)</i>	11,961	–
Total Assets	\$10,924,480	\$ 10,732,457
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 549,125	\$ 520,681
Lease liabilities <i>(note 6)</i>	3,814	–
Fair value of financial instruments <i>(note 3)</i>	27,924	21,647
Total current liabilities	580,863	542,328
Bank debt <i>(note 8)</i>	1,467,747	1,476,099
Lease liabilities <i>(note 6)</i>	8,165	–
Fair value of financial instruments <i>(note 3)</i>	36,105	15,911
Decommissioning obligations <i>(note 7)</i>	334,278	302,750
Deferred taxes	858,785	823,989
Shareholders' equity:		
Share capital <i>(note 10)</i>	5,909,852	5,909,664
Non-controlling interest <i>(note 9)</i>	28,033	28,068
Contributed surplus	259,553	253,055
Retained earnings	1,441,099	1,380,593
Total shareholders' equity	7,638,537	7,571,380
Total Liabilities and Shareholders' Equity	\$10,924,480	\$ 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

	Three Months Ended March 31,	
<i>(000s) except per-share amounts (unaudited)</i>	2019	2018
Revenue:		
Commodity sales from production (note 14)	\$ 578,017	\$ 497,296
Realized gain on risk management activities (note 14)	88,177	61,602
Marketing revenue (note 14)	2,548	5,880
Royalties	(31,623)	(20,119)
Other income	7,342	9,097
Realized (loss) on financial instruments	(1,893)	(8,732)
Unrealized (loss) on financial instruments (note 3)	(63,433)	(8,204)
Total revenue	579,135	536,820
Expenses:		
Operating	92,165	81,307
Transportation	100,589	80,349
Marketing purchases	2,728	5,726
General and administration	12,147	11,491
Share-based payments (note 12)	3,665	4,086
Depletion, depreciation and amortization	228,796	198,672
Realized foreign exchange loss	2,376	890
Unrealized foreign exchange (gain) loss	1,524	(618)
(Gain) on divestitures	(1,589)	(40,180)
Total expenses	442,401	341,723
Income from operations	136,734	195,097
Finance expenses	14,263	13,969
Income before taxes	122,471	181,128
Deferred taxes	34,796	51,474
Net income and comprehensive income before non-controlling interest	87,675	129,654
Net income and comprehensive income attributable to:		
Shareholders of the Company	87,710	129,588
Non-controlling interest (note 9)	(35)	66
	\$ 87,675	\$ 129,654
Net income per share attributable to common shareholders (note 11)		
Basic	\$ 0.32	\$ 0.48
Diluted	\$ 0.32	\$ 0.48

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	–	3,665	–	–	3,665
Capitalized share-based payments	–	2,873	–	–	2,873
Options exercised (<i>notes 10 and 12</i>)	188	(40)	–	–	148
Dividends paid (<i>note 10</i>)	–	–	(27,204)	–	(27,204)
Income attributable to common shareholders	–	–	87,710	–	87,710
Income attributable to non-controlling interest	–	–	–	(35)	(35)
Balance at March 31, 2019	\$ 5,909,852	\$ 259,553	\$1,441,099	\$ 28,033	\$ 7,638,537

<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
Share issue costs, net of tax	(6)	–	–	–	(6)
Share-based payments	–	4,086	–	–	4,086
Capitalized share-based payments	–	2,983	–	–	2,983
Dividends paid	–	–	(21,686)	–	(21,686)
Income attributable to common shareholders	–	–	129,588	–	129,588
Income attributable to non-controlling interest	–	–	–	66	66
Balance at March 31, 2018	\$ 5,886,703	\$ 228,546	\$1,187,657	\$ 27,882	\$ 7,330,788

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months Ended March 31,	
<i>(000s) (unaudited)</i>	2019	2018
Cash provided by (used in):		
Operations:		
Net income	\$ 87,710	\$ 129,588
Items not involving cash:		
Depletion, depreciation and amortization	228,796	198,672
Accretion (<i>note 7</i>)	1,345	1,363
Lease interest expense (<i>note 6</i>)	51	–
Share-based payments (<i>note 12</i>)	3,665	4,086
Deferred taxes	34,796	51,474
Unrealized loss on financial instruments (<i>note 3</i>)	63,433	8,204
(Gain) on divestitures	(1,589)	(40,180)
Amortization on long-term asset	188	184
Non-controlling interest (<i>note 9</i>)	(35)	66
Unrealized foreign exchange (gain) loss	1,524	(618)
Decommissioning expenditures (<i>note 7</i>)	(642)	(591)
Changes in non-cash operating working capital	(36,122)	(10,100)
Total cash flow from operating activities	383,120	342,148
Financing:		
Issue of common shares	148	–
Share issue costs	–	(8)
Lease payments (<i>note 6</i>)	(1,168)	–
Dividends paid (<i>note 10</i>)	(27,204)	(21,686)
(Decrease) in bank debt	(8,352)	(118,125)
Total cash flow used in financing activities	(36,576)	(139,819)
Investing:		
Exploration and evaluation	(14,279)	(17,780)
Property, plant and equipment	(371,745)	(269,556)
Property acquisitions	(123)	(1,449)
Proceeds from divestitures	1,763	71,234
Changes in non-cash investing working capital	37,840	15,222
Total cash flow used in investing activities	(346,544)	(202,329)
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 MARCH 31, 2019 AND FOR THE THREE MONTHS ENDED MARCH 31, 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 May 8, 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 March 31, 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 March 31, 2019 ⁽¹⁾:

		2019	2020	2021	2022	Fair Value (000s)
Gas						
NYMEX swaps	<i>mmbtu/d</i>	70,036	–	–	–	\$ 2,578
	<i>USD\$/mmbtu</i>	\$ 2.85				
PGE swaps	<i>mmbtu/d</i>	10,000	10,000	–	–	\$ (149)
	<i>USD\$/mmbtu</i>	\$ 3.50	\$ 3.56			
Basis differentials – other ⁽²⁾	<i>mmbtu/d</i>	27,782	37,486	35,000	35,000	\$ (32,988)
	<i>USD\$/mmbtu</i>	\$ 0.09	\$ 0.29	\$ 0.33	\$ 0.33	
NYMEX call options (writer) ⁽³⁾	<i>mmbtu/d</i>	90,000	40,000	–	–	\$ (1,155)
	<i>USD\$/mmbtu</i>	\$ 3.94	\$ 3.74			
Oil						
Financial swaps	<i>bbls/d</i>	8,116	5,000	–	–	\$ (16,970)
	<i>USD\$/bbl</i>	\$ 55.95	\$ 56.75			
Condensate differentials	<i>bbls/d</i>	500	–	–	–	\$ (34)
	<i>USD\$/bbl</i>	\$ (8.95)				
Total fair value						\$ (48,718)

(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, 5.7 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 March 31, 2019:

Type of Contract	Quantity	Time Period	Contract Price
Oil costless collar	500 bbls/d	July 2019 – December 2020	USD\$55/bbl - USD\$65.20/bbl
Oil costless collar	500 bbls/d	January 2020 – December 2020	USD\$50/bbl - USD\$65.75/bbl
Oil swaps	1,500 bbls/d	July 2019 – December 2020	\$61.87/bbl average
Oil swap	500 bbls/d	January 2020 – December 2020	USD\$58.93/bbl
Condensate differential	500 bbls/d	July 2019 – December 2019	USD(\$6.00)/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	\$ (1,082)

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

The Company has the following financial foreign currency derivative contracts in place at March 31, 2019:

		2019	2020	Fair Value (000s)
Costless collar	\$CAD(000s) Monthly	\$ 14,000	\$ 1,000	\$ (2,215)
	\$CAD/\$USD	\$ 1.271 – \$ 1.341	\$ 1.310 – \$ 1.364	
Average rate forward	\$CAD(000s) Monthly	\$ 16,000	\$ 1,000	\$ (4,138)
	\$CAD/\$USD	\$ 1.302	\$ 1.340	
Total fair value				\$ (6,353)

The Company has not entered into any financial foreign currency derivative contracts subsequent to March 31, 2019.

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 months ended March 31, 2019 and 2018:

(000s)	Three Months Ended March 31,	
	2019	2018
Unrealized (loss) on financial instruments – commodity contracts	\$ (62,495)	\$ (8,126)
Unrealized gain (loss) on financial instruments – interest rate swaps	(12,818)	2,491
Unrealized gain (loss) on financial instruments – foreign currency	11,880	(2,569)
Total unrealized (loss) on financial instruments	\$ (63,433)	\$ (8,204)

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 March 31, 2019 ⁽¹⁾⁽⁶⁾:

		2019	2020	2021	2022	2023
Gas						
Fixed price ⁽²⁾	<i>mcf/d</i>	201,558	23,566	–	–	–
	<i>CAD\$/mcf</i>	\$ 1.55	\$ 1.82			
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	35,000	6,164	–	–
	<i>USD\$/mmbtu</i>	\$ (0.10)	\$ (0.13)	\$ (0.15)		
Basis differentials – Stn 2	<i>mcf/d</i>	39,478	37,812	29,478	20,000	16,658
	<i>CAD\$/mcf</i>	\$ 0.99	\$ 0.67	\$ 0.31	\$ 0.36	\$ 0.36
Basis differentials – Other ⁽⁴⁾	<i>mcf/d</i>	18,891	20,000	22,500	22,500	20,000
	<i>CAD\$/mcf</i>	\$ 0.11	\$ 0.27	\$ 0.29	\$ 0.29	\$ 0.27
Oil						
Fixed differential – Oil ⁽⁵⁾	<i>bbls/d</i>	1,552	–	–	–	–
	<i>USD\$/bbl</i>	\$ (12.75)				
Basis differentials - Condensate	<i>bbls/d</i>	3,089	1,032	–	–	–
	<i>USD\$/bbl</i>	\$ (6.47)	\$ (6.50)			

(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 entered into the following physical contracts subsequent to March 31, 2019:

Type of Contract	Quantity	Time Period	Contract Price
Fixed Price – Gas	30,000 GJ/d	August 2019	CAD\$1.17/GJ
Fixed Price – Gas	10,000 mmbtu/d	January 2020 – December 2020	USD\$3.53/mmbtu
Condensate differential	1,000 bbls/d	January 2020 – December 2020	USD(\$5.50)/bbl

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2018	\$ 595,667
Capital expenditures	14,279
Transfers to property, plant and equipment (note 5)	(2,634)
Acquisitions	1,300
Divestitures	(1,968)
Expired mineral leases	(27,865)
As at March 31, 2019	\$ 578,779

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 March 31, 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	374,618
Transfers from exploration and evaluation (note 4)	2,634
Change in decommissioning liabilities (note 7)	30,673
Acquisitions	769
As at March 31, 2019	\$ 14,251,361

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2018	\$ 4,034,918
Depletion, depreciation and amortization	199,796
As at March 31, 2019	\$ 4,234,714

Net Book Value

(000s)

As at December 31, 2018	\$ 9,807,749
As at March 31, 2019	\$ 10,016,647

Future development costs of \$7,595.0 million were included in the depletion calculation at March 31, 2019 (December 31, 2018 – \$7,622.0 million).

Capitalization of G&A and Share-Based Payments

A total of \$7.3 million in G&A expenditures have been capitalized and included in PP&E for the three months ended March 31, 2019 (December 31, 2018 – \$27.3 million). Also included in PP&E are non-cash year-to-date share-based payments of \$2.9 million (December 31, 2018 - \$13.3 million). Borrowing costs of \$1.4 million on specified projects have been capitalized and included in PP&E at March 31, 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 March 31, 2019, 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, 2018, 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, 2018.

Acquisitions and Dispositions of Oil and Natural Gas Properties

For the three months ended March 31, 2019, the Company completed property acquisitions for cash of \$0.1 million (December 31, 2018 - \$25.0 million) and, a further \$1.8 million in acquisitions involving non-cash consideration (December 31, 2018 - \$31.7 million). The Company also assumed \$0.2 million in decommissioning liabilities as a result of these acquisitions (December 31, 2018 - \$1.6 million).

The Company also completed property dispositions for the three months ended March 31, 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	1,068
Depreciation	(1,135)
As at March 31, 2019	\$ 11,961

Lease liabilities

(000s)

As at January 1, 2019	\$ 12,028
Additions	1,068
Lease interest expense	51
Lease payments	(1,168)
As at March 31, 2019	\$ 11,979

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 \$522.1 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 March 31, 2019 have been adjusted by approximately \$24.6 million (December 31, 2018 – \$28.0 million) reflecting a decrease in the risk-free rate.

(000s)	As at March 31, 2019	As at December 31, 2018
Balance, beginning of period	\$ 302,750	\$ 252,222
Obligation incurred	6,095	19,004
Obligation incurred on property acquisitions	153	1,564
Obligation divested	(1)	(802)
Obligation settled	(642)	(2,820)
Accretion expense	1,345	5,613
Change in future estimated cash outlays	24,578	27,969
Balance, end of period	\$ 334,278	\$ 302,750

8. BANK DEBT

(000s)	As at March 31, 2019	As at December 31, 2018
Revolving credit facility ⁽¹⁾	\$ 523,842	\$ 532,855
Term debt ⁽¹⁾	949,077	949,027
Debt issue costs	(5,172)	(5,783)
Bank debt	\$ 1,467,747	\$ 1,476,099

(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, the details of which are described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2018. The revolving credit facility is in the amount of \$1.8 billion with a maturity date of June 2023. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to \$500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The 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 has a \$950.0 million term loan with a syndicate of banks. 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 157.5 basis points with a maturity of June 2023. 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 also 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.

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 \$10.7 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 March 31, 2019. As at, and for the quarter ending March 31, 2019, the Company is in compliance with all debt covenants.

As at March 31, 2019, the Company had \$948.0 million in long-term debt outstanding and \$519.7 million drawn against the bank credit facility for total bank debt of \$1,467.7 million (net of prepaid interest and debt issue costs) (December 31, 2018 - \$1,476.1 million). The effective interest rate for the three months ended March 31, 2019 was 3.31% (three months ended March 31, 2018 – 2.79%).

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 March 31, 2019	As at December 31, 2018
Balance, beginning of period	\$ 28,068	\$ 27,816
Share of subsidiary's net income for the period	(35)	252
Balance, end of period	\$ 28,033	\$ 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 March 31, 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 months ended March 31, 2019, the Company paid a cash dividend of \$0.10 per common share totalling \$27.2 million (for the year ended December 31, 2018 - \$100.6 million).

11. EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2019	2018
Net income and comprehensive income attributable to shareholders of the Company for the period (000s)	\$ 87,710	\$ 129,588
Weighted average number of common shares – basic	272,043,159	271,083,946
Earnings per share – basic	\$ 0.32	\$ 0.48

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

	Three Months Ended March 31,	
	2019	2018
Net income and comprehensive income attributable to shareholders of the Company for the period (000s)	\$ 87,710	\$ 129,588
Weighted average number of common shares – diluted	272,043,159	271,083,946
Earnings per share – fully diluted	\$ 0.32	\$ 0.48

There were 20,327,251 options excluded from the weighted-average share calculations for the three-month period ended March 31, 2019 because they were anti-dilutive (three months ended March 31, 2018 – 20,712,583 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.

	Three Months Ended March 31,			
	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	336,000	19.14	233,000	19.81
Exercised	(7,500)	19.74	-	-
Expired	(345,000)	46.93	(203,333)	35.15
Forfeited	(108,716)	26.83	(265,466)	35.54
Stock options outstanding, end of period	20,327,251	\$ 31.84	20,712,583	\$ 35.96

The average trading price of the Company's common shares was \$19.51 during the three months ended March 31, 2019 (three months ended March 31, 2018 – \$20.25).

The following table summarizes stock options outstanding and exercisable at March 31, 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
\$17.20 - \$22.27	4,074,500	6.38	21.55	97,169	20.43
\$22.28 - \$26.40	4,020,934	2.76	25.83	3,117,338	26.29
\$26.41 - \$33.58	3,705,117	5.01	27.54	1,633,471	28.32
\$33.59 - \$41.65	4,190,200	3.32	35.69	3,228,533	36.01
\$41.66 - \$56.76	4,336,500	0.49	47.01	4,336,500	47.01
	20,327,251	3.53	31.84	12,413,011	36.28

The fair value of options granted during the three-month period ended March 31, 2019 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	March 31,	
	2019	2018
Fair value of options granted (weighted average)	\$ 5.11	\$ 5.35
Risk-free interest rate	1.8%	2.0%
Estimated hold period prior to exercise	5 years	5 years
Expected volatility	35%	33%
Forfeiture rate	1.8%	1.7%
Dividend per share	\$ 0.40	\$ 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⁾	\$ 1,813	\$ 3,625	\$ 3,589	\$ 5,330	\$ 14,357
Firm transportation and processing agreements	428,550	873,970	764,590	2,294,426	4,361,536
Capital commitments ⁽²⁾	156,864	465,379	9,348	78,838	710,429
Credit facility ⁽³⁾	–	–	604,704	–	604,704
Term debt ⁽⁴⁾	33,661	67,322	989,470	–	1,090,453
	\$ 620,888	\$ 1,410,296	\$ 2,371,701	\$ 2,378,594	\$ 6,781,479

(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 3.45% being the rate applicable to outstanding debt on the credit facility at March 31, 2019.

(4) Includes interest expense at an annual rate of 3.55% being the fixed rate on the term debt at March 31, 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 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:

(000s)	Three months ended March 31,	
	2019	2018
Natural gas		
Sales from production	\$ 378,627	\$ 292,497
Realized gain on risk management activities	87,723	60,342
	466,350	354,938
Oil		
Sales from production	40,186	41,206
Realized gain on risk management activities	454	1,202
	40,640	42,408
Condensate		
Sales from production	96,481	108,545
Realized gain on risk management activities	—	58
	96,481	108,603
NGL		
Sales from production	62,723	55,048
Marketing revenue ⁽¹⁾	2,548	5,880
Total		
Commodity sales from production	578,017	497,296
Realized gain on risk management activities	88,177	61,602
Marketing revenue	2,548	5,880
Revenue from contracts with customers	\$ 668,742	\$ 564,778

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the three months ended March 31, 2019, the Company had marketing purchases from third parties of \$2.7 million (Three months ended March 31, 2018 - \$5.7 million).