

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(000s) (unaudited)</i>	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Accounts receivable	\$ 190,973	\$ 259,863
Prepaid expenses and deposits	17,449	13,102
Fair value of financial instruments <i>(note 3)</i>	124,016	12,128
Total current assets	332,438	285,093
Long-term asset	4,633	4,819
Fair value of financial instruments <i>(note 3)</i>	34,059	3,021
Exploration and evaluation assets <i>(note 4)</i>	570,695	621,656
Property, plant and equipment <i>(note 5)</i>	10,154,629	10,255,190
Right-of-use asset <i>(note 6)</i>	9,800	10,831
Total Assets	\$11,106,254	\$ 11,180,610
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 475,443	\$ 412,343
Lease liabilities <i>(note 6)</i>	2,056	2,724
Fair value of financial instruments <i>(note 3)</i>	20,606	23,013
Total current liabilities	498,105	438,080
Bank debt <i>(note 8)</i>	1,569,731	1,619,009
Lease liabilities <i>(note 6)</i>	7,786	8,155
Fair value of financial instruments <i>(note 3)</i>	40,992	25,571
Decommissioning obligations <i>(note 7)</i>	346,852	321,863
Deferred taxes	747,028	801,343
Shareholders' equity:		
Share capital <i>(note 10)</i>	5,882,163	5,886,977
Non-controlling interest <i>(note 9)</i>	177,102	181,571
Contributed surplus	294,195	287,410
Retained earnings	1,542,300	1,610,631
Total shareholders' equity	7,895,760	7,966,589
Total Liabilities and Shareholders' Equity	\$11,106,254	\$ 11,180,610

Commitments (note 13).

Subsequent events (note 3).

See accompanying notes to the interim condensed consolidated financial statements.

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

	Three Months Ended March 31,	
<i>(000s) except per-share amounts (unaudited)</i>	2020	2019
Revenue:		
Commodity sales from production <i>(note 14)</i>	\$ 525,649	\$ 578,017
Premium (loss) on risk management activities <i>(note 14)</i>	(23,842)	88,177
Marketing revenue <i>(note 14)</i>	23,127	2,548
Royalties	(16,929)	(31,623)
Other income	8,613	7,342
Realized gain (loss) on financial instruments	23,108	(1,893)
Unrealized gain (loss) on financial instruments <i>(note 3)</i>	129,912	(63,433)
Total revenue	669,638	579,135
Expenses:		
Operating	83,406	92,165
Transportation	122,186	100,589
Marketing purchases	21,519	2,728
General and administration	16,269	12,147
Share-based payments <i>(note 12)</i>	2,432	3,665
Depletion, depreciation, amortization and impairment (notes 4, 5 and 6)	503,526	228,796
Realized foreign exchange (gain) loss	(3,391)	2,376
Unrealized foreign exchange (gain) loss	(1,376)	1,524
(Gain) on acquisitions and divestitures	(34,204)	(1,589)
Total expenses	710,367	442,401
Income (loss) from operations	(40,729)	136,734
Finance expenses	15,915	14,263
Income (loss) before taxes	(56,644)	122,471
Deferred tax expense (recovery)	(20,510)	34,796
Net income (loss) and comprehensive income (loss) before non-controlling interest	(36,134)	87,675
Net income (loss) and comprehensive income (loss) attributable to:		
Shareholders of the Company	(35,812)	87,710
Non-controlling interest <i>(note 9)</i>	(322)	(35)
	\$ (36,134)	\$ 87,675
Net income (loss) per share attributable to common shareholders <i>(note 11)</i>		
Basic	\$ (0.13)	\$ 0.32
Diluted	\$ (0.13)	\$ 0.32

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, 2019	\$ 5,886,977	\$ 287,410	\$1,610,631	\$ 181,571	\$ 7,966,589
Share-based payments	–	2,432	–	–	2,432
Capitalized share-based payments	–	1,692	–	–	1,692
Purchase of common shares (note 10)	(4,814)	2,661	–	–	(2,153)
Dividends paid (note 10)	–	–	(32,519)	(4,147)	(36,666)
(Loss) attributable to common shareholders	–	–	(35,812)	–	(35,812)
(Loss) attributable to non-controlling interest	–	–	–	(322)	(322)
Balance at March 31, 2020	\$ 5,882,163	\$ 294,195	\$1,542,300	\$ 177,102	\$ 7,895,760

<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 (notes 10 and 12)	188	(40)	–	–	148
Purchase of common shares (note 10)	–	–	–	–	–
Dividends paid (note 10)	–	–	(27,204)	–	(27,204)
Income attributable to common shareholders	–	–	87,710	–	87,710
(Loss) 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

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months Ended March 31,	
<i>(000s) (unaudited)</i>	2020	2019
Cash provided by (used in):		
Operations:		
Net income (loss)	\$ (35,812)	\$ 87,710
Items not involving cash:		
Depletion, depreciation, amortization and impairment	503,526	228,796
Accretion (<i>note 7</i>)	1,036	1,345
Lease interest expense (<i>note 6</i>)	39	51
Share-based payments (<i>note 12</i>)	2,432	3,665
Deferred tax expense (recovery)	(20,510)	34,796
Unrealized (gain) loss on financial instruments (<i>note 3</i>)	(129,912)	63,433
(Gain) on acquisitions and divestitures	(34,204)	(1,589)
Amortization on long-term asset	186	188
Non-controlling interest (<i>note 9</i>)	(322)	(35)
Unrealized foreign exchange (gain) loss	(1,376)	1,524
Decommissioning expenditures (<i>note 7</i>)	(1,365)	(642)
Changes in non-cash operating working capital	58,240	(36,122)
Total cash flow from operating activities	341,958	383,120
Financing:		
Issue of common shares	–	148
Purchase of common shares (<i>note 10</i>)	(2,153)	–
Lease payments (<i>note 6</i>)	(1,296)	(1,168)
Dividends paid (<i>note 10</i>)	(36,666)	(27,204)
(Decrease) in bank debt	(48,636)	(8,352)
Total cash flow (used in) financing activities	(88,751)	(36,576)
Investing:		
Exploration and evaluation (<i>note 4</i>)	(2,284)	(14,279)
Property, plant and equipment (<i>note 5</i>)	(312,545)	(371,745)
Property acquisitions (<i>note 5</i>)	(3,020)	(123)
Proceeds from divestitures	235	1,763
Corporate acquisitions (<i>note 5</i>)	(11,970)	–
Changes in non-cash investing working capital	76,377	37,840
Total cash flow used in investing activities	(253,207)	(346,544)
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, 2020 AND FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(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 6, 2020.

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, 2019.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars and include the accounts of Tourmaline Oil Corp., Polar Star Canadian Oil and Gas Inc. (“Polar Star”), and its 73.9% owned subsidiary Topaz Energy Corp. (“Topaz”) (note 9), which 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, 2019.

Key sources of estimation uncertainty:

Since December 31, 2019, the outbreak of the COVID-19 pandemic has had a significantly negative impact on economic conditions around the world. This has included a large decrease in oil demand which combined with other macro-economic conditions has resulted in significant volatility of commodity prices as well as increased economic uncertainty.

There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that it may have on demand for the commodities the Company produces, our suppliers, on our employees and on global financial markets. As a result of the material drop in the forward oil curve, the Company recorded an impairment on its Spirit River CGU for the three months ended March 31, 2020 of \$250.0 million (note 5). There is an increased potential for further impairments or reversals of impairment over the duration of the pandemic due to increased volatility in commodity prices and decreased global economic activity.

The Company has increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. The Company historically has not experienced any collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint asset partners, the Company has the ability to withhold production in the event of non-payment and the ability to obtain the partners' share of capital expenditures in advance of a project. The Company continues to expect that its receivables are substantially collectible at March 31, 2020.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for our business environment, operations and financial conditions. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our consolidated statement of income (loss) and comprehensive income (loss), statement of financial position, or statement of consolidated cash flows in fiscal 2020. The potential direct and indirect impacts of the economic downturn have been considered in managements estimates and assumptions at period end and have been reflected in our results with any significant change described above.

Capital management:

During this period of uncertainty, the Company is committed to maintaining its strong balance sheet and financial liquidity. At March 31, 2020, the Company has \$1.3 billion in unutilized borrowing capacity on its credit facilities, all of which is covenant based and not directly tied to changes in the Company's oil and gas reserves, insulating the Company's borrowing capacity against large swings in commodity price decks used to calculate reserve values. At March 31, 2020, the Company was not in breach of any covenants and has room under those covenants to allow for further deterioration of commodity prices and an increase in future borrowings to navigate through these uncertain times, if required. The Company has been actively monitoring all Government announcements to determine its eligibility for any relief that is being provided through this highly volatile and challenging period. The Company currently believes it has sufficient liquidity through cash flow to execute the remainder of the 2020 capital budget but will continue to monitor and adjust as necessary.

Since the economic impacts of the COVID-19 pandemic began, the Company has chosen to stop repurchasing shares while choosing to focus on liquidity through this volatile commodity price and macro economic environment.

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, 2019.

As at March 31, 2020, the Company has entered into certain financial derivative contracts in order to manage commodity price, foreign exchange and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity and interest rate contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income (loss) and comprehensive income (loss).

The Company has the following financial derivative contracts in place as at March 31, 2020 ⁽¹⁾:

		2020	2021	2022	2023	Fair Value (000s)
Gas						
AECO swaps ⁽²⁾	<i>mmbtu/d</i>	12,640	4,739	–	–	\$ 84
	<i>CAD\$/mmbtu</i>	\$ 1.60	\$ 2.21			
NYMEX swaps	<i>mmbtu/d</i>	132,836	–	–	–	\$ 17,928
	<i>USD\$/mmbtu</i>	\$ 2.28				
PGE swaps	<i>mmbtu/d</i>	10,000	–	–	–	\$ 3,837
	<i>USD\$/mmbtu</i>	\$ 3.56				
Basis differentials – other	<i>mmbtu/d</i>	42,782	37,500	37,500	37,500	\$ (17,942)
	<i>USD\$/mmbtu</i>	\$ 0.44	\$ 0.29	\$ 0.29	\$ 0.29	
Call options (writer) ⁽³⁾	<i>mmbtu/d</i>	47,376	25,000		–	\$ (1,288)
	<i>USD\$/mmbtu</i>	\$ 3.35	\$ 3.50			
Oil						
Financial swaps	<i>bbls/d</i>	9,500	4,000	–	–	\$ 113,638
	<i>USD\$/bbl</i>	\$ 50.53	\$ 53.21			
Financial collars	<i>bbls/d</i>	1,000	–	–	–	\$ 9,176
	<i>USD\$/bbl</i>	\$ 52.50 - 65.48				
Financial swaption	<i>bbls/d</i>	–	3,000	–	–	\$ (5,579)
	<i>USD\$/bbl</i>		\$ 43.01			
Condensate differentials	<i>bbls/d</i>	500	–	–	–	\$ 428
	<i>USD\$/bbl</i>	\$ (6.00)				
Total fair value						\$ 120,282

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

(2) These deals have been entered into by Topaz.

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

The Company has entered into the following financial commodity derivative contracts subsequent to March 31, 2020.

Type of Contract	Quantity	Time Period	Contract Price
AECO swaps	5,000 GJ/d	April 2021 – October 2021	CAD \$2.04/GJ average
Oil collar	500 bbl/d	January 2021 – June 2021	USD \$33.75 - \$40.00/bbl
Oil swaps	2,000 bbl/d	April 2020 – December 2020	USD \$34.13/bbl average
Oil swap	1,000 bbl/d	April 2020 – June 2020	USD \$30.90/bbl
Oil swaps	3,000 bbl/d	May 2020	USD \$26.52/bbl average
Oil swaps	2,000 bbl/d	May 2020 – June 2020	USD \$28.30/bbl average
Oil swap	500 bbl/d	January 2021 – June 2021	USD \$37.10/bbl
Oil call options (writer)	2,000 bbl/d	January 2021 – December 2021	USD \$34.13/bbl average

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

	2020	2021	2022	2023	2024	2025	Fair Value
Effective interest rate ⁽¹⁾	1.77%	1.83%	1.89%	2.02%	2.15%	1.74%	
Notional amount hedged (000s)	\$ 741,667	\$ 754,167	\$ 708,333	\$ 539,583	\$ 200,000	\$ 25,000	\$ (28,264)

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

The Company has entered into the following interest rate derivative contracts subsequent to March 31, 2020.

Type of Contract	Amount (000s)	Time Period	Rate
Interest Rate Swap	\$25,000	April 2020 – March 2027	\$1.10%

The Company has the following financial foreign currency derivative contracts in place at March 31, 2020:

		2020	2021	2021	Fair Value (000s)
Costless collar ⁽¹⁾	\$CAD(000s) Monthly	\$ 17,000	\$ 9,000	\$ 4,000	\$ 3,746
	\$CAD/\$USD	\$ 1.386 – 1.467	\$ 1.427 – 1.534	\$ 1.405 – 1.549	
Average rate forward	\$CAD(000s) Monthly	\$ 11,000	\$ 7,500	\$ 3,500	\$ 713
	\$CAD/\$USD	\$ 1.375	\$ 1.440	\$ 1.433	
Total fair value					\$ 4,459

(1) A portion of these financial collars have a European call writer option at year end that if called would result in an average rate forward for the following year in the following amounts, \$8,000/month at \$1.513 for 2021 and \$4,000/month at \$1.55 for 2022.

The Company has entered into the following foreign currency derivative contracts subsequent to March 31, 2020.

Type of Contract	Amount (000s)	Time Period	Contract Price
Average Rate Forward	\$1,000/month	January 2022 – December 2022	\$1.4050
Average Rate Collar ⁽¹⁾	\$1,000/month	January 2021 – December 2021	\$1.390 - \$1.490
Average Rate Collar ⁽²⁾	\$1,000/month	January 2022 – December 2022	\$1.390 - \$1.4970

(1) This financial collar has a European call writer option at December 31, 2021 that if called would result in an average rate forward of \$1.490 on \$1,000 per month for 2022.

(2) This financial collar has a European call writer option at December 31, 2022 that if called would result in an average rate forward of \$1.497 on \$1,000 per month for 2023.

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the consolidated statements of income (loss) and comprehensive income (loss) for the three months ended March 31, 2020 and 2019:

(000s)	Three Months Ended March 31,	
	2020	2019
Unrealized gain (loss) on financial instruments – commodity contracts	\$ 159,203	\$ (62,495)
Unrealized (loss) on financial instruments – interest rate swaps	(31,006)	(12,818)
Unrealized gain on financial instruments – foreign currency	1,715	11,880
Total unrealized gain (loss) on financial instruments	\$ 129,912	\$ (63,433)

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, 2020 ⁽¹⁾⁽⁵⁾:

		2020	2021	2022	2023	2024
Gas						
Fixed price ⁽²⁾	<i>mcf/d</i>	165,591	32,258	12,068	2,068	1,243
	<i>CAD\$/mcf</i>	\$ 2.41	\$ 3.16	\$ 4.48	\$ 3.53	\$ 3.53
Basis differentials - AECO ⁽³⁾	<i>mmbtu/d</i>	187,500	109,062	97,500	74,164	40,833
	<i>USD\$/mmbtu</i>	\$ (0.75)	\$ (0.70)	\$ (0.69)	\$ (0.76)	\$ (0.71)
Basis differentials - Dawn	<i>mmbtu/d</i>	45,000	11,164	15,000	10,000	–
	<i>USD\$/mmbtu</i>	\$ (0.12)	\$ (0.12)	\$ (0.09)	\$ (0.09)	
Basis differentials – Stn 2	<i>mcf/d</i>	37,260	29,478	20,000	16,658	–
	<i>CAD\$/mcf</i>	\$ (0.06)	\$ 0.20	\$ 0.18	\$ 0.20	
Basis differentials – Other ⁽⁴⁾	<i>mcf/d</i>	20,000	35,000	35,000	33,336	37,500
	<i>CAD\$/mcf</i>	\$ 0.27	\$ 0.06	\$ 0.06	\$ 0.02	\$ (0.02)
Oil						
Basis differentials	<i>bbls/d</i>	7,669	–	–	–	–
	<i>USD\$/bbl</i>	\$ (6.94)				

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

(2) These include AECO, Malin, PGE, Ventura and Hunt.

(3) A portion of these basis deals have a cap on NYMEX, 91 mmcf/d at USD\$4.21/mcf from 2020-2021 and 46.4 mmcf/d at USD\$4.48/mcf from 2022-2024.

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

(5) 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, 2020:

Type of Contract	Quantity	Time Period	Contract Price
Fixed Price - AECO	30,000 GJ/d	April 2021 – October 2021	CAD \$2.14/GJ average
Fixed Price - Dawn	10,000 mmbtu/d	May 2020 – October 2020	USD \$2.01/mmbtu
Basis differential - AECO	10,000 mmbtu/d	January 2021 – December 2024	USD \$(0.805)/mmbtu
Basis differential - AECO	5,000 mmbtu/d	January 2021 – December 2023	USD \$(0.825)/mmbtu
Basis differential - AECO	15,000 mmbtu/d	April 2021 – December 2023	USD \$(0.792)/mmbtu average
Oil basis differential	5,000 M ³ /month	July 2020 – December 2020	USD \$(12.25)/bbl

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2019	\$ 621,656
Capital expenditures	2,284
Transfers to property, plant and equipment (note 5)	(18,828)
Expired mineral leases	(34,417)
As at March 31, 2020	\$ 570,695

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, 2020, the Company identified indicators of impairment related to its E&E assets due to a decline in planned capital expenditures as a result of lower commodity prices and performed impairment tests accordingly.

An impairment is recognized if the carrying value of E&E assets exceeds the recoverable amount. For the purposes of impairment testing, the assets are grouped into CGUs. The Company determines the recoverable amount by using the greater of fair value less cost-to-sell and the value-in-use. At March 31, 2020, the Company determined that the recoverable amount of its E&E assets exceeded the carrying value and, as such, no impairment to E&E assets was recorded.

At December 31, 2019, 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 (“PP&E”)

Cost

(000s)

As at December 31, 2019	\$ 15,085,743
Capital expenditures	314,237
Transfers from exploration and evaluation (note 4)	18,828
Change in decommissioning liabilities (note 7)	22,781
Property acquisitions	3,020
Corporate acquisitions	8,666
Divestitures	(235)
As at March 31, 2020	\$ 15,453,040

Accumulated Depletion, Depreciation, Amortization and Impairment

(000s)

As at December 31, 2019	\$ 4,830,553
Depletion, depreciation and amortization	217,858
Impairment expense	250,000
As at March 31, 2020	\$ 5,298,411

Net Book Value

(000s)

As at December 31, 2019	\$ 10,255,190
As at March 31, 2020	\$ 10,154,629

Future development costs of \$7,887.0 million were included in the depletion calculation at March 31, 2020 (December 31, 2019 – \$7,404.4 million).

Capitalization of G&A and Share-Based Payments

A total of \$7.9 million in G&A expenditures have been capitalized and included in PP&E for the three months ended March 31, 2020 (December 31, 2019 – \$29.5 million). Also included in PP&E are non-cash share-based payments of \$1.7 million (December 31, 2019 - \$10.6 million). No borrowing costs have been capitalized and included in PP&E at March 31, 2020 (December 31, 2019 – \$3.0 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, 2020, 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.

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 March 31, 2020, the Company used value-in-use, discounted at pre-tax rates ranging between 9-12%, and internally valued infrastructure.

The following forward third-party commodity price estimates were used in determining whether an impairment to the carrying value of the CGUs existed at March 31, 2020:

Year	WTI Oil (USD\$/bbl) ⁽¹⁾	Foreign Exchange Rate ⁽¹⁾	Edmonton Light Crude Oil (Cdn\$/bbl) ⁽¹⁾	AECO Gas (Cdn\$/mmbtu) ⁽¹⁾
2020	43.07	0.7089	31.04	1.75
2021	50.52	0.7283	46.85	2.20
2022	63.05	0.7450	59.27	2.38
2023	69.10	0.7467	65.02	2.45
2024	72.14	0.7483	68.43	2.53
2025	75.18	0.7500	69.81	2.60
2026	76.82	0.7500	71.24	2.66
2027	78.36	0.7500	72.70	2.72
2028	79.92	0.7500	74.19	2.79
2029	83.15	0.7500	75.71	2.85
Thereafter	+2.0%/yr	0.7500	+2.0%/yr	+2.0%/yr

(1) Source: 3 Consultants' average, GLJ Petroleum Consultants, McDaniel & Associates Consultants, and Sproule Associates price forecasts, effective April 1, 2020.

The Company determined that its Spirit River CGU was impaired at March 31, 2020 and recorded a \$250.0 million impairment. The impairment was a result of the material decrease in the forward price curve for oil. The decrease in the oil price curve resulted in a significant drop in the Net Present Value of the associated reserves in the Spirit River CGU. There were no impairments recorded in the Company's other CGUs.

The recoverable amount and resulting impairment expense, if any, of the Company's CGUs is sensitive to changes in discount rates and forward price curves over the life of the reserves. The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development costs along with several other non-financial assumptions that affect reserve volumes. Management considered these assumptions for the impairment test at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty.

For the year ended December 31, 2019, the Company identified indicators of impairment on its Deep Basin, Spirit River and BC Montney CGUs due to the decrease in natural gas sales point diversification premiums since December 31, 2018 and the royalty burden placed on the Company's reserves by the creation of Topaz and performed impairment tests accordingly. There were no indicators of impairment on the Topaz CGU at December 31, 2019. The Company determined that there was no impairment to PP&E at December 31, 2019.

Corporate Acquisition

Polar Star Canadian Oil and Gas Inc.

On February 14, 2020, the Company acquired all of the issued and outstanding shares of Polar Star for total cash consideration of \$12.0 million including the assumption of working capital. The acquisition of Polar Star is part of the Company's consolidation activities in the core Northeast BC area and provides for an increase in developed lands, production and includes a compressor station. Total transaction costs incurred by the Company of \$0.2 million associated with this acquisition were expensed in the interim consolidated statement of income (loss) and comprehensive income (loss). The acquisition resulted in a gain of \$34.2 million as a result of the Company acquiring a deferred income tax asset as part of the acquisition of \$33.8 million.

Results from operations for Polar Star are included in the Company's unaudited interim consolidated financial statements from the closing date of the transaction. The acquisition has been accounted for using the purchase method based on fair values as follows:

<i>(000s)</i>	Polar Star Canadian Oil and Gas Inc.
Fair value of net assets acquired:	
Cash	\$ 642
Working capital	5,598
Property, plant and equipment	8,666
Decommissioning obligations	(2,537)
Deferred income tax asset	33,805
Gain on acquisition	(34,204)
Total	\$ 11,970
Consideration:	
Cash	\$ 11,970

Acquisitions and Dispositions of Oil and Natural Gas Properties

On August 13, 2019, the Company acquired assets in the Peace River High area for cash consideration of \$175.0 million. The acquisition resulted in an increase in PP&E of approximately \$180.8 million, an increase in E&E assets of \$8.3 million, and the assumption of \$14.1 million in decommissioning liabilities. The assets acquired were an incremental working interest to lands, production, reserves and facilities in which the Company was already a working interest owner.

In connection with the early adoption of the amendment to IFRS 3, the Company applied the optional concentration test to the August 13, 2019 acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

In total, for the three months ended March 31, 2020, the Company completed property acquisitions for cash consideration of \$3.0 million (December 31, 2019 - \$226.7 million) and, nil in acquisitions involving non-cash consideration (December 31, 2019 - \$8.7 million). The Company did not assume any decommissioning liabilities as a result of these acquisitions (December 31, 2019 - \$14.4 million).

The Company also completed property dispositions, for the three months ended March 31, 2020, for total cash consideration of \$0.2 million (December 31, 2019 - \$8.1 million).

6. LEASES

Right-of-Use Assets

(000s)

As at January 1, 2020	\$ 10,831
Additions	220
Depreciation	(1,251)
As at March 31, 2020	\$ 9,800

Lease Liabilities

(000s)

As at January 1, 2020	\$ 10,879
Additions	220
Lease interest expense	39
Lease payments	(1,296)
As at March 31, 2020	\$ 9,842

The Company leases office space, vehicles and IT equipment. The lease payments are discounted using the Company's incremental borrowing rate at the inception of the lease 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 \$454.3 million (December 31, 2019 – \$479.5 million), with some abandonments expected to commence in 2034. A risk-free rate of 1.32% (December 31, 2019 – 1.76%) and an inflation rate of 0.89% (December 31, 2019 – 1.35%) were used to calculate the decommissioning obligations. The decommissioning obligations at March 31, 2020 have been adjusted by approximately \$16.6 million reflecting the difference between the discounted fair value of Polar Star's obligation acquired and the discounted value using the risk-free rate.

<i>(000s)</i>	As at March 31, 2020	As at December 31, 2019
Balance, beginning of period	\$ 321,863	\$ 302,750
Obligation incurred	6,166	23,393
Obligation incurred on corporate acquisition	2,537	14,384
Obligation divested	–	(1)
Obligation settled	(1,365)	(3,251)
Accretion expense	1,036	5,858
Change in future estimated cash outlays	16,615	(21,270)
Balance, end of period	\$ 346,852	\$ 321,863

8. BANK DEBT

<i>(000s)</i>	As at March 31, 2020	As at December 31, 2019
Revolving credit facility	\$ 623,460	\$ 673,963
Term debt	949,495	949,096
Debt issue costs	(3,224)	(4,050)
Bank debt	\$ 1,569,731	\$ 1,619,009

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 10 of the Company's consolidated financial statements for the year ended December 31, 2019. The revolving credit facility is in the amount of \$1.8 billion with a maturity date of June 2024. 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 revolving credit 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.

Under the terms of the revolving credit facility, Tourmaline is subject to the following covenants, on a rolling four-quarter basis: (i) the ratio of adjusted EBITDA to interest expense must exceed 3:1, and (ii) the ratio of total debt to total capitalization must not exceed 0.6:1. At March 31, 2020, adjusted EBITDA for the purposes of the above noted covenant calculations was \$1,128.5 million (December 31, 2019 - \$1,266.5 million), on a rolling four-quarter basis. At March 31, 2020, the ratio of adjusted EBITDA to interest expense was 20:1 and the ratio of total debt to total capitalization was 0.2:1. As at, and for the quarter ending, March 31, 2020, the Company is in compliance with all debt covenants.

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 150 basis points with a maturity date of June 2024. 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 2021, 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. At March 31, 2020, and December 31, 2019, the operating credit facility was not drawn.

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 \$14.2 million (December 31, 2019 - \$11.6 million), which reduces the credit available on this facility.

Topaz, a subsidiary of Tourmaline, has a covenant-based, secured, operating credit facility with a Canadian bank, the details of which are described in note 10 of the Company's consolidated financial statements for the year ended December 31, 2019 and in note 8 of the Company's unaudited interim condensed financial statements for the three months ended March 31, 2020. The operating credit facility is in the amount of \$25.0 million and has a maturity date of December 10, 2021, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. At March 31, 2020, and December 31, 2019, the operating credit facility was not drawn.

The Company's aggregate borrowing capacity is \$2.875 billion at March 31, 2020.

As at March 31, 2020, the Company had \$948.8 million in long-term debt outstanding and \$620.9 million drawn against the revolving credit facility for total bank debt of \$1,569.7 million (net of debt issue costs) (December 31, 2019 - \$1,619.0 million). The effective interest rate for the three months ended March 31, 2020 was 3.15% (three months ended March 31, 2019 – 3.31%).

9. NON-CONTROLLING INTEREST

The Company owns 73.9 percent of Topaz, a hybrid royalty and infrastructure energy company. A reconciliation of the non-controlling interest is provided below:

<i>(000s)</i>	As at March 31, 2020	As at December 31, 2019
Balance, beginning of period	\$ 181,571	\$ –
Share of subsidiary's net income (loss) for the period	(322)	416
Dividends paid to NCI	(4,147)	–
Carrying amount of NCI disposed	–	181,155
Balance, end of period	\$ 177,102	\$ 181,571

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, 2020		As at December 31, 2019	
	Number of Shares	Amount	Number of Shares	Amount
<i>(000s) except share amounts</i>				
Balance, beginning of period	270,997,159	\$ 5,886,977	272,042,659	\$ 5,909,664
Purchase of common shares	(221,600)	(4,814)	(1,053,000)	(22,875)
For cash on exercise of stock options	–	–	7,500	148
Contributed surplus on exercise of stock options	–	–	–	40
Balance, end of period	270,775,559	\$ 5,882,163	270,997,159	\$ 5,886,977

Normal course issuer bid

On July 4, 2019, the Toronto Stock Exchange accepted the notice of the Company's intention to commence a normal course issuer bid ("NCIB"). The NCIB allows the Company to purchase up to 13,602,507 common shares, representing 5% of its common shares outstanding at June 30, 2019, over a period of twelve months commencing on July 8, 2019. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the three-months ended March 31, 2020, the Company purchased 0.2 million shares for cancellation at an average price of \$9.71 per common share for a total of \$2.2 million. Contributed surplus was increased by \$2.6 million, representing the excess of the average carrying value of the common shares over their purchase price.

Dividends

During the three months ended March 31, 2020, the Company paid cash dividends of \$0.12 per common share totalling \$32.5 million, compared to \$0.10 per common share totalling \$27.2 million for the same period of the prior year. Additionally, during the three months ended March 31, 2020, Topaz paid a cash dividend of \$0.20 per common share totalling \$16.0 million of which \$11.8 million was paid to Tourmaline and eliminated on consolidation.

11. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended March 31,	
	2020	2019
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company for the period (000s)	\$ (35,812)	\$ 87,710
Weighted average number of common shares – basic	270,940,484	272,043,159
Earnings (loss) per share – basic	\$ (0.13)	\$ 0.32

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

	Three Months Ended March 31,	
	2020	2019
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company for the period (000s)	\$ (35,812)	\$ 87,710
Weighted average number of common shares – diluted	270,940,484	272,043,159
Earnings (loss) per share – fully diluted	\$ (0.13)	\$ 0.32

There were 18,978,734 options excluded from the weighted-average share calculations for the three-month period ended March 31, 2020 because they were anti-dilutive (three months ended March 31, 2019 – 20,327,251 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 23,015,922 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,			
	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	19,148,068	\$ 24.94	20,452,467	\$ 32.27
Granted	104,000	11.70	336,000	19.14
Exercised	–	–	(7,500)	19.74
Expired	(86,000)	37.53	(345,000)	46.93
Forfeited	(187,334)	27.92	(108,716)	26.83
Stock options outstanding, end of period	18,978,734	\$ 24.78	20,327,251	\$ 31.84

The average trading price of the Company's common shares was \$12.06 during the three months ended March 31, 2020 (three months ended March 31, 2019 – \$19.51).

The following table summarizes stock options outstanding and exercisable at March 31, 2020:

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
\$9.39 - \$18.30	3,767,150	6.35	\$ 12.98	77,505	\$ 17.80
\$18.31 - \$22.27	3,795,750	5.36	21.76	1,346,630	21.69
\$22.28 - \$26.40	3,973,934	1.77	25.82	3,434,044	26.09
\$26.41 - \$33.58	3,534,200	4.04	27.48	2,606,115	27.78
\$33.59 - \$40.52	3,907,700	2.46	35.59	3,907,700	35.59
	18,978,734	3.96	\$ 24.78	11,371,994	\$ 29.16

The fair value of options granted during the three-month period ended March 31, 2020 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,	
	2020	2019
Fair value of options granted (weighted average)	\$ 2.54	\$ 5.11
Risk-free interest rate	1.2%	1.8%
Estimated hold period prior to exercise	5 years	5 years
Expected volatility	37%	35%
Forfeiture rate	1.9%	1.8%
Dividend per share	\$ 0.48	\$ 0.40

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⁾	\$ 1,784	\$ 3,568	\$ 3,496	\$ 3,496	\$ 12,344
Firm transportation and processing agreements	505,040	980,343	919,623	3,360,939	5,765,945
Capital commitments ⁽²⁾	17,938	36,121	28,627	181,093	263,779
Credit facility ⁽³⁾	–	–	699,348	–	699,348
Term debt ⁽⁴⁾	26,283	52,566	980,963	–	1,059,812
	\$ 551,045	\$ 1,072,598	\$ 2,632,057	\$ 3,545,528	\$ 7,801,228

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

(2) Includes processing commitments and power commitments.

(3) Includes interest expense at an annual rate of 2.75% being the rate applicable to outstanding debt on the credit facility at March 31, 2020.

(4) Includes interest expense at an annual rate of 2.77% being the fixed rate on the term debt at March 31, 2020.

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 March 31,	
	2020	2019
Natural gas		
Sales from production	\$ 346,474	\$ 378,627
Premium (loss) on risk management activities	(20,288)	87,723
	326,186	466,350
Oil		
Sales from production	36,696	40,186
Premium (loss) on risk management activities	(265)	454
	36,431	40,640
Condensate		
Sales from production	106,478	96,481
Premium (loss) on risk management activities	(3,289)	–
	103,189	96,481
NGL		
Sales from production	36,001	62,723
Marketing revenue ⁽¹⁾	23,127	2,548
Total		
Commodity sales from production	525,649	578,017
Premium (loss) on risk management activities	(23,842)	88,177
Marketing revenue	23,127	2,548
Revenue from contracts with customers	\$ 524,934	\$ 668,742

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the three months ended March 31, 2020, the Company had marketing purchases from third parties of \$21.5 million (three months ended March 31, 2019 - \$2.7 million).