TOURMALINE
OIL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017

CONTENTS

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the years ended December 31, 2018 and December 31, 2017

This management’s discussion and analysis (“MD&A“) should be read in conjunction with Tourmaline Oil Corp.’s consolidated financial statements and related notes for the years ended December 31, 2018 and December 31, 2017. Both the consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated March 5, 2019.

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards (“IFRS”) and sometimes referred to in this MD&A as Generally Accepted Accounting Principles (“GAAP”) as issued by the International Accounting Standards Board (“IASB”).

All dollar amounts are expressed in Canadian currency, unless otherwise noted.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See “Non-GAAP Financial Measures” for information regarding the following non-GAAP financial measures used in this MD&A: “cash flow”, “operating netback”, “working capital (adjusted for the fair value of financial instruments)”, “net debt", “adjusted EBITDA”, “total debt” and “total capitalization”.

Additional information relating to Tourmaline can be found at www.sedar.com or at www.tourmalineoil.com.

Forward-Looking Statements - Certain information regarding Tourmaline set forth in this document, including management's assessment of the Company’s future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Tourmaline's internal projections, forecasts, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment or expenditures, anticipated future debt, expenses, production, cash flow and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Tourmaline believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues and cash flow from, crude oil, condensate, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, condensate, NGL and natural gas properties; crude oil, condensate, NGL and natural gas production levels and product mix; the payment of dividends and the timing and amount thereof; Tourmaline’s future operating and financial results; capital investment programs; supply and demand for crude oil, condensate, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax and environmental laws and regulations; and estimated tax pool balances. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company’s control, including the impact of general economic conditions; volatility and uncertainty in market prices for crude oil, condensate, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil, condensate, NGL and natural gas operations; environmental, political, social and regulatory risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management and skilled labour; changes in income tax and environmental laws and regulations and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, any of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; the receipt of applicable regulatory or third-party approvals; and the other risks considered under "Risk Factors" in Tourmaline’s most recent annual information form available at www.sedar.com.

With respect to forward-looking statements contained in this MD&A, Tourmaline has made assumptions regarding: prevailing and future commodity prices and royalty regimes and tax laws; future well production rates and reserve volumes; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; future operating costs; decommissioning obligations; and ability to market crude oil, condensate, natural gas and NGL successfully. Without limitation of the foregoing, future dividend payments, if any, and the level thereof is uncertain, as the Company's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, cash flow, financial requirements for the Company's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond the Company's control. Further, the ability of Tourmaline to pay dividends will be subject to applicable laws (including the satisfaction of the solvency test contained in applicable corporate legislation) and contractual restrictions contained in the instruments governing its indebtedness, including its credit facility.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide readers with a more complete perspective on Tourmaline's future operations and such information may not be appropriate for other purposes. Tourmaline's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, if any, that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Boe Conversions - Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrel of oil equivalents (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

PRODUCTION

			Three Months Ended December 31,			Years Ended December 31,
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Natural gas *(mcf/d)*	**1,347,778**	1,306,935	3%	**1,305,025**	1,221,529	7%
Crude oil *(bbl/d)*	**7,182**	6,730	7%	**7,173**	5,893	22%
Condensate (*bbl/d*)	**17,133**	15,534	10%	**15,318**	12,885	19%
NGL *(bbl/d)*	**27,623**	23,222	19%	**25,049**	19,959	26%
Oil equivalent *(boe/d)*	**276,568**	263,309	5%	**265,044**	242,325	9%
Natural gas %	**81%**	83%		**82%**	84%	

Production for the three months ended December 31, 2018 increased 5% up to an average of 276,568 boe/d compared to 263,309 boe/d for the same quarter of 2017. For the year ended December 31, 2018, average production increased 9% to 265,044 boe/d in 2018 from 242,325 boe/d for the same period of 2017. The full-year average production was within the 2018 published guidance of 265,000 – 270,000 boe/d.

The increase in production year over year can primarily be attributed to the Company's successful exploration and production ("E&P") program, which included 212.8 wells drilled (net). The growth in oil, condensate and NGL production is primarily the result of increased drilling in the Spirit River/Peace River High Charlie Lake oil plays, and strong condensate recoveries from new wells commencing production as the liquids-rich Montney Turbidite and Gundy areas are developed in northeast British Columbia.

Full-year average production guidance for 2019 remains at 300,000 boe/d as previously disclosed in the Company's November 7, 2018 press release.

REVENUE AND REALIZED GAINS (LOSSES)

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Natural gas						
Sales from production	**$ 237,685**	$ 227,539	4%	**$ 894,944**	$ 1,053,409	(15)%
Realized gain on risk management activities	**172,714**	92,722	86%	**418,217**	226,500	85%
Realized gain (loss) on financial instruments	**(22,283)**	4,672	(577)%	**(13,259)**	6,456	(305)%
	388,116	324,933	19%	**1,299,902**	1,286,365	1%
Oil						
Sales from production	**25,496**	41,360	(38)%	**167,910**	125,563	34%
Realized gain on risk management activities	**5,171**	453	1,042%	**10,480**	1,786	487%
Realized gain (loss) on financial instruments	**31,828**	(2,015)	1,680%	**(17,523)**	1,517	(1,255)%
	62,495	39,798	57%	**160,867**	128,866	25%
Condensate						
Sales from production	**85,525**	103,915	(18)%	**413,770**	303,469	36%
Realized gain on risk management activities	**1,267**	–	100%	**1,737**	–	100%
	86,792	103,915	(16)%	**415,507**	303,469	37%
NGL						
Sales from production	**58,084**	58,460	(1)%	**229,933**	164,911	39%
Total						
Sales from production	**406,790**	431,274	(6)%	**1,706,557**	1,647,352	4%
Realized gain on risk management activities	**179,152**	93,175	92%	**430,434**	228,286	89%
Realized gain (loss) on financial instruments	**9,545**	2,657	259%	**(30,782)**	7,973	(486)%
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**$ 595,487**	$ 527,106	13%	**$ 2,106,209**	$ 1,883,611	12%

Total sales from production for the three months ended December 31, 2018 decreased 6% to $406.8 million from $431.3 million for the same quarter of 2017. The decrease is due to the significant decline in oil benchmark prices during the fourth quarter of 2018 which was partially offset by the increase in production for the quarter. Sales from production for the year ended December 31, 2018 increased 4% to $1,706.6 million from $1,647.4 million in 2017. The increase reflects higher oil, condensate and NGL revenue from increased production volumes which was partially offset by lower natural gas revenue due to the decline in Canadian benchmark natural gas prices in 2018 compared to 2017.

The fourth quarter of 2018 included a gain on risk management activities of $179.2 million (for the year ended December 31, 2018 - $430.4 million) compared to a gain of $93.2 million for the same period of the prior year (for the year ended December 31, 2017 – gain of $228.3 million). Included in realized gains on risk management activities are all the premiums that Tourmaline receives from selling gas to markets outside Alberta and British Columbia and the premium on physical commodity contract prices compared to benchmark pricing. Since the third quarter of 2016, Tourmaline has significantly diversified the markets where its natural gas is sold. These markets include Malin, PG&E City Gate, Chicago, and as of the fourth quarter of 2017, Dawn, Ontario, all of which during the quarter had higher natural gas prices compared to AECO. As a result, the Company's realized gains on risk management activities for natural gas have increased significantly due to this market diversification strategy.

Total revenue from commodity sales and realized gains for the three and twelve month periods ending December 31, 2018 is higher due to the significant increase in oil, condensate and NGL production combined with generally higher realized prices when compared to the same periods of 2017. Total revenue from commodity sales and realized gains excludes the effect of unrealized gains or losses on commodity contracts until these gains and losses are realized.

BENCHMARK OIL AND GAS PRICES:

	Three Months Ended December 31,			Years Ended December 31,		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Natural gas						
NYMEX Last Day *(USD$/mcf)*	**$ 3.64**	$ 2.93	24%	**$ 3.09**	$ 3.11	(1)%
AECO 5A *(CAD$/mcf)*	**$ 1.57**	$ 1.70	(8)%	**$ 1.51**	$ 2.17	(30)%
West Coast Station 2 (*CAD$/mcf*)	**$ 0.63**	$ 0.54	17%	**$ 1.18**	$ 1.48	(20)%
Sumas (*USD$/mmbtu*)	**$ 7.88**	$ 2.67	195%	**$ 3.52**	$ 2.62	34%
ATP 5A Day Ahead (*CAD$/mcf*)	**$ 2.76**	$ 1.26	119%	**$ 2.20**	$ 2.14	3%
Chicago City Gate (*USD$/mmbtu*)	**$ 3.68**	$ 2.86	29%	**$ 3.02**	$ 2.90	4%
Ventura (*USD$/mmbtu*)	**$ 3.63**	$ 4.85	(25)%	**$ 2.96**	$ 3.32	(11)%
PG&E Malin (*USD$/mmbtu*)	**$ 4.10**	$ 2.67	54%	**$ 2.76**	$ 2.73	1%
PG&E City Gate (*USD$/mmbtu*)	**$ 4.59**	$ 3.06	50%	**$ 3.35**	$ 3.23	4%
Dawn (*USD$/mmbtu*)	**$ 3.79**	$ 2.93	29%	**$ 3.12**	$ 3.04	3%
Oil and condensate						
NYMEX *(USD$/bbl)*	**$ 59.34**	$ 55.30	7%	**$ 64.90**	$ 50.85	28%
Edmonton Par *(CAD$/bbl)*	**$ 48.07**	$ 66.68	(28)%	**$ 69.14**	$ 62.49	11%
Edmonton Condensate (*CAD$/bbl*)	**$ 64.94**	$ 73.61	(12)%	**$ 79.45**	$ 67.07	18%

CURRENCY – EXCHANGE RATES:

	Three Months Ended December 31,			Years Ended December 31,		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
CAD/USD$ (1)	**$ 0.7567**	$ 0.7870	(4)%	**$ 0.7719**	$ 0.7711	–%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES [1]:

	Three Months Ended December 31, 2018	2017	Change	Years Ended December 31, 2018	2017	Change
Natural gas *($/mcf)*	**$ 3.13**	$ 2.70	16%	**$ 2.73**	$ 2.89	(6)%
Oil *($/bbl)*	**$ 94.58**	$ 64.28	47%	**$ 61.44**	$ 59.91	3%
Condensate (*$/bbl*)	**$ 55.06**	$ 72.71	(24)%	**$ 74.32**	$ 64.53	15%
NGL *($/bbl)*	**$ 22.86**	$ 27.36	(16)%	**$ 25.15**	$ 22.64	11%
Oil equivalent *($/boe)*	**$ 23.40**	$ 21.76	8%	**$ 21.77**	$ 21.30	2%

(1) Realized prices include sales from production, realized gain on risk management activities and realized gain (loss) on financial instruments.

The realized average natural gas price for the three months ended December 31, 2018 was $3.13/mcf, which is 16% higher than the same period of the prior year. The increase reflects higher natural gas benchmark prices, outside of AECO, in the quarter and higher realized gains on risk management activities. For the year ended December 31, 2018, the realized natural gas price was $2.73/mcf, or 6% lower than the same period of the prior year. The lower natural gas price reflects the significant decrease in Canadian benchmark natural gas index prices experienced during the year, which was partially offset by higher realized gains on risk management activities as the Company continues to diversify sales markets.

Realized oil prices increased by 47% for the three months ended December 31, 2018. The realized price for the fourth quarter of 2018 included a realized gain on financial instruments of $31.8 million compared to a loss of $2.0 million on financial contracts in the fourth quarter of 2017. The realized gain in the fourth quarter of 2018 was the result of the unwinding of a proportion of the Company's financial oil contracts to take advantage of the significant gain that had been realized. Since unwinding these positions, forward crude oil prices have recovered and Tourmaline has systematically entered into hedges to protect future oil cash flows. For the twelve months ended December 31, 2018, the realized oil price increased by 3% compared to the prior year. The increase is related to the higher benchmark prices experienced during the year and was partially offset by realized losses on financial instruments during the first three quarters of the year.

For the three months ended December 31, 2018, the realized price of condensate was $55.06/bbl which is 24% lower than the same period of the prior year. The decrease is due to the decline in benchmark prices experienced during the fourth quarter of 2018. For the year ended December 31, 2018, the realized price of condensate increased by 15% to $74.32/bbl compared to the prior year which is consistent with the increase in the benchmark price for condensate during the year.

NGL prices for the fourth quarter of 2018 decreased 16% from $27.36/bbl to $22.86/bbl, when compared to the same quarter of 2017. For the year ended December 31, 2018, the realized NGL price increased 11% from $22.64/bbl to $25.15/bbl when compared to the prior year. The increase in NGL pricing is consistent with the higher benchmark oil price for the year ended December 31, 2018.

ROYALTIES

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2018**	**2017**	**2018**	**2017**
Natural gas	**$ (2,416)**	$ 3,020	**$ (3,431)**	$ 26,041
Oil, condensate and NGL	**17,796**	18,093	**80,800**	54,597
Total royalties	**$ 15,380**	$ 21,113	**$ 77,369**	$ 80,638
Royalties as a percentage of commodity sales	**3.8%**	4.9%	**4.5%**	4.9%

For the quarter ended December 31, 2018, the average effective royalty rate decreased to 3.8% from 4.9% in the fourth quarter of 2017. For the year ended December 31, 2018, the average effective royalty rate decreased to 4.5% from 4.9% in the prior year. The decrease in the royalty rate in both periods is primarily due to lower natural gas royalties as Canadian natural gas index prices were lower in 2018 compared to 2017. Natural gas crown royalties in 2018 were $62.0 million down from $138.3 million in 2017 reflecting the significant natural gas price decline. Crown royalties are offset by gas cost allowance ("GCA") received from the Crown, to account for expenses incurred to process and transport the Crown's portion of natural gas production. In 2018, Tourmaline received $39.8 million in GCA which is a 5% increase over the $38.0 million received in 2017. This increase is consistent with the increase in natural gas production over the year. Also offsetting natural gas crown royalties are credits for the New Well Royalty Reduction Program and the Natural Gas Deep Drilling Program in Alberta, as well as the Deep Royalty Credit Program in British Columbia.

On January 1, 2017, the Company adopted the Modernized Royalty Framework (the "MRF") introduced by the Alberta Government in 2016. This new royalty regime is applicable to all new wells drilled beginning January 1, 2017, and all other wells drilled prior to January 1, 2017 will follow the old framework for a further 10 years. The Company believes that the MRF is generally consistent with the initial goal of incentivizing the use of technology to improve productivity and rewards producers deploying the most competitive operating practices. Under the MRF, if commodity prices stay consistent, the Company anticipates an increase in the corporate royalty rate but based on the Company's current development plans and operational practices, the increase is not expected to be significant.

The Company expects its royalty rate for 2019 to be approximately 5%. The small increase over the 2018 effective royalty rate is expected due to higher forecast commodity prices in 2019. The royalty rate is sensitive to commodity prices, and as such, an increase in commodity prices will increase the actual rate.

COMMODITY MARKETING

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Marketing revenue	**$ 5,563**	$ 9,969	(44)%	**$ 24,670**	$ 14,232	73%
Marketing purchases	**(5,153)**	(8,661)	(41)%	**(23,497)**	(13,348)	76%
	$ 410	$ 1,308	(69)%	**$ 1,173**	$ 884	33%

During the second quarter of 2017, the Company commissioned the Mulligan marketing terminal in the Gordondale area of Alberta. The throughput from the marketing terminal is comprised of Tourmaline produced oil and NGL volumes as well as oil and NGL volumes purchased from third parties. The revenue and purchases from third parties, which have grown significantly in 2018, are recorded gross for financial statement presentation purposes. Any gains or losses on the sale of third-party product related to the price differential are recorded in marketing revenue.

For the three months ended December 31, 2018, marketing revenue and marketing purchases decreased 44% and 41%, respectively, compared to the three months ended December 31, 2017. This decrease can be attributed to the decline in the price of oil in the fourth quarter of 2018.

OTHER INCOME

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Other income	**$ 7,644**	$ 13,729	(44)%	**$ 34,176**	$ 35,342	(3)%

Other income decreased from $13.7 million in the fourth quarter of 2017 to $7.6 million for the same quarter of 2018. For the year ended December 31, 2018, other income decreased from $35.3 million in 2017 to $34.2 million in 2018. The decrease in other income in the fourth quarter of 2018 is due to a decrease in water disposal income as well as a decrease in processing income which is the result of Tourmaline increasing its production and displacing third party production at Company-owned processing facilities.

OPERATING EXPENSES

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per-unit amounts	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Operating expenses	**$ 85,185**	$ 74,644	14%	**$ 322,387**	$ 282,494	14%
Per boe	**$ 3.35**	$ 3.08	9%	**$ 3.33**	$ 3.19	4%

Operating expenses include all periodic lease and field-level expenses and excludes income recoveries from processing third-party volumes. For the fourth quarter of 2018, total operating expenses were $85.2 million compared to $74.6 million in 2017, an increase of 14% over a production base increase of 5% for the same period. Operating costs for the year ended December 31, 2018 were $322.4 million, compared to $282.5 million for the same period of 2017, reflecting a 14% increase in total costs over a 9% increase in production.

On a per-boe basis, the costs increased from $3.08/boe for the fourth quarter of 2017 to $3.35/boe in the fourth quarter of 2018. For the year ended December 31, 2018, operating costs were $3.33/boe, up from $3.19/boe in the prior year. The increase in per-boe costs is related to the significant increase in oil, condensate and NGL production which have higher associated operating costs per-boe.

The Company's operating costs for 2019 are forecast to average approximately $3.45/boe. The slight increase over 2018 per-boe costs takes into consideration higher anticipated property taxes and operating expenses attributable to a continuously increasing liquids portfolio, which carry higher operating costs. Actual cash costs can change, however, depending on a number of factors, including the Company's actual production levels.

TRANSPORTATION

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per unit amounts	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Natural gas transportation	**$ 68,413**	$ 52,897	29%	**$ 251,596**	$ 191,296	32%
Oil and NGL transportation	**23,833**	20,028	19%	**88,775**	67,877	31%
Total transportation	**$ 92,246**	$ 72,925	26%	**$ 340,371**	$ 259,173	31%
Per boe	**$ 3.63**	$ 3.01	21%	**$ 3.52**	$ 2.93	20%

Transportation costs for the three months ended December 31, 2018 were $92.2 million, compared to $72.9 million for the same period of 2017. Transportation costs for the year ended December 31, 2018 were $340.4 million, compared to $259.2 million for the same period of 2017. Both periods reflect increased costs related to higher production volumes as well as an increased diversification of sales points.

On a per-boe basis, the costs increased to $3.63/boe for the fourth quarter of 2018 (year ended December 31, 2018 - $3.52/boe) from $3.01/boe in the fourth quarter of 2017 (year ended December 31, 2017 - $2.93/boe). The increase in per-unit costs in 2018 reflects an increased focus on diversifying markets where Tourmaline sells its natural gas and receives a premium to AECO. In the fourth quarter of 2017, Tourmaline began selling natural gas at Dawn, Ontario, further diversifying its sales markets. At Dawn, the Company received a higher price for its natural gas when compared to the AECO benchmark price. Also, in the second quarter of 2018, Tourmaline added an additional 100 mmcf/d of transportation capacity to access the Malin and PG&E markets. The increased proportion of natural gas sold outside Alberta and the increased distance transported resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per-unit amounts	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
G&A expenses	**$ 19,864**	$ 21,383	(7)%	**$ 84,071**	$ 74,571	13%
Administrative and capital recovery	**(2,479)**	(2,886)	(14)%	**(9,410)**	(8,353)	13%
Capitalized G&A	**(6,619)**	(7,847)	(16)%	**(27,321)**	(25,608)	7%
Total G&A expenses	**$ 10,766**	$ 10,650	1%	**$ 47,340**	$ 40,610	17%
Per boe	**$ 0.42**	$ 0.44	(5)%	**$ 0.49**	$ 0.46	7%

Total G&A expenses for the fourth quarter of 2018 were $10.8 million compared to $10.7 million for the same quarter of the prior year. On a per-boe basis, G&A expenses for the three months ended December 31, 2018 decreased to $0.42/boe from $0.44/boe reflecting the higher production in the fourth quarter of 2018.

For the year ended December 31, 2018, G&A expenses were $47.3 million compared to $40.6 million for the same period in 2017. For the year ended December 31, 2018, G&A expenses per-boe increased to $0.49/boe compared to $0.46/boe in 2017. The increase in total G&A expenses and the per-boe expense is primarily due to staff additions to manage the larger production, reserve and land base as well as higher third-party service provider fees and increased industry marketing initiatives.

G&A expenses for 2019 are expected to average approximately $0.45/boe with the higher forecast production. Actual costs per boe can change, however, depending on a number of factors including the Company's actual production levels.

SHARE-BASED PAYMENTS

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2018**	**2017**	**2018**	**2017**
Share-based payments	**$ 8,484**	$ 8,840	**$ 31,578**	$ 38,262
Capitalized share-based payments	**(3,589)**	(4,420)	**(13,349)**	(19,131)
Total share-based payments	**$ 4,895**	$ 4,420	**$ 18,229**	$ 19,131

The Company uses the fair-value method for the determination of non-cash related share-based payments expense. During the fourth quarter of 2018, 127,000 stock options were granted to employees, officers and directors at a weighted-average exercise price of $19.14.

The Company recognized $4.9 million of share-based payment expense in the fourth quarter of 2018 compared to $4.4 million in the fourth quarter of 2017. Capitalized share-based payments for the fourth quarter of 2018 were $3.6 million compared to $4.4 million for the same quarter of the prior year.

For the year ended December 31, 2018, share-based payment expense totalled $18.2 million and a further $13.3 million in share-based payments were capitalized (for the year ended December 31, 2017 - $19.1 million and $19.1 million, respectively).

Share-based payments are lower in 2018 compared to 2017 which reflects options with a lower fair value being expensed in 2018 compared to 2017.

DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

	Three Months Ended December 31,		Years Ended December 31,	
(000s) except per unit amounts	**2018**	**2017**	**2018**	**2017**
Total depletion, depreciation and amortization	**$ 212,037**	$ 202,726	**$ 798,666**	$ 774,258
Less mineral lease expiries	**(20,774)**	(15,467)	**(52,798)**	(36,615)
Depletion, depreciation and amortization	**$ 191,263**	$ 187,259	**$ 745,868**	$ 737,643
Per boe	**$ 7.52**	$ 7.73	**$ 7.71**	$ 8.34

DD&A expense was $191.3 million for the fourth quarter of 2018 compared to $187.3 million for the same period of 2017. The per-unit DD&A rate for the fourth quarter of 2018 was $7.52/boe compared to $7.73/boe for the same quarter of 2017.

For the year ended December 31, 2018, DD&A expense was $745.9 million (year ended December 31, 2017 - $737.6 million) with a DD&A rate of $7.71/boe (year ended December 31, 2017 - $8.34/boe). The decrease in per-boe depletion in 2018 over the same periods of 2017 can be attributed to lower future development costs per well, thereby adding a higher proportion of reserves with lower associated future development costs, resulting in a lower depletion rate.

Mineral lease expiries for the three months and year ended December 31, 2018 were $20.8 million and $52.8 million, respectively (December 31, 2017 – $15.5 million and $36.6 million, respectively). The Company prioritizes drilling on what it believes to be the most cost-efficient and productive acreage, and with such a large land base, the Company has chosen to not continue some of the expiring sections of land. Tourmaline expects to continue to see mineral lease expiries of a similar magnitude on a go-forward basis but attempts to mitigate all expiries through land swaps, asset dispositions or drilling to maintain the lease.

FINANCE EXPENSES

	Three Months Ended December 31,			Years Ended December 31,		
(000s)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Interest on loans and borrowings	**$ 14,347**	$ 12,550	14%	**$ 51,722**	$ 44,286	17%
Capitalized borrowing costs	**(2,816)**	–	100%	**(2,816)**	–	100%
Accretion expense	**1,481**	1,505	(2)%	**5,613**	5,334	5%
Foreign exchange (gain) loss on U.S. denominated debt	**88,692**	2,342	3,687%	**143,250**	(82,746)	273%
Realized (gain) loss on cross-currency swaps	**(88,692)**	(2,342)	(3,687)%	**(143,250)**	82,746	(273)%
Realized loss on interest rate swaps	**789**	427	85%	**2,495**	2,975	(16)%
Transaction costs on property acquisitions	**–**	–	–%	**75**	133	(44)%
Total finance expenses	**$ 13,801**	$ 14,482	(5)%	**$ 57,089**	$ 52,728	8%

Finance expenses for the three months ended December 31, 2018 totaled $13.8 million compared to $14.5 million for the same period of 2017. The average bank debt outstanding and the average effective interest rate on the debt was $1,538.3 million and 3.32% for the three months ended December 31, 2018 compared to $1,597.6 million and 2.82% for the same period of 2017.

For the year ended December 31, 2018, finance expenses totaled $57.1 million compared to $52.7 million for the same period of 2017. The average bank debt outstanding and the average effective interest rate on the debt for the year ended December 31, 2018 was $1,516.1 million and 3.03% compared to $1,554.5 million and 2.52% for the same period of 2017, respectively.

The increase in the effective interest rate for the three and twelve months ended December 31, 2018 compared to the same periods in 2017 reflects the increase in the Bank of Canada prime rate over the same periods resulting in an increase in interest expense. In the fourth quarter of 2018, the Company recorded $2.8 million in capitalized borrowing costs related to long-term capital projects which lowered finance expense for the three months ended December 31, 2018 compared to the same period of the prior year.

For the year ended December 31, 2018, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility, which when repaid created a foreign exchange loss due to the weakening of the Canadian dollar over the same period. Concurrent with the draw of U.S. dollar denominated borrowings, the Company entered into cross-currency swaps to manage the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and LIBOR without taking on foreign exchange risk.

DEFERRED INCOME TAXES

For the three months ended December 31, 2018, the provision for deferred income tax expense was $74.8 million compared to $41.9 million for the same period in 2017. The increase is primarily due to higher pre-tax earnings recorded in the fourth quarter of 2018 compared to the respective period in 2017.

For the year ended December 31, 2018, the provision for deferred income tax expense was $165.4 million compared to a deferred income tax expense of $151.8 million for the same period in 2017. The increase is due to the income before taxes of $567.1 million for the year ended December 31, 2018 compared to the income before taxes of $498.8 million for the year ended December 31, 2017.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

	Three Months Ended December 31,			Years Ended December 31,		
(000s) except per unit amounts	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Cash flow from operating activities	**$ 329,997**	$ 299,793	10%	**$ 1,269,491**	$ 1,182,900	7%
Per share [(1)]	**$ 1.21**	$ 1.11	9%	**$ 4.67**	$ 4.39	6%
Cash flow [(2)]	**$ 391,532**	$ 348,227	12%	**$ 1,303,462**	$ 1,205,758	8%
Per share [(1)(2)]	**$ 1.44**	$ 1.29	12%	**$ 4.80**	$ 4.47	7%
Net earnings	**$ 190,895**	$ 88,079	117%	**$ 401,418**	$ 346,773	16%
Per share [(1)]	**$ 0.70**	$ 0.33	112%	**$ 1.48**	$ 1.29	15%
Operating netback per boe [(2)]	**$ 15.82**	$ 14.80	7%	**$ 14.12**	$ 14.27	(1)%

(1) Per share amounts have been calculated using the weighted average number of diluted common shares.

(2) See "Non-GAAP Financial Measures".

Cash flow for the three months ended December 31, 2018 was $391.5 million or $1.44 per diluted share compared to $348.2 million or $1.29 per diluted share for the same period of 2017. For the year ended December 31, 2018, cash flow was $1,303.5 million or $4.80 per diluted share, compared to $1,205.8 million or $4.47 per diluted share in the prior year.

The Company had after-tax net earnings for the three months ended December 31, 2018 of $190.9 million or $0.70 per diluted share compared to after-tax net earnings of $88.1 million or $0.33 per diluted share for the same period of 2017. For the year ended December 31, 2018, the after-tax net earnings were $401.4 million or $1.48 per share compared to after-tax net earnings of $346.8 million or $1.29 per share for the year ended December 31, 2017. The increase in both cash flow and after-tax net earnings for full year 2018 reflects higher realized oil, condensate and NGL prices and an increase in production over full year 2017. Realized gains on divestitures in 2018 of $65.5 million also contributed to the higher net earnings compared to realized gains on divestitures in 2017 of $22.7 million.

CAPITAL EXPENDITURES

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2018**	**2017**	**2018**	**2017**
Land and seismic	**$ 1,915**	$ 4,326	**$ 16,068**	$ 34,000
Drilling and completions	**237,594**	234,747	**784,862**	898,579
Facilities	**123,717**	85,311	**428,841**	404,133
Property acquisitions	**23,143**	20,136	**24,953**	47,486
Property dispositions	**(942)**	(595)	**(72,176)**	(4,595)
Other	**9,767**	8,308	**31,889**	27,013
Total cash capital expenditures	**$ 395,194**	$ 352,233	**$ 1,214,437**	$ 1,406,616

The 2018 fourth quarter E&P expenditures were $363.2 million compared to $324.4 million for the same quarter of 2017. Total capital invested for the fourth quarter of 2018 was $395.2 million (net of $0.9 million in dispositions) compared to $352.2 million (net of dispositions) for the same period of 2017.

During 2018, the Company invested $1,214.4 million of cash consideration (net of dispositions), compared to $1,406.6 million (net of dispositions) in 2017. Expenditures on E&P were $1,229.8 million in 2018 compared to $1,336.7 million for 2017. The drilling and completions costs of $784.9 million in 2018 include 40.2 fewer net wells drilled and 50.8 fewer net wells completed when compared to 2017.

Facilities expenditures in 2018 include construction costs for the Doe Sour Gas Plant commissioned in September 2018. Other costs incurred were associated with the Gundy Deep Cut Gas Plant, expected to be commissioned in June 2019 as well as costs related to the Edson Gas Plant expansion.

The following table summarizes the drill, complete and tie-in activities for the periods:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Gross	**Net**	**Gross**	**Net**
Drilled	**241.00**	**212.78**	290.00	252.97
Completed	**237.00**	**207.91**	292.00	258.70
Tied-in	**228.00**	**204.95**	287.00	255.90

E&P capital expenditures in 2019 are forecast to be $1.2 billion. The Company expects drilling and completions costs of approximately $880.0 million, facilities expenditures (including equipment, pipelines, tie-ins and major facilities) of $340.0 million, as well as, land and seismic expenditures of $5.0 million. The capital budget is closely monitored and will continue to be adjusted as required depending on cash flow available.

Acquisitions and Dispositions

2018

On February 28, 2018, the Company completed the sale of a number of non-core undeveloped assets across all three cash-generating units ("CGUs") for proceeds of approximately $71.2 million, before customary closing adjustments.

On October 17, 2018, the Company acquired assets in the Peace River High area for total cash consideration of $21.2 million for producing properties, land and reserves.

2017

On July 20, 2017, the Company completed an asset swap in NEBC allowing for the consolidation in the Sundown complex. The Company exchanged predominantly Exploration and Evaluation ("E&E") assets and cash consideration of $19.0 million for producing properties, land and reserves.

LIQUIDITY AND CAPITAL RESOURCES

On May 15, 2018, the Company issued 1,000,000 flow-through common shares at a price of $30.00 per share, for total consideration of $30.0 million. The proceeds were used to temporarily reduce bank debt and then to fund the Company's 2018 exploration program.

On December 5, 2017, the Company issued 1,300,000 flow-through common shares at a price of $31.20 per share, for total consideration of $40.6 million. The proceeds were used to temporarily reduce bank debt and fund the Company's exploration and development program.

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, in the amount of $1.8 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 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 has provided its covenant that, 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 December 31, 2018, adjusted EBITDA for the purposes of the above noted covenant calculations was $1,359.9 million (December 31, 2017 - $1,252.4 million), on a rolling four-quarter basis.

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 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 covenants for the term loan are the same as those under the Company's current credit facility and the term loan ranks equally with the obligation under the Company's 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.

In addition, 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 $9.5 million (December 31, 2017 - $17.6 million), which reduce the credit available on the facility.

The Company's aggregate borrowing capacity is $2.85 billion at December 31, 2018. As at, and for the years ending December 31, 2018 and December 31, 2017, the Company is in compliance with all debt covenants.

As at December 31, 2018, the Company had negative working capital of $242.0 million, after adjusting for the fair value of financial instruments (the unadjusted working capital deficiency was $228.4 million) (December 31, 2017 – $202.5 million and $219.2 million, respectively). As at December 31, 2018, the Company had $947.8 million in long-term debt outstanding and $528.3 million drawn against the revolving credit facility for total bank debt of $1,476.1 million (net of prepaid interest and debt issue costs) (December 31, 2017 - $1,534.8 million). Net debt at December 31, 2018 was $1,718.1 million (December 31, 2017 - $1,737.2 million). As at December 31, 2018, the Company also has $1,364.4 million in unutilized borrowing capacity.

For 2019, management intends to continue to diligently monitor and adjust the capital budget based on expected cash flow and as such management believes the Company has sufficient resources to fund its 2019 exploration and development program. Management is dedicated to keeping a strong balance sheet, which has proven to be very important, especially in times of depressed commodity prices.

On December 30, 2018, the Company paid a quarterly cash dividend of $27.3 million ($0.10 per share). Total dividends paid for 2018 were $100.6 million ($0.37 per share) (2017 – nil).

SHARES AND STOCK OPTIONS OUTSTANDING

As at March 5, 2019, the Company has 272,042,659 common shares outstanding and 20,305,667 stock options granted and outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

In the normal course of business, Tourmaline is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating leases	$ 5,937	$ 8,212	$ 6,932	$ 10,705	$ 31,786
Firm transportation and processing agreements	387,110	816,230	674,861	1,869,830	3,748,031
Capital commitments (1)	124,447	540,288	9,292	79,015	753,042
Revolving credit facility (2)	–	–	629,271	–	629,271
Term debt (3)	36,599	73,197	1,001,942	–	1,111,738
	$ 554,093	$ 1,437,927	$ 2,322,298	$ 1,959,550	$ 6,273,868

(1) Includes drilling commitments, power commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of $300.0 million per year until at least 2020. The capital spending commitment can be deferred to future periods in the event of an economic downturn, and as agreed upon by both parties. In 2018, an economic downturn event, as defined in the joint arrangement in the Spirit River complex had occurred resulting in capital spending being deferred to future periods.

(2) Includes interest expense at an annual rate of 3.76% being the rate applicable to outstanding debt on the credit facility at December 31, 2018.

(3) Includes interest expense at an annual rate of 3.86% being the applicable rate on the term debt at December 31, 2018.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease arrangements, all of which are reflected in the commitments and contractual obligations table, which were entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

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 discussed in note 5 of the Company's consolidated financial statements for the year ended December 31, 2018.

As at December 31, 2018, the Company has entered into certain financial derivative contracts in order to manage commodity 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 contracts to be effective economic hedges. Such financial derivative commodity contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the consolidated statement of income and comprehensive income. The contracts that the Company entered into in 2018 are summarized in note 5 of the Company's consolidated financial statements for the year ended December 31, 2018.

The following table provides a summary of the unrealized gains and losses on financial instruments for the year ended December 31, 2018):

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2018**	**2017**	**2018**	**2017**
Unrealized gain (loss) on financial instruments	**$ 79,576**	$ (11,143)	**$ 16,633**	$ 67,440

The Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at December 31, 2018 have been summarized in note 5 of the Company's consolidated financial statements for the year ended December 31, 2018.

Financial derivative and physical delivery contracts entered into subsequent to December 31, 2018 are detailed in note 5 of the Company's consolidated financial statements for the year ended December 31, 2018.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company's use of estimates and judgments in preparing the consolidated financial statements is discussed in note 1 of the consolidated financial statements for the year ended December 31, 2018.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by NI 52-109, to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Company’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's DC&P and ICFR. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2018, the Company's DC&P and ICFR are effective.

There were no changes in the Company's DC&P or ICFR during the period beginning on October 1, 2018 and ending December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's DC&P or ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

The Company uses the guidelines as set forth in the Committee of Sponsoring Organizations of the Treadway Commission 2013 Internal Control-Integrated Framework.

BUSINESS RISKS AND UNCERTAINTIES

Tourmaline monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Tourmaline maintains a level of liability, property and business interruption insurance which is believed to be adequate for Tourmaline’s size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

See "Forward-Looking Statements" in this MD&A and "Risk Factors" in Tourmaline's most recent annual information form for additional information regarding the risks to which Tourmaline and its business and operations are subject.

IMPACT OF ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells, there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the operation of the Company's business more expensive or prevent the Company from conducting its business as currently conducted. Tourmaline focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

CHANGES IN ACCOUNTING POLICIES

The following pronouncements as issued by the International Accounting Standards Board ("IASB") have been adopted by the Company effective January 1, 2018.

IFRS 9 – Financial Instruments replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

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

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

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

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

IFRS 15 – Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty*

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

Revenue Recognition:

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

STANDARDS ISSUED BUT NOT YET ADOPTED

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

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor") and replaces the previous leases standard, IAS 17-Leases and IFRIC 4-Determining whether an Arrangement contains a Lease and related interpretations. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS as an adjustment to opening retained earnings and applies the standard prospectively. On January 1, 2019, the Company will adopt IFRS 16 and plans to use the modified retrospective approach.

On adoption, the Company currently intends on applying the following practical expedients permitted under the standard. Some expedients are available on a lease-by-lease basis, while others are applicable by class of underlying asset.

- Any leases with terms ending within 12 months of January 1, 2019 will be recognized as short-term leases and included in the short-term lease disclosure. These leases will not be recognized on the statement of financial position on initial adoption.

- The Company will exclude initial direct costs from the measurement of the right-of-use asset on transition for any leases with associated initial direct costs.
- Short-term leases and leases of low value assets that have been identified at January 1, 2019, will not be recognized on the statement of financial position. Payments for these leases will be disclosed in the notes to the financial statements.

The Company has completed an initial assessment, but not yet finalized, the potential impact on its consolidated financial statements. The full impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Company's borrowing rate at January 1, 2019, the composition of the Company's lease portfolio at that date and the Company's latest assessment of whether it will exercise any lease renewal or termination options.

Thus far, the most significant impact identified is that the Company will now recognize new assets and liabilities on its Statement of Financial Position for its real estate, vehicle, and IT leases. In addition, the nature of the expenses related to those leases will change. Straight-line operating lease expense will be replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

NON-GAAP FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms "cash flow", "operating netback", "working capital (adjusted for the fair value of financial instruments)", "net debt", "adjusted EBITDA", "total debt", and "total capitalization" which are not recognized measures under GAAP, and do not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management uses the terms "cash flow", "operating netback", "working capital (adjusted for the fair value of financial instruments)" and "net debt", for its own performance measures and to provide shareholders and potential investors with a measurement of the Company's efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-GAAP measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of the Company's performance. The terms "adjusted EBITDA", "total debt", and "total capitalization" are not used by management in measuring performance but are used in the financial covenants under the Company's credit facility. Under the Company's credit facility "adjusted EBITDA" means generally net income or loss, excluding extraordinary items, plus interest expense and income taxes and adjusted for non-cash items and gains or losses on dispositions, "total debt" means generally the sum of debt plus subordinated debt, Tourmaline currently does not have any subordinated debt, and "total capitalization" means generally the sum of the Company's shareholders' equity and all other indebtedness of the Company including bank debt, all determined on a consolidated basis in accordance with GAAP.

Cash Flow

A summary of the reconciliation of cash flow from operating activities (per the statement of cash flow), to cash flow, is set forth below:

	Three Months Ended December 31,		Years Ended December 31,	
(000s)	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities (per GAAP)	**$ 329,997**	$ 299,793	**$ 1,269,491**	$ 1,182,900
Change in non-cash working capital	**61,535**	48,434	**33,971**	22,858
Cash flow	**$ 391,532**	$ 348,227	**$ 1,303,462**	$ 1,205,758

Operating Netback

Operating netback is calculated on a per-boe basis and is defined as revenue (excluding processing income) less royalties, transportation costs and operating expenses, as shown below:

	Three Months Ended December 31,		Years Ended December 31,	
($/boe)	**2018**	**2017**	**2018**	**2017**
Revenue, excluding processing income	**$ 23.40**	$ 21.76	**$ 21.77**	$ 21.30
Royalties	**(0.60)**	(0.87)	**(0.80)**	(0.91)
Transportation costs	**(3.63)**	(3.01)	**(3.52)**	(2.93)
Operating expenses	**(3.35)**	(3.08)	**(3.33)**	(3.19)
Operating netback	**$ 15.82**	$ 14.80	**$ 14.12**	$ 14.27

Working Capital (Adjusted for the Fair Value of Financial Instruments)

A summary of the reconciliation of working capital to working capital (adjusted for the fair value of financial instruments) is set forth below:

	As at December 31,	
(000s)	**2018**	**2017**
Working capital (deficit)	**$ (228,403)**	$ (219,168)
Fair value of financial instruments – short-term (ass) liability	**(13,640)**	16,684
Working capital (deficit) (adjusted for the fair value of financial instruments)	**$ (242,043)**	$ (202,484)

Net Debt

A summary of the reconciliation of net debt is set forth below:

	As at December 31,	
(000s)	**2018**	**2017**
Bank debt	**$(1,476,099)**	$(1,534,757)
Working capital (deficit)	**(228,403)**	(219,168)
Fair value of financial instruments – short-term (asset) liability	**(13,640)**	16,684
Net debt	**$(1,718,142)**	$(1,737,241)

SELECTED QUARTERLY INFORMATION

($000s, unless otherwise noted)	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
PRODUCTION								
Natural gas *(mcf)*	**123,995,544**	115,321,116	117,429,708	119,585,930	120,238,014	109,246,506	108,879,426	107,494,272
Oil and NGL*(bbls)*	**4,778,286**	4,164,796	4,172,997	4,236,320	4,184,707	3,587,572	3,287,567	3,079,321
Oil equivalent *(boe)*	**25,444,210**	23,384,982	23,744,615	24,167,308	24,224,376	21,795,323	21,434,138	20,995,033
Natural gas *(mcf/d)*	**1,347,778**	1,253,490	1,290,436	1,328,733	1,306,935	1,187,462	1,196,477	1,194,380
Oil and NGL *(bbls/d)*	**51,938**	45,270	45,857	47,070	45,486	38,995	36,127	34,215
Oil equivalent *(boe/d)*	**276,568**	254,185	260,930	268,526	263,309	236,905	235,540	233,278
FINANCIAL								
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**595,487**	496,711	463,845	550,166	527,106	410,591	479,269	466,645
Cash flow from operating activities	**329,997**	314,191	283,155	342,148	299,793	266,525	278,577	338,005
Per diluted share	**1.21**	1.15	1.04	1.26	1.11	0.99	1.03	1.25
Cash flow [(1)]	**391,532**	287,421	272,261	352,248	348,227	251,327	313,271	292,933
Per diluted share	**1.44**	1.06	1.00	1.30	1.29	0.93	1.16	1.09
Net earnings	**190,895**	55,296	25,639	129,588	88,079	50,580	108,580	99,534
Per basic share	**0.70**	0.20	0.09	0.48	0.33	0.19	0.40	0.37
Per diluted share	**0.70**	0.20	0.09	0.48	0.33	0.19	0.40	0.37
Total assets	**10,732,457**	10,429,505	10,186,188	10,212,446	10,181,528	9,916,804	9,630,468	9,612,395
Working capital (deficit)	**(228,403)**	(411,687)	(192,116)	(232,695)	(219,168)	(352,068)	(130,337)	(355,097)
Working capital (deficit)(adjusted for the fair value of financial instruments) [(1)]	**(242,043)**	(341,960)	(130,834)	(206,988)	(202,484)	(350,112)	(134,212)	(337,191)
Cash capital expenditures	**395,194**	409,919	191,773	217,551	352,233	465,466	189,532	399,385
Dividends paid	**27,304**	27,103	24,488	21,687	–	–	–	–
Total outstanding shares *(000s)*	**272,043**	272,043	272,084	271,084	271,084	269,784	269,784	269,169
PER UNIT								
Natural *gas ($/mcf)*	**3.13**	2.54	2.25	2.97	2.70	2.52	3.19	3.15
Oil and NGL *($/bbl)*	**43.40**	48.91	47.93	46.08	48.31	37.63	40.01	41.73
Revenue *($/boe)*	**23.40**	21.24	19.53	22.76	21.76	18.84	22.36	22.23
Operating netback *($/boe)* [(1)]	**15.82**	13.15	12.10	15.25	14.80	12.27	15.36	14.59

(1) See Non-GAAP Financial Measures.

The oil and gas exploration and production industry is cyclical in nature. The Company's financial position, results of operations and cash flows are principally impacted by production levels and commodity prices, particularly natural gas prices.

On an annual basis, the Company has had continued production growth over the last two years. The Company's average annual production has increased from 185,672 boe per day in 2016 to 242,325 boe per day in 2017 and 265,044 boe per day in 2018. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flow was $731.8 million in 2016, $1,205.8 million in 2017, and $1,303.5 million in 2018. The increase in cash flow in 2018 over 2017 reflects the significant increase in production partially offset by commodity price volatility. Commodity price fluctuations can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenue and cash flow available for exploration, and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flow generated from operations and at times, access to capital markets.

SELECTED ANNUAL INFORMATION

($000s unless otherwise noted)	**2018**	**2017**	**2016**
PRODUCTION			
Natural gas *(mcf)*	**476,334,125**	445,858,218	355,939,830
Oil and NGL *(bbls)*	**17,352,100**	14,139,167	8,632,548
Oil equivalent *(boe)*	**96,741,121**	88,448,870	67,955,853
Natural gas *(mcf/d)*	**1,305,025**	1,221,529	972,513
Oil and NGL *(bbls/d)*	**47,540**	38,737	23,586
Oil equivalent *(boe/d)*	**265,044**	242,325	185,672
FINANCIAL			
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**2,106,209**	1,883,611	1,219,160
Cash flow from operating activities	**1,269,491**	1,182,900	696,901
Per diluted share	**4.67**	4.39	2.97
Cash flow [1]	**1,303,462**	1,205,758	731,801
Per diluted share	**4.80**	4.47	3.12
Net earnings (loss)	**401,418**	346,773	(31,971)
Per basic share	**1.48**	1.29	(0.14)
Per diluted share	**1.48**	1.29	(0.14)
Total assets	**10,732,457**	10,181,528	9,357,523
Working capital (deficit)	**(228,403)**	(219,168)	(223,781)
Working capital (deficit) (adjusted for the fair value of financial instruments) [1]	**(242,043)**	(202,484)	(184,264)
Cash capital expenditures (net)	**1,214,437**	1,406,616	1,933,289
Dividends paid	**100,580**	–	–
Basic outstanding shares *(000s)*	**272,043**	271,084	268,596
PER UNIT			
Natural gas *($/mcf)*	**2.73**	2.89	2.51
Oil and NGL *($/bbl)*	**46.47**	42.24	37.68
Revenue *($/boe)*	**21.77**	21.30	17.94
Operating netback *($/boe)*	**14.12**	14.27	11.50

(1) See Non-GAAP Financial Measures.

MANAGEMENT'S REPORT

To the Shareholders of Tourmaline Oil Corp.:

The accompanying consolidated financial statements of Tourmaline Oil Corp. and all the information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management has established systems of internal controls, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, with some assistance from the Reserves Committee regarding the annual evaluation of the Company's petroleum and natural gas reserves. The Audit Committee has reviewed the consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The external auditors have access to the Audit Committee without the presence of management.

The consolidated financial statements have been audited on behalf of the shareholders by KPMG LLP, the external auditors. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with International Financial Reporting Standards. The Board of Directors has approved the financial statements.

(signed)	*(signed)*
Michael L. Rose	Brian G. Robinson
President and	*Vice-President, Finance and*
Chief Executive Officer	*Chief Financial Officer*
Calgary, Alberta	Calgary, Alberta

March 5, 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tourmaline Oil Corp.:

Opinion

We have audited the consolidated financial statements of Tourmaline Oil Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Timothy Arthur Richards.

(signed) "KPMG LLP"
Chartered Professional Accountants

Calgary, Canada

March 5, 2019

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,	
(000s)	**2018**	**2017**
Assets		
Current assets:		
Accounts receivable	**$ 263,073**	$ 270,861
Prepaid expenses and deposits	**15,565**	11,268
Fair value of financial instruments *(notes 4 and 5)*	**35,287**	17,338
Total current assets	**313,925**	299,467
Long-term asset	**5,565**	6,307
Fair value of financial instruments (*notes 4 and 5*)	**9,551**	14,729
Exploration and evaluation assets *(note 6)*	**595,667**	664,552
Property, plant and equipment *(note 7)*	**9,807,749**	9,196,473
Total Assets	**$10,732,457**	$10,181,528
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 520,681**	$ 484,613
Fair value of financial instruments *(notes 4 and 5)*	**21,647**	34,022
Total current liabilities	**542,328**	518,635
Bank debt *(note 9)*	**1,476,099**	1,534,757
Fair value of financial instruments *(notes 4 and 5)*	**15,911**	7,398
Deferred premium on flow-through shares	–	8,396
Decommissioning obligations *(note 8)*	**302,750**	252,222
Deferred taxes *(note 13)*	**823,989**	644,363
Shareholders' equity:		
Share capital *(note 11)*	**5,909,664**	5,886,709
Non-controlling interest *(note 10)*	**28,068**	27,816
Contributed surplus	**253,055**	221,477
Retained earnings	**1,380,593**	1,079,755
Total shareholders' equity	**7,571,380**	7,215,757
Total Liabilities and Shareholders' Equity	**$10,732,457**	$10,181,528

Commitments (note 20).

Subsequent events (note 5).

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors of Tourmaline Oil Corp.:

(signed)
Jill T. Angevine, Director

(signed)
Andrew B. MacDonald, Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,	
(000s) except per-share amounts	**2018**	**2017**
Revenue:		
Commodity sales from production (*note 12*)	**$ 1,706,557**	$ 1,647,352
Realized gain on risk management activities (*note 12*)	**430,434**	228,286
Marketing revenue (*note 12*)	**24,670**	14,232
Royalties	**(77,369)**	(80,638)
Other income *(note 16)*	**34,176**	35,342
Realized gain (loss) on financial instruments	**(30,782)**	7,973
Unrealized gain on financial instruments *(note 5)*	**16,633**	67,440
Total revenue	**2,104,319**	1,919,987
Expenses:		
Operating	**322,387**	282,494
Transportation	**340,371**	259,173
Marketing purchases	**23,497**	13,348
General and administration	**47,340**	40,610
Share-based payments	**18,229**	19,131
Depletion, depreciation and amortization	**798,666**	774,258
Realized foreign exchange (gain) loss	**(2,925)**	1,461
Unrealized foreign exchange (gain) loss	**(1,867)**	637
(Gain) on divestitures	**(65,536)**	(22,686)
Total expenses	**1,480,162**	1,368,426
Income from operations	**624,157**	551,561
Finance expenses *(note 17)*	**57,089**	52,728
Income before taxes	**567,068**	498,833
Deferred taxes *(note 13)*	**165,398**	151,793
Net income and comprehensive income before non-controlling interest	**401,670**	347,040
Net income and comprehensive income attributable to:		
Shareholders of the Company	**401,418**	346,773
Non-controlling interest *(note 10)*	**252**	267
	$ 401,670	$ 347,040
Net income per share attributable to common shareholders *(note 14)*		
Basic	**$ 1.48**	$ 1.29
Diluted	**$ 1.48**	$ 1.29

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s)	**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 *(note 11)*	23,840	–	–	–	23,840
Share issue costs, net of tax (*note 11*)	(885)	–	–	–	(885)
Share-based payments	–	18,229	–	–	18,229
Capitalized share-based payments	–	13,349	–	–	13,349
Dividends paid (*note 11*)	–	–	(100,580)	–	(100,580)
Income attributable to common shareholders	–	–	401,418	–	401,418
Income attributable to non-controlling interest	–	–	–	252	252
Balance at December 31, 2018	**$ 5,909,664**	**$ 253,055**	**$ 1,380,593**	**$ 28,068**	**$ 7,571,380**

(000s)	**Share Capital**	**Contributed Surplus**	**Retained Earnings**	**Non-Controlling Interest**	**Total Equity**
Balance at December 31, 2016	$ 5,818,867	$ 188,883	$ 732,982	$ 27,549	$ 6,768,281
Issue of common shares *(note 11)*	32,162	–	–	–	32,162
Issue of common shares on property acquisition (*notes 7 and 11*)	14,854	–	–	–	14,854
Share issue costs, net of tax (*note 11*)	(1,391)	–	–	–	(1,391)
Share-based payments	–	19,131	–	–	19,131
Capitalized share-based payments	–	19,131	–	–	19,131
Options exercised *(note 11)*	22,217	(5,668)	–	–	16,549
Income attributable to common shareholders	–	–	346,773	–	346,773
Income attributable to non-controlling interest	–	–	–	267	267
Balance at December 31, 2017	$ 5,886,709	$ 221,477	$ 1,079,755	$ 27,816	$ 7,215,757

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
(000s)	**2018**	**2017**
Cash provided by (used in):		
Operations:		
Net income	**$ 401,418**	$ 346,773
Items not involving cash:		
Depletion, depreciation and amortization	**798,666**	774,258
Accretion on decommissioning obligations	**5,613**	5,334
Share-based payments	**18,229**	19,131
Deferred taxes	**165,398**	151,793
Unrealized (gain) loss on financial instruments	**(16,633)**	(67,440)
Unrealized foreign exchange (gain) loss	**(1,867)**	637
Other non-cash items	**742**	656
(Gain) on divestitures	**(65,536)**	(22,686)
Non-controlling interest	**252**	267
Decommissioning expenditures	**(2,820)**	(2,965)
Changes in non-cash operating working capital *(note 19)*	**(33,971)**	(22,858)
Total cash flow from operating activities	**1,269,491**	1,182,900
Financing:		
Issue of common shares	**30,000**	57,109
Share issue costs	**(1,213)**	(2,005)
Dividends paid	**(100,580)**	–
Increase (decrease) in bank debt	**(58,658)**	128,171
Total cash flow from (used in) financing activities	**(130,451)**	183,275
Investing:		
Exploration and evaluation	**(76,984)**	(90,987)
Property, plant and equipment	**(1,184,676)**	(1,272,738)
Property acquisitions	**(24,953)**	(47,486)
Proceeds from divestitures	**72,176**	4,595
Changes in non-cash investing working capital *(note 19)*	**75,397**	40,441
Total cash flow used in investing activities	**(1,139,040)**	(1,366,175)
Changes in cash	**–**	–
Cash, beginning of year	**–**	–
Cash, end of year	**$ –**	$ –

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(tabular amounts in thousands of dollars, unless otherwise noted)

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 consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries.

The Company's registered office is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1.

1. BASIS OF PREPARATION

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2019.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical-cost basis except for derivative financial instruments which are measured at fair value. The methods used to measure fair values are discussed in note 4.

Operating expenses in the consolidated statements of income and comprehensive income are presented as a combination of function and nature in conformity with industry practice. Depletion, depreciation and amortization are presented in separate lines by their nature, while operating expenses and net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits are presented by their nature in the notes to the financial statements.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company and its subsidiaries is Canadian dollars other than Tourmaline Oil Marketing Corp. which has a functional currency of US dollars.

(d) Use of judgments and estimates:

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

(i) Identification of cash-generating units:

The Company's assets are aggregated into cash-generating units ("CGU") for the purpose of calculating depletion and impairment. A CGU is comprised of assets that are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

(ii) Impairment of petroleum and natural gas assets:

Judgements are required to assess when impairment indicators exist and impairment testing is required. For the purposes of determining whether impairment of petroleum and natural gas assets has occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are forecasted petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amounts of assets. Impairment charges and reversals are recognized in profit or loss.

(iii) Exploration and evaluation assets:

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic and technical feasibility.

(iv) Deferred taxes:

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) Reserves:

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Company's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all of the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. The Company's petroleum and gas reserves are determined pursuant to National Instrument 51-101 *Standard of Disclosures for Oil and Gas Activities*.

(ii) Share-based payments:

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

(iii) Decommissioning obligations:

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(iv) Deferred taxes:

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Consolidation:

The consolidated financial statements include the accounts of Tourmaline Oil Corp., Tourmaline Oil Marketing Corp., and Exshaw Oil Corp., of which the Company owns 90.6% (note 10).

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(iii) Jointly-owned assets:

Substantially all of the Company's oil and natural gas activities involve jointly-owned assets. The consolidated financial statements include the Company's share of these jointly-owned assets and a proportionate share of the relevant revenue and related costs.

(b) Foreign Currency:

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective entity's functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets that are measured in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction. Translation gains and losses are included in earnings in the period in which they arise.

(ii) Foreign Operations

In preparing the Company's consolidated financial statements, the financial statements of each entity are translated into Canadian dollars. The assets and liabilities of foreign operations are translated at the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated at the exchange rates that approximate those dates of the transactions.

Foreign currency differences are recognized in other comprehensive income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

(c) Business Combinations:

The purchase method of accounting is used to account for acquisitions of businesses and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the consideration of acquisition given up is less than the fair value of the net assets received, the difference is recognized immediately in the income statement. If the consideration of acquisition is greater than the fair value of the net assets received, the difference is recognized as goodwill on the statement of financial position. Acquisition costs incurred are expensed.

(d) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, bank debt, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Cash and cash equivalents:

Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly-liquid investments with original maturities of three months or less, and are measured similar to other non-derivative financial instruments.

Other:

Other non-derivative financial instruments, such as accounts receivable, bank debt, and accounts payable and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses. The bank debt has a floating rate of interest and therefore the carrying value approximates the fair value.

(ii) Derivative financial instruments:

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and foreign exchange rates. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in commodity sales from production and realized gain on risk management activities.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment and intangible exploration assets:

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proven or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as oil and natural gas interests. The cost of undeveloped land that expires or any impairment recognized during a period is charged as additional depletion and depreciation expense.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. The Company allocated its property, plant and equipment to the following CGUs: ‘Deep Basin’, ‘Spirit River’ and ‘BC Montney’. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are measured as the difference between the fair value of the proceeds received or given up and the carrying value of the assets disposed, and are recognized in profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved-plus-probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved-plus-probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, condensate, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For interim consolidated financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Undeveloped land is not depreciated.

The estimated useful lives for depreciable assets are as follows:

Plants and facilities	30 years
Office equipment	25% declining balance
Furniture and fixtures	25% declining balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives, or that are not yet available for use, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped into CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use or its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven-plus-probable reserves. Fair value less costs to sell is determined as the amount that would be obtained from the sale of an asset in an arm's length transaction between knowledgeable and willing parties.

The goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to the related CGUs when they are assessed for impairment, both at the time of triggering facts and circumstances as well as upon their eventual reclassification to property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

The Company recognizes the decommissioning obligations for the future costs associated with removal, site restoration and decommissioning costs. The Company's decommissioning obligation is recorded in the period in which it is incurred, discounted to its present value using the risk-free interest rate and the corresponding amount recognized by increasing the carrying amount of petroleum and natural gas assets. The asset recorded is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the decommissioning obligation are charged against the obligation to the extent of the liability recorded.

(ii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

(h) Revenue recognition:

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

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(i) Finance income and expenses:

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions, foreign exchange gain (loss) on U.S. denominated debt, realized gain (loss) on cross-currency swaps, realized gain (loss) on interest rate swaps, realized gain (loss) on foreign currency derivatives and transaction costs on business combinations and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective-interest method.

(j) Deferred taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred-tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred-tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred-tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Flow-through common shares:

Periodically, the Company finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a deferred liability. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

(l) Share-based payments:

The Company applies the fair-value method for valuing share option grants. Under this method, compensation cost attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options or units that vest. Upon the exercise of the share options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(m) Per-share information:

Basic per-share information is computed by dividing income by the weighted average number of common shares outstanding for the period. The treasury-stock method is used to determine the diluted per share amounts, whereby any proceeds from the share options, warrants or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(n) Leased assets:

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Company’s statement of financial position.

(o) Borrowing costs:

Borrowing costs incurred for the acquisition, construction, or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial. The capitalization rate, used to determine the amount of borrowing costs to be capitalized, is the weighted average interest rate applicable to the Company’s outstanding borrowings during the period. All other borrowing costs are charged to profit or loss using the effective interest method.

3. ACCOUNTING CHANGES

Changes in accounting policies

The following standards, as issued by the International Accounting Standards Board ("IASB"), has been adopted by the Company effective January 1, 2018:

IFRS 9

On January 1, 2018, the Company adopted IFRS 9 - Financial instruments, which replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

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

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

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

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

IFRS 15

On January 1, 2018 the Company adopted IFRS 15 – Revenue from Contracts with Customers, which establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The Company has adopted IFRS 15 using the modified retrospective approach on January 1, 2018. Based on the Company's review of contracts with customers and its assessment of various revenue streams using the IFRS 15 five step model there were no material changes to net income, the timing of revenue recognized or to opening retained earnings as at January 1, 2018. Tourmaline has expanded disclosures in the notes to its consolidated financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

Future accounting changes

The following pronouncements from the IASB will become effective or were amended for financial reporting periods beginning on or after January 1, 2019 and have not yet been adopted by the Company. These new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application.

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor") and replaces the previous leases standard, IAS 17-Leases and IFRIC 4-Determining whether an Arrangement contains a Lease and related interpretations. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS as an adjustment to opening retained earnings and applies the standard prospectively. On January 1, 2019, the Company will adopt IFRS 16 and plans to use the modified retrospective approach.

On adoption, the Company currently intends on applying the following practical expedients permitted under the standard. Some expedients are available on a lease-by-lease basis, while others are applicable by class of underlying asset.

- Any leases with terms ending within 12 months of January 1, 2019 will be recognized as short-term leases and included in the short-term lease disclosure. These leases will not be recognized on the statement of financial position on initial adoption.
- The Company will exclude initial direct costs from the measurement of the right-of-use asset on transition for any leases with associated initial direct costs.
- Short-term leases and leases of low value assets that have been identified at January 1, 2019, will not be recognized on the statement of financial position. Payments for these leases will be disclosed in the notes to the financial statements.

The Company has completed an initial assessment but not yet finalized the potential impact on its consolidated financial statements. The full impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Company's borrowing rate at January 1, 2019, the composition of the Company's lease portfolio at that date and the Company's latest assessment of whether it will exercise any lease renewal or termination options.

Thus far, the most significant impact identified is that the Company will now recognize new assets and liabilities on its Statement of Financial Position for its real estate, vehicle, and IT leases. In addition, the nature of the expenses related to those leases will change. Straight-line operating lease expense will be replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

4. 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.

(i) Property, plant and equipment and intangible exploration assets:

The fair value of property, plant and equipment recognized in a business combination, is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable, bank debt, accounts payable and accrued liabilities:

The fair value of cash and cash equivalents, accounts receivable, bank debt, accounts payable and accrued liabilities is estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2018 and December 31, 2017, the fair value of these balances approximated their carrying value due to their short term to maturity. The bank debt has a floating rate of interest and therefore the carrying value approximates the fair value.

(iii) Derivatives:

The fair value of financial commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

(iv) Share options:

The fair value of employee share options is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(v) Measurement:

Tourmaline classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2018 and December 31, 2017. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities included in the consolidated statement of financial position approximate fair value due to the short-term nature of those instruments. The carrying value of prepaid expenses and deposits are recorded at amortized cost. These assets and liabilities are not included in the following tables.

	As at December 31, 2018	
(000s)	**Carrying Amount**	**Fair Value**
Financial assets:		
Commodity price, interest rate and foreign exchange rate risk contracts [(1)]	**$ 44,838**	**$ 44,838**
Financial liabilities:		
Bank debt	**$ 1,476,099**	**$ 1,476,099**
Commodity price and interest rate risk contracts [(1)]	**37,558**	**37,558**

(1) Commodity price, interest rate and foreign exchange rate risk contracts are fair valued using Level 2 information.

	As at December 31, 2017	
(000s)	**Carrying Amount**	**Fair Value**
Financial Assets:		
Interest rate risk contracts [(1)]	$ 32,067	$ 32,067
Financial Liabilities:		
Bank debt	$ 1,534,757	$ 1,534,757
Commodity price and interest rate risk contracts [(1)]	41,420	41,420

(1) Commodity, and interest rate and foreign exchange risk contracts are fair valued using Level 2 information.

5. 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.

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from jointly-owned assets and petroleum and natural gas marketers. As at December 31, 2018, Tourmaline's receivables consisted of $223.0 million (December 31, 2017 - $218.0 million) from petroleum and natural gas marketers and financial institutions, $29.9 million (December 31, 2017 - $43.1 million) from partners in jointly-owned assets, and $10.2 million (December 31, 2017 - $9.8 million) from provincial governments.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells a significant portion of its oil and gas to a limited number of counterparties. In 2018, Tourmaline had two counterparties that individually accounted for more than ten percent of annual revenues. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with creditworthy purchasers. Tourmaline historically has not experienced any collection issues with its petroleum and natural gas marketers. Receivables from partners are typically collected within one to three months of the bill being issued to the partner. The Company attempts to mitigate the risk from receivables with partners by obtaining partner approval of significant capital expenditures prior to the expenditure. The receivables, however, are from participants in the petroleum and natural gas sector, and collection of the outstanding balances are dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint asset partners as disagreements occasionally arise that increase the potential for non-collection. To further mitigate collection risk, the Company has the ability to obtain the partners' share of capital expenditures in advance of a project. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint asset partners; however, the Company does have the ability to withhold production from partners in the event of non-payment.

The Company monitors the age of, and investigates issues behind, its receivables that have been past due for over 90 days. At December 31, 2018, the Company has $5.3 million (December 31, 2017 - $5.8 million) over 90 days. The Company is satisfied that these amounts are substantially collectible.

The carrying amount of cash and cash equivalents, accounts receivable and commodity price risk management contracts represents the maximum credit exposure. The Company has not recorded an expected credit loss as at December 31, 2018 (December 31, 2017 - nil) nor was it required to write-off any receivables during the year ended December 31, 2018 (December 31, 2017 – nil).

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. Liquidity risk is mitigated by cash on hand, when available, and access to credit facilities.

The Company's accounts payable and accrued liabilities balance at December 31, 2018 is $520.7 million (December 31, 2017 - $484.6 million). It is the Company's policy to pay suppliers within 45-75 days. These terms are consistent with industry practice. As at December 31, 2018, substantially all of the account payable balances were less than 90 days.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

The following are the contractual maturities of financial liabilities, including estimated interest payments, at December 31, 2018:

(000s)	Carrying Amount	Contractual Cash Flow	Less Than One Year	One – Two Years	Two – Five Years	More Than Five Years
Non-derivative financial liabilities:						
Trade and other payables	$ 520,681	$ 520,681	$ 520,681	$ –	$ –	$ –
Revolving credit facility (1)	528,261	629,271	–	–	629,271	–
Term debt (2)	947,838	1,111,738	36,599	36,599	1,038,540	–
Derivative financial liabilities:						
Financial commodity contracts	18,728	18,728	3,693	7,040	6,054	1,941
Financial interest rate swaps	598	598	20	239	239	100
Financial foreign currency derivatives	18,232	18,232	17,933	299	–	–
	$ 2,034,338	**$ 2,299,248**	**$ 578,926**	**$ 44,177**	**$ 1,674,104**	**$ 2,041**

(1) Includes interest expense at 3.76% being the rate applicable to outstanding debt on the credit facility at December 31, 2018.

(2) Includes interest expense at 3.86% being the rate applicable to outstanding debt on the term loan at December 31, 2018.

(c) Market risk:

Market risk is the risk that changes in market conditions, such as commodity prices, interest rates and foreign exchange rates will affect the Company's net income or value of financial instruments. The objective of market risk management is to manage and curtail market risk exposure within acceptable limits, while maximizing the Company's returns.

The Company utilizes both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Currency risk is the risk that cash flows will fluctuate as a result of changes in the exchange rate between the US and Canadian dollar. The Company mitigates this risk by entering into foreign currency swaps in order to protect itself from large movements in the US to Canadian exchange rate. Changes in the US to Canadian exchange rate could also influence future petroleum and natural gas prices which could impact the value of certain derivative contracts.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's bank debt which is subject to a floating interest rate. Assuming all other variables remain constant, an increase or decrease of 1% in market interest rates for the year ended December 31, 2018 would have decreased or increased shareholders' equity and net income by $11.4 million (December 31, 2017 - $11.7 million). The unrealized loss on the interest rate swap has been included on the consolidated statement of financial position with changes in the fair value included in the unrealized gain or loss on financial instruments on the consolidated statement of income and comprehensive income. The realized loss on the interest rate swap has been included in finance expenses on the consolidated statement of income and comprehensive income.

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are based upon the United States dollar and as a result the price received by Canadian producers is affected by the Canadian to United States dollar exchange rate. The commodity prices are also impacted by world economic events that dictate the levels of supply and demand. As at December 31, 2018, the Company has entered into certain financial derivative and physical delivery sales contracts in order to manage commodity 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 contracts to be effective economic hedges. As a result, all such financial commodity contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the consolidated statement of income and comprehensive income. The Company has not offset any financial assets and liabilities, in the consolidated statements of financial position.

The Company has the following financial commodity derivative contracts in place as at December 31, 2018 (1):

		2019	2020	2021	2022	Fair Value *(000s)*
Gas						
NYMEX swaps	*mmbtu/d*	39,781	–	–	–	$ 2,277
	USD$/mmbtu	$ 3.04				
PGE swaps	*mmbtu/d*	4,932	–	–	–	$ 2,229
	USD$/mmbtu	$ 4.50				
Basis differentials – other (2)	*mmbtu/d*	24,728	32,486	30,000	30,000	$ (14,010)
	USD$/mmbtu	$ 0.17	$ 0.26	$ 0.31	$ 0.31	
NYMEX call options (writer) (3)	*mmbtu/d*	90,000	40,000	–	–	$ (1,912)
	USD$/mmbtu	$ 3.94	$ 3.74			
Oil						
Financial swaps	*bbls/d*	6,000	–	–	–	$ 25,193
	USD$/bbl	$ 55.86				
Total fair value						$ 13,777

(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, 6.2 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 commodity derivative contracts subsequent to December 31, 2018:

Type of Contract	Quantity	Time Period	Contract Price
Nymex swaps	20,000 mmbtu/d	April 2019 – October 2019	USD$2.90/mmbtu average
PGE swap	5,000 mmbtu/d	April 2019 – October 2019	USD$3.41/mmbtu
Basis differentials	10,000 mmbtu/d	April 2019 – October 2019	USD$0.44/mmbtu average
Basis differential	5,000 mmbtu/d	January 2020 – December 2024	USD$0.50/mmbtu
Oil swap	500 bbl/d	February 2019	USD$53.68/bbl
Oil swaps	1,000 bbl/d	July 2019 – December 2019	USD$57.13/bbl average
Oil swaps	1,500 bbl/d	July 2019 – December 2020	USD$54.50/bbl average
Oil swaps	1,500 bbl/d	January 2020 – December 2020	USD$56.45/bbl average

The Company has entered into multiple interest rate swaps over the next seven 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%	1.84%	1.91%	2.02%	2.16%	
Notional amount hedged (000s)	$ 800,602	$ 715,159	$ 702,974	$ 630,482	$ 447,723	$ 150,000	$ 11,736

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

The Company has entered into the following interest rate swap derivative contracts subsequent to December 31, 2018:

Type of Contract	Notional (000s)	Time Period	Rate
Swap	$25,000	January 1, 2021 – December 31, 2024	2.49%

The Company has the following financial foreign currency derivative contracts in place at December 31, 2018:

		2019	2020	Fair Value *(000s)*
Costless collar	*$CAD(000s) Monthly*	$ 14,000	$ 1,000	$ (6,999)
	$CAD/$USD	$ 1.271 – $ 1.341	$ 1.310 – $ 1.364	
Average rate forward	*$CAD(000s) Monthly*	$ 16,000	$ 1,000	$ (11,234)
	$CAD/$USD	$ 1.302	$ 1.340	
Total fair value				$ (18,233)

The Company has not entered into any financial foreign currency derivative contracts subsequent to December 31, 2018.

The following table provides a summary of the unrealized gains and losses on financial instruments for the years ended December 31, 2018 and 2017:

	Years Ended December 31,	
(000s)	**2018**	**2017**
Unrealized gain on financial instruments – commodity contracts	**$ 41,280**	$ 46,960
Unrealized gain (loss) on financial instruments – interest rate swaps	**(5,353)**	19,419
Unrealized gain (loss) on financial instruments – foreign currency	**(19,294)**	1,061
Total unrealized gain on financial instruments	**$ 16,633**	$ 67,440

The Company's financial commodity contracts are sensitive to fluctuations in commodity prices. For the commodity contracts in place at December 31, 2018, if the future strip prices for oil were $1.00 per bbl higher and prices for natural gas were $0.10 per mcf higher, with all other variables held constant, the unrealized gain would decrease by $23.0 million, directly impacting pre-tax earnings (December 31, 2017 - $26.1 million higher pre-tax loss). An equal and opposite impact would have occurred if oil prices were $1.00 per bbl lower and gas prices were $0.10 per mcf lower.

In addition to the financial commodity contracts discussed above, the Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements.

The Company has the following physical commodity contracts in place at December 31, 2018 [(1)(6)]:

		2019	2020	2021	2022	2023
Gas						
Fixed price [(2)]	*mcf/d*	37,592	–	–	–	–
	CAD$/mcf	$ 2.39				
Basis differentials - AECO [(3)]	*mmbtu/d*	192,432	187,500	94,062	82,500	59,164
	USD$/mmbtu	$ (0.75)	$ (0.75)	$ (0.68)	$ (0.66)	$ (0.74)
Basis differentials - Dawn	*mmbtu/d*	50,000	35,000	6,164		–
	USD$/mmbtu	$ (0.10)	$ (0.13)	$ (0.15)		
Basis differentials – Stn 2	*mcf/d*	39,478	37,812	29,478	20,000	16,658
	CAD$/mcf	$ 0.89	$ 0.51	$ 0.12	$ 0.10	$ 0.19
Basis differentials – Other[(4)]	*mcf/d*	17,492	15,000	17,500	17,500	15,000
	CAD$/mcf	$ 0.23	$ 0.19	$ 0.23	$ 0.23	$ 0.19
Oil						
Fixed differential - Oil[(5)]	*bbls/d*	1,486	–	–	–	–
	USD$/bbl	$ (12.67)				

(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, 135 mmcf/d at USD$4.11/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 commodity contracts subsequent to December 31, 2018:

Type of Contract	Quantity	Time Period	Contract Price
Gas fixed	30,000 GJ/d	February 2019	CAD$2.04/GJ average
Gas fixed	110,000 GJ/d	March 2019	CAD$1.90/GJ average
Gas fixed	83,500 GJ/d	April 2019 – October 2019	CAD$1.34/GJ average
Gas fixed	10,000 GJ/d	March 2019 – March 2020	CAD$1.60/GJ
Basis – differentials other	5,000 mmbtu/d	January 2020 – December 2024	USD$0.51 mmbtu/d average

(d) Capital management:

The Company's policy is to maintain a strong capital base to preserve investor, creditor and market confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, issue debt, adjust its dividend policy and adjust its capital spending to manage current and projected debt levels. The annual and updated budgets are approved by the Board of Directors.

The key measure that the Company utilizes in evaluating its capital structure is net debt to annualized cash flow, which is defined as bank debt plus working capital (adjusted for the fair value of financial instruments), to annualized cash flow (based on the most recent quarter), defined as cash flow from operating activities before changes in non-cash working capital. Net debt to annualized cash flow represents a measure of the time it is expected to take to pay off the debt if no further capital expenditures were incurred and if cash flow in the next year were equal to the amount in the most recent quarter annualized.

The Company monitors this ratio and endeavours to maintain it at, or below, 2.0 to 1.0 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, as at December 31, 2018, the Company's ratio of net debt to annualized cash flow was 1.10 to 1.0 (December 31, 2017 - 1.25 to 1.0).

	As at December 31,	
(000s)	**2018**	**2017**
Net debt:		
Bank debt	**$(1,476,099)**	$(1,534,757)
Working capital (deficit)	**(228,403)**	(219,168)
Fair value of financial instruments – short-term (asset) liability	**(13,640)**	16,684
Net debt	**$(1,718,142)**	$(1,737,241)
Annualized cash flow:		
Cash flow from operating activities for Q4	**$ 329,997**	$ 299,793
Change in non-cash working capital	**61,535**	48,434
Cash flow for Q4	**$ 391,532**	$ 348,227
Annualized cash flow (based on most recent quarter annualized)	**$ 1,566,128**	$ 1,392,908
Net debt to annualized cash flow	**1.10**	1.25

There have been no changes in the Company's approach to capital management since December 31, 2017.

6. EXPLORATION AND EVALUATION ASSETS

(000s)	
As at January 1, 2017	$ 678,531
Capital expenditures	90,987
Transfers to property, plant and equipment *(note 7)*	(81,250)
Acquisitions	24,012
Divestitures	(11,113)
Expired mineral leases	(36,615)
As at December 31, 2017	$ 664,552
Capital expenditures	76,984
Transfers to property, plant and equipment *(note 7)*	(73,610)
Acquisitions	7,412
Divestitures	(26,873)
Expired mineral leases	(52,798)
As at December 31, 2018	**$ 595,667**

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proven and/or probable reserves. Additions represent the Company's share of costs on E&E assets during the year. Expired mineral lease expenses have been included in the "Depletion, Depreciation and Amortization" line item on the consolidated statements of income and comprehensive income.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At December 31, 2018 and 2017, the Company determined that no indicators of impairment existed on its E&E assets; therefore, an impairment test was not performed.

7. PROPERTY, PLANT AND EQUIPMENT

Cost

(000s)	
As at January 1, 2017	$11,008,617
Capital expenditures	1,291,869
Transfers from exploration and evaluation *(note 6)*	81,250
Change in decommissioning liabilities *(note 8)*	36,526
Acquisitions	80,368
Divestitures	(13,107)
As at December 31, 2017	$12,485,523
Capital expenditures	1,198,025
Transfers from exploration and evaluation *(note 6)*	73,610
Change in decommissioning liabilities *(note 8)*	46,973
Acquisitions	50,791
Divestitures	(12,255)
As at December 31, 2018	**$13,842,667**

Accumulated Depletion, Depreciation and Amortization

(000s)	
As at January 1, 2017	$ 2,551,407
Depletion, depreciation and amortization	737,643
As at December 31, 2017	$ 3,289,050
Depletion, depreciation and amortization	745,868
As at December 31, 2018	**$ 4,034,918**

Net Book Value

(000s)	
As at December 31, 2017	$ 9,196,473
As at December 31, 2018	**$ 9,807,749**

Future development costs for the year ended December 31, 2018 of $7,622.0 million (December 31, 2017 - $7,095.3 million) were included in the depletion calculation.

Capitalization of G&A, Share-Based Payments and Borrowing costs

A total of $27.3 million in G&A expenditures have been capitalized and included in PP&E assets at December 31, 2018 (December 31, 2017 - $25.6 million). Also included in PP&E are non-cash share-based payments of $13.3 million at December 31, 2018 (December 31, 2017 - $19.1 million). Borrowing costs on specified projects have been capitalized and included in PP&E at December 31, 2018 of $2.8 million (December 31, 2017 – nil).

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. For the year ended December 31, 2018, the Company identified indicators of impairment on all of its CGUs due to the decline in the current and forward commodity price for natural gas since December 31, 2017.

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 December 31, 2018, 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 December 31, 2018:

Year	WTI Oil (USD$/bbl)(1)	Foreign Exchange Rate(1)	Edmonton Light Crude Oil (Cdn$/bbl)(1)	AECO Gas (Cdn$/mmbtu)(1)
2019	58.58	0.7567	67.30	1.88
2020	64.60	0.7817	75.84	2.31
2021	68.20	0.7967	80.17	2.74
2022	71.00	0.8033	83.22	3.05
2023	72.81	0.8067	85.34	3.21
2024	74.59	0.8083	87.33	3.31
2025	76.42	0.8083	89.50	3.39
2026	78.40	0.8083	91.89	3.46
2027	79.98	0.8083	93.76	3.54
2028	81.59	0.8083	95.68	3.62
Thereafter	+2.0%/yr	0.8083	+2.0%/yr	+2.0%/yr

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

The Company has determined that there was no impairment to PP&E at December 31, 2018.

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

Acquisition and Disposition of Oil and Natural Gas Properties

For the year ended December 31, 2018, the Company completed property acquisitions for cash of $25.0 million (December 31, 2017 - $47.5 million) and, a further $31.7 million in acquisitions involving non-cash consideration (December 31, 2017 - $56.1 million). The Company also assumed $1.6 million in decommissioning liabilities as a result of these acquisitions (December 31, 2017 - $0.7 million).

The Company also completed property dispositions for the year ended December 31, 2018 for total cash consideration of $72.2 million (December 31, 2017 - $4.6 million).

8. 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 $512.5 million (December 31, 2017 – $459.8 million), with some abandonments expected to commence in 2034. A risk-free rate of 2.18% (December 31, 2017 – 2.31%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%) were used to calculate the fair value of the decommissioning obligations. The decommissioning obligations at December 31, 2018 have been adjusted by approximately $28.0 million (December 31, 2017 – $14.0 million) reflecting a decrease in the risk-free rate and an increase in the expected well abandonment costs.

(000s)	**Years Ended December 31,**	
	2018	**2017**
Balance, beginning of year	**$ 252,222**	$ 212,669
Obligation incurred	**19,004**	22,508
Obligation incurred on property acquisitions	**1,564**	744
Obligation divested	**(802)**	(86)
Obligation settled	**(2,820)**	(2,965)
Accretion expense	**5,613**	5,334
Change in future estimated cash outlays	**27,969**	14,018
Balance, end of year	**$ 302,750**	$ 252,222

9. BANK DEBT

(000s)	**Years Ended December 31,**	
	2018	**2017**
Revolving credit facility(1)	**$ 532,855**	$ 592,185
Term debt(1)	**949,027**	949,220
Debt issue costs	**(5,783)**	(6,648)
Bank debt	**$ 1,476,099**	$ 1,534,757

(1) Amounts shown net of prepaid interest.

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks in the amount of $1.8 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 revolving credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase this 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 December 31, 2018, adjusted EBITDA for the purposes of the above noted covenant calculations was $1,359.9 million (December 31, 2017 - $1,252.4 million), on a rolling four-quarter basis.

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 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 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.

In addition, the Company has a letter of credit facility payable on demand in the amount of $50.0 million with a Canadian bank. The Company has outstanding letters of credit in the amount of $9.5 million (December 31, 2017 - $17.6 million), which reduces the credit available on this facility.

The Company's aggregate borrowing capacity is $2.85 billion at December 31, 2018. As at, and for the years ending December 31, 2018 and December 31, 2017, the Company is in compliance with all debt covenants.

As at December 31, 2018, the Company had $947.8 million in long-term debt outstanding and $528.3 million drawn against the revolving credit facility for total bank debt of $1,476.1 million (net of prepaid interest and debt issue costs) (December 31, 2017 - $1,534.8 million). The effective interest rate on the Company's bank debt for the year ended December 31, 2018 was 3.03% (December 31, 2017 – 2.52%).

10. NON-CONTROLLING INTEREST

Tourmaline owns 90.6 percent of Exshaw Oil Corp., a private company engaged in oil and gas exploration in Canada.

A reconciliation of the non-controlling interest is provided below:

(000s)	**Years Ended December 31,**	
	2018	**2017**
Balance, beginning of year	**$ 27,816**	$ 27,549
Share of subsidiary's net income for the year	**252**	267
Balance, end of year	**$ 28,068**	$ 27,816

11. 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

	Year Ended December 31, 2018		Year Ended December 31, 2017	
(000s) except share amounts	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance, beginning of year	**271,083,946**	**$ 5,886,709**	268,595,812	$ 5,818,867
For cash on public offering of flow-through common shares (1)(2)	**1,000,000**	**23,840**	1,300,000	32,162
Issued on corporate and property acquisitions (*note 7*)	–	–	475,000	14,854
For cash on exercise of stock options (*note 15*)	–	–	713,134	16,549
Expired related to corporate acquisitions (3)	**(41,287)**	–	–	–
Contributed surplus on exercise of stock options	–	–	–	5,668
Share issue costs	–	**(1,213)**	–	(2,005)
Tax effect of share issue costs	–	**328**	–	614
Balance, end of year	**272,042,659**	**$ 5,909,664**	271,083,946	$ 5,886,709

(1) On May 15, 2018, the Company issued 1.0 million flow-through shares at a price of $30.00 per share for total gross proceeds of $30.0 million. The implied premium on the flow-through common shares was determined to be $6.2 million or $6.16 per share. As at 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 December 5, 2017, the Company issued 1.3 million flow-through shares at a price of $31.20 per share for total gross proceeds of $40.6 million. The implied premium on the flow-through common shares was determined to be $8.4 million or $6.46 per share. The Company has spent the full committed amount. The expenditures were renounced to investors in January 2018 with an effective renunciation date of December 31, 2017.

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

For the year ended December 31, 2018, the Company paid cash dividends of $0.37 per common share, totalling $100.6 million (2017 - nil).

12. 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, condensate, 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 commodity sales disaggregated by revenue source:

	Years Ended December 31,	
(000s)	**2018**	2017
Natural gas		
Sales from production	**$ 894,944**	$ 1,053,409
Realized gain on risk management activities	**418,217**	226,500
	1,313,161	1,279,909
Oil		
Sales from production	**167,910**	125,563
Realized gain on risk management activities	**10,480**	1,786
	178,390	127,349
Condensate		
Sales from production	**413,770**	303,469
Realized gain on risk management activities	**1,737**	–
	415,507	303,469
NGL		
Sales from production	**229,933**	164,911
Marketing revenue (1)	**24,670**	14,232
Total		
Commodity sales from production	**1,706,557**	1,647,352
Realized gain on risk management activities	**430,434**	228,286
Marketing revenue	**24,670**	14,232
Revenue from contracts with customers	**$ 2,161,661**	1,889,870

(1) Marketing revenue represents the sale of commodities purchased from third parties. For the year ended December 31, 2018 the Company had marketing purchases from third parties of $23.5 million (2017 - $13.3 million).

At December 31, 2018, receivables from contracts with customers, which are included in accounts receivable, were $216.4 million ($212.7 million at December 31, 2017).

13. DEFERRED TAXES

The provisions for deferred taxes in the consolidated statements of income and comprehensive income reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

(000s)	Years Ended December 31, 2018	2017
Income before taxes	**$ 567,068**	$ 498,833
Canadian statutory rate [(1)(2)]	**27.00%**	26.82%
Expected income taxes at statutory rates	**153,108**	133,771
Effect on income tax of:		
Share-based payments	**4,922**	5,127
Flow-through shares	**4,493**	6,234
Effect of change in corporate tax rate [(3)]	**–**	3,799
Other	**2,875**	2,862
Deferred income tax	**$ 165,398**	$ 151,793

(1) The statutory rate consists of the combined statutory tax rate for the Company and its subsidiary for the year ended December 31, 2018.

(2) Effective January 1, 2018, the British Columbia provincial corporate tax rate increased from 11% to 12%.

(3) Reflects the increase in deferred tax expense as a result of the October 2017 British Columbia corporate tax rate increase from 11% to 12% as well as the difference between the current statutory tax rate and the deferred tax rate applied to the current income period.

The movement in deferred tax balances during the years ended December 31, 2018 and 2017 are as follows:

(000s)	Balance January 1, 2018	Recognized in Net Earnings	Recognized in Liabilities	Recognized in Equity	Balance December 31, 2018
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	$ 1,034,595	$ 233,210	$ 14,556	$ –	$ 1,282,361
Risk management contracts	(2,526)	4,491	–	–	1,965
Long-term asset	1,703	(201)	–	–	1,502
Deferred tax assets:					
Decommissioning obligations	(68,100)	(13,643)	–	–	(81,743)
Non-capital losses	(311,212)	(62,781)	–	–	(373,993)
Share issue costs	(10,097)	4,322	–	(328)	(6,103)
Deferred tax liability (asset)	$ 644,363	$ 165,398	$ 14,556	$ (328)	$ 823,989

(000s)	Balance January 1, 2017	Recognized in Net Earnings	Recognized in Liabilities	Recognized in Equity	Balance December 31, 2017
Deferred tax liabilities:					
Exploration and evaluation and property, plant and equipment	$ 751,245	$ 267,181	$ 16,169	$ –	$1,034,595
Risk management contracts	(20,581)	18,055	–	–	(2,526)
Long-term asset	1,618	85	–	–	1,703
Deferred tax assets:					
Decommissioning obligations	(56,999)	(11,101)	–	–	(68,100)
Non-capital losses	(183,614)	(127,598)	–	–	(311,212)
Share issue costs	(14,654)	5,171	–	(614)	(10,097)
Deferred tax liability (asset)	$ 477,015	$ 151,793	$ 16,169	$ (614)	$ 644,363

As at December 31, 2018, the Company has estimated federal tax pools of $6.9 billion (December 31, 2017 - $7.1 billion) available for deduction against future taxable income. The Company has $1.4 billion (December 31, 2017 - $1.2 billion) of unused tax losses expiring between 2023 and 2039.

14. EARNINGS PER SHARE

Basic earnings per share was calculated as follows:

	Years Ended December 31,	
	2018	2017
Net income and comprehensive income attributable to shareholders of the Company *(000s)*	**$ 401,418**	$ 346,773
Weighted average number of common shares – basic	**271,702,910**	269,593,202
Earnings per share – basic	**$ 1.48**	$ 1.29

Diluted earnings per share was calculated as follows:

	Years Ended December 31,	
	2018	**2017**
Net income and comprehensive income attributable to shareholders of the Company *(000s)*	**$ 401,418**	$ 346,773
Weighted average number of common shares – diluted	**271,702,910**	269,595,109
Earnings per share – fully diluted	**$ 1.48**	$ 1.29

There were 20,452,467 options excluded from the weighted-average share calculation for the year ended December 31, 2018 because they were anti-dilutive (December 31, 2017 – 20,932,882). At December 31, 2018, there were 272,042,659 basic common shares outstanding (December 31, 2017 – 271,083,946).

15. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 23,123,626 shares of common stock, which represents 8.5% of the current outstanding common shares. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company’s stock on the date of grant and the option’s maximum term is seven years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

			Years Ended December 31,	
	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of year	**20,948,382**	**$ 36.13**	20,037,497	$ 37.26
Granted	**4,291,100**	**22.00**	3,991,850	26.72
Exercised	**–**	**–**	(713,134)	23.21
Expired	**(4,205,333)**	**40.48**	(1,716,832)	31.72
Forfeited	**(581,682)**	**36.21**	(650,999)	38.82
Stock options outstanding, end of year	**20,452,467**	**$ 32.27**	20,948,382	$ 36.13

The weighted average trading price of the Company's common shares was $21.49 during the year ended December 31, 2018 (December 31, 2017 – $26.77).

The following table summarizes stock options outstanding and exercisable at December 31, 2018:

Range of Exercise Price	Number Outstanding at Period End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Year End	Weighted Average Exercise Price
$17.20 – $23.48	4,017,500	6.56	21.83	47,502	22.39
$23.49 – $26.40	3,818,967	2.83	25.99	3,097,204	26.32
$26.41 – $33.58	3,712,800	5.26	27.54	1,453,422	28.08
$33.59 – $41.65	4,218,700	3.56	35.69	3,252,534	36.00
$41.66 – $56.76	4,684,500	0.69	47.00	4,684,500	47.00
	20,452,467	3.67	32.27	12,535,162	36.75

The fair value of options, granted during the year, was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

		Years Ended December 31,
	2018	2017
Fair value of options granted (weighted average)	**$ 6.05**	$ 7.57
Risk-free interest rate	**2.14%**	1.53%
Estimated hold period prior to exercise	**5.0 years**	5.0 years
Expected volatility	**33%**	32%
Forfeiture rate	**1.8%**	2.0%
Dividend per share	**$ 0.37**	$ 0.21

16. OTHER INCOME

		Years Ended December 31,
(000s)	2018	2017
Processing income	**$ 30,383**	$ 29,950
Disposal income	**1,749**	3,416
Other	**2,044**	1,976
Total other income	**$ 34,176**	$ 35,342

17. FINANCE EXPENSES

(000s)	2018	2017
	Years Ended December 31,	
(000s)	**2018**	**2017**
Finance expenses:		
Interest on loans and borrowings	**$ 51,722**	$ 44,286
Capitalized borrowing costs	**(2,816)**	–
Accretion of decommissioning obligations	**5,613**	5,334
Foreign exchange (gain) loss on U.S. denominated debt	**143,250**	(82,746)
Realized (gain) loss on cross-currency swaps	**(143,250)**	82,746
Realized loss on interest rate swaps	**2,495**	2,975
Transaction costs on property acquisitions	**75**	133
Total finance expenses	**$ 57,089**	$ 52,728

18. SUPPLEMENTAL DISCLOSURES

Tourmaline's consolidated statement of income and comprehensive income is prepared primarily by nature of the expenses, with the exception of salaries and wages which are included in both the operating and general and administrative expense line items as follows:

	Years Ended December 31,	
(000s)	**2018**	**2017**
Operating	**$ 36,451**	$ 35,050
General and administration	**28,848**	26,979
Total employee compensation costs	**$ 65,299**	$ 62,029

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	Years Ended December 31,	
(000s)	**2018**	**2017**
Source/(use) of cash:		
Trade and other receivables	**$ 7,788**	$ (69,573)
Deposit and prepaid expenses	**(4,297)**	(693)
Trade and other payables	**37,935**	87,849
	41,426	17,583
Related to operating activities	**$ (33,971)**	$ (22,858)
Related to investing activities	**$ 75,397**	$ 40,441

Cash interest paid was $46.1 million for the year ended December 31, 2018 (December 31, 2017 - $39.5 million).

20. COMMITMENTS

In the normal course of business, Tourmaline is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating leases	$ 5,937	$ 8,212	$ 6,932	$ 10,705	$ 31,786
Firm transportation and processing agreements	387,110	816,230	674,861	1,869,830	3,748,031
Capital commitments (1)	124,447	540,288	9,292	79,015	753,042
Revolving credit facility (2)	–	–	629,271	–	629,271
Term debt (3)	36,599	73,197	1,001,942	–	1,111,738
	$ 554,093	$ 1,437,927	$ 2,322,298	$ 1,959,550	$ 6,273,868

(1) Includes drilling commitments, power commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of $300.0 million per year until at least 2020. The capital spending commitment can be deferred to future periods in the event of an economic downturn, and as agreed upon by both parties. In 2018, an economic downturn event, as defined in the joint arrangement in the Spirit River complex had occurred resulting in capital spending being deferred to future periods.

(2) Includes interest expense at an annual rate of 3.76% being the rate applicable to outstanding debt on the revolving credit facility at December 31, 2018.

(3) Includes interest expense at an annual rate of 3.86% being the applicable rate on the term debt at December 31, 2018.

21. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are persons who have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes all directors and executives of the Company. The table below summarizes all key management personnel compensation included in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Compensation of Key Management

	Years Ended December 31,	
(000s)	**2018**	**2017**
Short-term compensation (1)	**$ 7,991**	$ 7,628
Share-based payments (2)	**2,779**	3,236
Total compensation paid to key management	**$ 10,770**	$ 10,864

(1) Short-term compensation includes annual salaries, management bonuses and employee benefits provided to key management personnel as well as directors' fees.

(2) Based on the grant date fair value of the applicable awards. The fair value of options granted is estimated at the date of grant using a Black-Scholes Option-Pricing Model. The total share-based payment of options issued in 2018 is based on a fair value ranging between $5.87 and $6.06 per option (2017 – between $6.80 and $7.22 per option).