MANAGEMENT'S DISCUSSION AND ANALYSIS AND INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2019 and for the three months ended March 31, 2019 and 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with Tourmaline's unaudited interim condensed consolidated financial statements and related notes as at and for the three months ended March 31, 2019 and the consolidated financial statements for the year ended December 31, 2018. The consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated May 8, 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", "adjusted working capital" and, "net debt".

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 MD&A, 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 risks, 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 to 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 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 March 31,		
	2019	**2018**	**Change**
Natural gas *(mcf/d)*	**1,439,212**	1,328,733	8%
Oil *(bbl/d)*	**7,363**	7,185	2%
Condensate (*bbl/d*)	**17,075**	15,880	8%
NGL *(bbl/d)*	**29,127**	24,005	21%
Oil equivalent *(boe/d)*	**293,434**	268,526	9%
Natural gas %	**82%**	82%	

Production for the three months ended March 31, 2019 averaged 293,434 boe/d, a 9% increase over the average production for the same quarter of 2018 of 268,526 boe/d. The production increase is a result of the Company's successful exploration and production program. The significant growth in NGL production reflects the continued development of the Gundy area in northeast British Columbia.

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

REVENUE AND REALIZED GAINS (LOSSES)

(000s)	Three Months Ended March 31, 2019	2018	Change
Natural gas			
Sales from production	**$ 378,627**	$ 292,497	29%
Realized gain on risk management activities	**87,723**	60,342	45%
Realized gain (loss) on financial instruments	**(1,764)**	2,099	(184)%
	464,586	354,938	31%
Oil			
Sales from production	**40,186**	41,206	(2)%
Realized gain on risk management activities	**454**	1,202	(62)%
Realized (loss) on financial instruments	**(129)**	(10,831)	(99)%
	40,511	31,577	28%
Condensate			
Sales from production	**96,481**	108,545	(11)%
Realized gain on risk management activities	**–**	58	(100)%
	96,481	108,603	(11)%
NGL			
Sales from production	**62,723**	55,048	14%
Total			
Sales from production	**578,017**	497,296	16%
Realized gain on risk management activities	**88,177**	61,602	43%
Realized (loss) on financial instruments	**(1,893)**	(8,732)	(78)%
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**$ 664,301**	$ 550,166	21%

Total sales from production for the three months ended March 31, 2019 increased 16% to $578.0 million from $497.3 million for the same quarter of 2018. The increase is primarily due to the increased natural gas revenue and higher production volumes.

The first quarter of 2019 included a gain on risk management activities of $88.2 million compared to a gain of $61.6 million for the same period of the prior year. 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. Tourmaline has significantly diversified the markets where its natural gas is sold including Malin, PG&E City Gate, Chicago, and Dawn, 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 (losses) on risk management activities and financial instruments 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 March 31,		
	2019	**2018**	**Change**
Natural gas			
NYMEX Last Day *(USD$/mcf)*	**$ 3.15**	$ 3.00	5%
AECO 5A *(CAD$/mcf)*	**$ 2.64**	$ 2.08	27%
West Coast Station 2 (*CAD$/mcf*)	**$ 1.32**	$ 1.91	(31)%
Sumas (*USD$/mmbtu*)	**$ 14.05**	$ 2.34	500%
ATP 5A Day Ahead (*CAD$/mcf*)	**$ 2.69**	$ 2.57	5%
Chicago City Gate (*USD$/mmbtu*)	**$ 3.08**	$ 2.94	5%
Ventura (*USD$/mmbtu*)	**$ 3.13**	$ 2.95	6%
PG&E Malin (*USD$/mmbtu*)	**$ 4.72**	$ 2.44	93%
PG&E City Gate (*USD$/mmbtu*)	**$ 5.09**	$ 2.79	82%
Dawn (*USD$/mmbtu*)	**$ 2.91**	$ 3.03	(4)%
Oil and condensate			
NYMEX *(USD$/bbl)*	**$ 54.90**	$ 62.89	(13)%
Edmonton Par *(CAD$/bbl)*	**$ 66.87**	$ 72.31	(8)%
Edmonton Condensate (*CAD$/bbl*)	**$ 68.71**	$ 80.33	(14)%

CURRENCY – EXCHANGE RATES:

	Three Months Ended March 31,		
	2019	**2018**	**Change**
CAD$/USD$ [(1)]	**$ 0.7521**	$ 0.7911	(5)%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES:

	Three Months Ended March 31,		
	2019	**2018**	**Change**
Natural gas *($/mcf)*	**$ 3.59**	$ 2.97	21%
Oil *($/bbl)*	**$ 61.13**	$ 48.83	25%
Condensate (*$/bbl*)	**$ 62.78**	$ 75.99	(17)%
NGL *($/bbl)*	**$ 23.93**	$ 25.48	(6)%
Oil equivalent *($/boe)*	**$ 25.15**	$ 22.76	11%

The realized average natural gas price for the three months ended March 31, 2019 was $3.59/mcf, which is 21% higher than the same period of the prior year. The increase reflects higher overall natural gas benchmark prices in the quarter and higher realized gains on risk management activities from Tourmaline's market diversification strategy.

Realized oil prices increased by 25% for the three months ended March 31, 2019 compared to the same period of the prior year. The realized oil price for the first quarter of the prior year was impacted significantly by a $10.8 million realized loss on financial instruments related to the higher NYMEX oil benchmark price compared to the strike price of oil contracts in place during that period.

For the three months ended March 31, 2019, the realized price of condensate was $62.78/bbl which is 17% lower than the same period of the prior year. The decrease is due to the decline in benchmark prices experienced during the first quarter of 2019.

The realized NGL price for the three months ended March 31, 2019, decreased by 6% to $23.93/bbl. The decrease reflects lower benchmark prices for butane and propane in the first quarter of 2019 compared to the first quarter of the prior year.

ROYALTIES

	Three Months Ended March 31,	
(000s)	**2019**	**2018**
Natural gas	**$ 13,823**	$ 2,683
Oil, condensate and NGL	**17,800**	17,436
Total royalties	**$ 31,623**	$ 20,119
Royalties as a percentage of commodity sales from production	**5.5%**	4.0%

For the quarter ended March 31, 2019, the average effective royalty rate was 5.5%. This reflects an increase in the rate when compared to the first quarter of 2018 which is mostly attributable to the higher AECO natural gas benchmark price. The AECO benchmark price was 27% higher when compared to the same quarter of the prior year resulting in higher natural gas royalties.

The Company continues to benefit from 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. The Company also receives gas cost allowance from the Crown, which further reduces royalties to account for expenses incurred to process and transport the Crown's portion of natural gas production.

The Company continues to expect its royalty rate for 2019 to be approximately 5%, as previously disclosed in the Company's December 31, 2018 MD&A. The royalty rate is sensitive to commodity prices, and as such, fluctuations in commodity prices will impact the actual rate.

COMMODITY MARKETING

	Three Months Ended March 31,		
(000s)	**2019**	**2018**	**Change**
Marketing revenue	**$ 2,548**	$ 5,880	(57)%
Marketing purchases	**(2,728)**	(5,726)	(52)%
	$ (180)	$ 154	(217)%

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, condensate and NGL volumes as well as oil, condensate and NGL volumes purchased from third parties. The revenue and purchases from third parties 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 March 31, 2019, marketing revenue and marketing purchases decreased 57% and 52%, respectively, compared to the three months ended March 31, 2018. This decrease can be attributed to the lower benchmark price of oil in the first quarter of 2019 and the Company purchasing less third-party production.

OTHER INCOME

	Three Months Ended March 31,		
(000s)	**2019**	**2018**	**Change**
Other income	**$ 7,342**	$ 9,097	(19)%

Other income decreased from $9.1 million in the first quarter of 2018 to $7.3 million for the same quarter of 2019. The decrease in other income reflects lower water disposal income as well as lower 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 March 31,		
(000s) except per unit amounts	**2019**	**2018**	**Change**
Operating expenses	**$ 92,165**	$ 81,307	13%
Per boe	**$ 3.49**	$ 3.36	4%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the first quarter of 2019, total operating expenses were $92.2 million compared to $81.3 million in 2018, an increase of 13% over a production base increase of 9% for the same period.

On a per-boe basis, the costs increased from $3.36/boe for the first quarter of 2018 to $3.49/boe in the first quarter of 2019. The increase in per-boe costs is related to higher processing and gathering fees, electrical power costs, and an increase in property taxes. In addition, operating costs have increased due to the increase in oil, condensate and NGL production which have higher associated operating costs per-boe.

The Company continues to expect full-year 2019 operating expenses to average approximately $3.45/boe as originally disclosed in the Company's December 31, 2018 MD&A. Actual operating costs per boe can change, however, depending on a number of factors, including the Company's actual production levels.

TRANSPORTATION

(000s) except per unit amounts	Three Months Ended March 31, 2019	2018	Change
Natural gas transportation	**$ 78,491**	$ 57,974	35%
Oil and NGL transportation	**22,098**	22,375	(1)%
Total transportation	**$ 100,589**	$ 80,349	25%
Per boe	**$ 3.81**	$ 3.32	15%

For the first quarter of 2019, total transportation expenses were $100.6 million compared to $80.3 million in the first quarter of 2018, reflecting increased costs related to higher production volumes and increased sales point diversification.

On a per-boe basis, the transportation increased from $3.32/boe for the first quarter of 2018 to $3.81/boe in the first quarter of 2019. The increase in per-unit costs in 2019 reflects higher costs for fuel gas as well as higher costs due to the increased focus on diversifying markets where Tourmaline sells its natural gas. In the second quarter of 2018, Tourmaline added an additional 100 mmcf/d of transportation capacity to access the Malin and PG&E markets where the Company received a higher price for its natural gas when compared to the AECO benchmark price. The increased volume transported to Malin and PG&E in the first quarter of 2019 resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES (“G&A”)

(000s) except per unit amounts	Three Months Ended March 31, 2019	2018	Change
G&A expenses	**$ 21,948**	$ 20,568	7%
Administrative and capital recovery	**(2,476)**	(2,241)	10%
Capitalized G&A	**(7,325)**	(6,836)	7%
Total G&A expenses	**$ 12,147**	$ 11,491	6%
Per boe	**$ 0.46**	$ 0.48	(4)%

Total G&A expenses in the first quarter of 2019 were $12.1 million compared to $11.5 million for the same quarter of 2018. The increase is primarily due to staff additions needed to manage the larger production, reserve and land base as well as higher third-party service provider fees and increased industry marketing initiatives. These increases were partially offset by a reduction to G&A of $1.1 million ($0.04/boe) due to the adoption of IFRS 16 – *Leases*. See the section “*Changes in Accounting Policies*” in this MD&A for additional information.

G&A expenses for 2019 are expected to average approximately $0.45/boe which is unchanged from the initial guidance released in the Company’s December 31, 2018 MD&A. 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 March 31,	
(000s) except per unit amounts	**2019**	**2018**
Share-based payments	**$ 6,538**	$ 7,069
Capitalized share-based payments	**(2,873)**	(2,983)
Total share-based payments	**$ 3,665**	$ 4,086
Per boe	**$ 0.14**	$ 0.17

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the first quarter of 2019, 336,000 stock options were granted at a weighted-average exercise price of $19.14.

The Company recognized $3.7 million of share-based payments expense in the first quarter of 2019 compared to $4.1 million in the first quarter of 2018. Capitalized share-based payments for the first quarter of 2019 were $2.9 million compared to $3.0 million for the same period of the prior year.

Share-based payments are lower in 2019 compared to the same period of 2018, which reflects options with a lower fair value being expensed in 2019 compared to 2018.

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

	Three Months Ended March 31,	
(000s) except per unit amounts	**2019**	**2018**
Total depletion, depreciation and amortization	**$ 228,796**	$ 198,672
Less mineral lease expiries	**(27,865)**	(11,741)
Depletion, depreciation and amortization	**$ 200,931**	$ 186,931
Per boe	**$ 7.61**	$ 7.73

DD&A expense, excluding mineral lease expiries, was $200.9 million for the first quarter of 2019 compared to $186.9 million for the same period of 2018. The increase in DD&A expense in 2019 over 2018 is primarily due to higher production volumes.

The per-unit DD&A rate (excluding the impact of mineral lease expiries) of $7.61/boe for the first quarter of 2019 was consistent with the rate of $7.73/boe for the same quarter of 2018.

Mineral lease expiries for the three months ended March 31, 2019 were $27.9 million, compared to expiries in the same quarter of the prior year of $11.7 million. 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 not to continue some of the expiring sections of land. The Company explores all alternatives (including swaps, farm-outs, joint ventures and dispositions) to realize the value from these sections before they expire.

FINANCE EXPENSES

	Three Months Ended March 31,		
(000s)	**2019**	**2018**	**Change**
Interest expense	**$ 14,790**	$ 12,368	20%
Capitalized borrowing costs	**(1,355)**	–	(100)%
Accretion expense	**1,345**	1,363	(1)%
Lease interest expense	**51**	–	100%
Foreign exchange (gain) loss on U.S. denominated debt	**(13,877)**	43,696	(132)%
Realized (gain) loss on cross-currency swaps	**13,877**	(43,696)	132%
Realized (gain) loss on interest rate swaps	**(568)**	195	(391)%
Transaction costs on property acquisitions	–	43	(100)%
Total finance expenses	**$ 14,263**	$ 13,969	2%

Finance expenses for the three months ended March 31, 2019 totaled $14.3 million compared to $14.0 million for the same period of 2018. The average bank debt outstanding and the average effective interest rate on the debt was $1,611.7 million and 3.31% for the three months ended March 31, 2019 compared to $1,605.4 million and 2.79% for the same period of 2018, respectively.

The increase in the effective interest rate for the three months ended March 31, 2019 compared to the same period in 2018 reflects the 50 bps increase in the Bank of Canada prime rate over the same period resulting in an increase in interest expense. In the first quarter of 2019, the Company recorded $1.4 million in capitalized borrowing costs related to long-term capital projects which lowered finance expense for the three months ended March 31, 2019.

For the three-month period ended March 31, 2019, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility, which when repaid created a foreign exchange gain due to the strengthening 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 March 31, 2019, the provision for deferred income tax expense was $34.8 million compared to deferred income tax expense of $51.5 million for the same period in 2018. The decrease in deferred income tax expense is primarily due to the decrease in pre-tax income which was $122.5 million in the first quarter of 2019 compared to the pre-tax income of $181.1 million for the same period of 2018.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

	Three Months Ended March 31,		
(000s) except per unit amounts	**2019**	**2018**	**Change**
Cash flow from operating activities	**$ 383,120**	$ 342,148	12%
Per share [1]	**$ 1.41**	$ 1.26	12%
Cash flow [2]	**$ 419,242**	$ 352,248	19%
Per share [1][2]	**$ 1.54**	$ 1.30	18%
Net earnings	**$ 87,710**	$ 129,588	(32)%
Per share [1]	**$ 0.32**	$ 0.48	(33)%
Operating netback per boe [2]	**$ 16.65**	$ 15.25	9%

(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 March 31, 2019 was $419.2 million or $1.54 per diluted share compared to $352.2 million or $1.30 per diluted share for the same period of 2018. The increase in cash flow in 2019 reflects higher realized oil and natural gas prices and an increase in production over 2018. The Company had after-tax net earnings for the three months ended March 31, 2019 of $87.7 million or $0.32 per diluted share compared to after-tax net earnings of $129.6 million or $0.48 per diluted share for the same period of 2018. The decrease in after-tax net earnings reflects a larger unrealized loss on financial instruments of $63.4 million for the three months ended March 31, 2019 compared to $8.2 million for the same period of the prior year. The first quarter of 2018 also included gains on divestitures of $40.2 million and only $1.6 million of gains on divestitures were recorded in the first quarter of 2019.

CAPITAL EXPENDITURES

	Three Months Ended March 31,	
(000s)	**2019**	**2018**
Land and seismic	**$ 1,767**	$ 10,939
Drilling and completions	**233,718**	188,304
Facilities	**141,481**	80,968
Property acquisitions	**123**	1,449
Property dispositions	**(1,763)**	(71,234)
Other	**9,058**	7,125
Total cash capital expenditures	**$ 384,384**	$ 217,551

During the first quarter of 2019, the Company invested $384.4 million of cash consideration, net of dispositions, compared to $217.6 million for the same period of 2018. Expenditures on exploration and production were $377.0 million for the first quarter of 2019 compared to $280.2 million for the same quarter of 2018.

Facilities expenditures in the quarter include construction costs for the Gundy Deep Cut Gas Plant, expected to be commissioned in the second quarter of 2019, as well as new pipeline infrastructure in Gundy and Northeast BC.

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

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	Gross	**Net**	**Gross**	**Net**
Drilled	**65**	**60.62**	57	50.18
Completed	**68**	**61.92**	65	56.45
Tied-in	**79**	**68.35**	52	46.96

Exploration and production capital expenditures in 2019 are forecast to be $1.20 billion which is $25.0 million lower than the guidance disclosed in the December 31, 2018 MD&A. The Company expects drilling and completions costs of approximately $860.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of $335.0 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 series of undeveloped assets across all three cash-generating units ("CGUs") for proceeds of approximately $71.2 million before customary 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, the details of which are described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2018 and in note 8 of the Company's unaudited interim condensed financial statements for the three months ended March 31, 2019. The revolving credit facility is in the amount of $1.8 billion with a maturity date of June 2023. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The 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.

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. Tourmaline has outstanding letters of credit in the amount of $10.7 million (December 31, 2018 - $9.5 million), which reduce the credit available on the facility.

The Company's aggregate borrowing capacity is $2.85 billion at March 31, 2019. As at, and for the quarter ending March 31, 2019, the Company is in compliance with all debt covenants.

As at March 31, 2019, the Company had negative adjusted working capital of $245.3 million, after adjusting for the fair value of financial instruments and lease liabilities (the unadjusted working capital deficiency was $272.5 million) (December 31, 2018 – $242.0 million and $228.4 million, respectively). As at March 31, 2019, the Company had $948.0 million in long-term debt outstanding and $519.7 million drawn against the revolving credit facility for total bank debt of $1,467.7 million (net of prepaid interest and debt issue costs) (December 31, 2018 - $1,476.1 million). Net debt at March 31, 2019 was $1,713.0 million excluding the fair value of financial instruments and lease liabilities (December 31, 2018 - $1,718.1 million).

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.

During the three months ended March 31, 2019, the Company paid a cash dividend of $0.10 per common share totalling $27.2 million (for the year ended December 31, 2018 - $100.6 million).

SHARES AND STOCK OPTIONS OUTSTANDING

As at May 8, 2019, the Company has 272,050,159 common shares and 20,327,251 stock options outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments [1]	$ 1,813	$ 3,625	$ 3,589	$ 5,330	$ 14,357
Firm transportation and processing agreements	428,550	873,970	764,590	2,294,426	4,361,536
Capital commitments [2]	156,864	465,379	9,348	78,838	710,429
Credit facility [3]	–	–	604,704	–	604,704
Term debt [4]	33,661	67,322	989,470	–	1,090,453
	$ 620,888	$ 1,410,296	$ 2,371,701	$ 2,378,594	$ 6,781,479

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

(2) Includes drilling commitments, power commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of $300.0 million per year until at least 2020. The capital spending commitment can be deferred to future periods as agreed upon by both parties.

(3) Includes interest expense at an annual rate of 3.45% being the rate applicable to outstanding debt on the credit facility at March 31, 2019.

(4) Includes interest expense at an annual rate of 3.55% being the fixed rate on the term debt at March 31, 2019.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not believe it has any guarantees or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

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 audited consolidated financial statements for the year ended December 31, 2018.

As at March 31, 2019, the Company has entered into certain financial derivative contracts in order to manage commodity price and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. Such financial derivative contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized (loss) on the consolidated statement of income and comprehensive income. The contracts that the Company has in place at March 31, 2019 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019 and 2018.

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at March 31, 2019 have been summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019 and 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 interim condensed 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. 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 National Instrument 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 IFRS.

There were no changes in the Company's DC&P or ICFR during the period beginning on January 1, 2019 and ending on March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's 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 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 operating its business as currently conducted. Tourmaline focuses on conducting transparent, safe and responsible operations.

CHANGES IN ACCOUNTING POLICIES

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

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and replaces the previous leases standard, IAS 17 - *Leases.* The new standard was adopted using the modified retrospective approach and the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

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

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

As a result of adopting IFRS 16, the Company's accounting policies for leased assets are now:

Leased assets:

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

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

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

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The following table outlines the financial impact on the Company's consolidated statements of income and comprehensive income for the three months ended March 31, 2019, due to the adoption of IFRS 16.

(000s)	**Three months ended March 31, 2019 pre-IFRS 16**	**IFRS 16 impact**	**Three months ended March 31, 2019**
Other income	$ 7,332	$ 10	$ 7,342
Operating expense	92,193	(28)	92,165
G&A expense	13,277	(1,130)	12,147
DD&A expense	227,661	1,135	228,796
Finance expense	14,212	51	14,263
Net income	87,723	(13)	87,710
Cash flow	$ 418,074	$ 1,168	$ 419,242

NON-GAAP FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms "cash flow", "operating netback", "adjusted working capital", and "net debt" 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", "adjusted working capital" 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.

Cash Flow

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

	Three Months Ended March 31,	
(000s)	**2019**	**2018**
Cash flow from operating activities (per GAAP)	**$ 383,120**	$ 342,148
Change in non-cash working capital	**36,122**	10,100
Cash flow	**$ 419,242**	$ 352,248

Operating Netback

Operating netback is calculated on a per-boe basis and is defined as revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments less royalties, transportation costs and operating expenses, as shown below:

	Three Months Ended March 31,	
($/boe)	**2019**	**2018**
Revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**$ 25.15**	$ 22.76
Royalties	**(1.20)**	(0.83)
Transportation costs	**(3.81)**	(3.32)
Operating expenses	**(3.49)**	(3.36)
Operating netback	**$ 16.65**	$ 15.25

Adjusted Working Capital

A summary of the reconciliation of working capital to adjusted working capital is set forth below:

(000s)	**As at March 31, 2019**	**As at December 31, 2018**
Working capital (deficit)	**$ (272,500)**	$ (228,403)
Fair value of financial instruments – short-term (asset) liability	**23,401**	(13,640)
Lease liabilities – short-term	**3,814**	–
Adjusted working capital (deficit)	**$ (245,285)**	$ (242,043)

Net Debt

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

(000s)	**As at March 31, 2019**	**As at December 31, 2018**
Bank debt	**$ (1,467,747)**	$(1,476,099)
Working capital (deficit)	**(272,500)**	(228,403)
Fair value of financial instruments – short-term (asset) liability	**23,401**	(13,640)
Lease liabilities – short-term	**3,814**	–
Net debt	**$ (1,713,032)**	$(1,718,142)

SELECTED QUARTERLY INFORMATION

	2019				2018			2017
($000s, unless otherwise noted)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
PRODUCTION								
Natural gas *(mcf)*	**129,529,098**	123,995,544	115,321,116	117,429,708	119,585,930	120,238,014	109,246,506	108,879,426
Oil and NGL (*bbls)*	**4,820,850**	4,778,286	4,164,796	4,172,997	4,236,320	4,184,707	3,587,572	3,287,567
Oil equivalent *(boe)*	**26,409,060**	25,444,210	23,384,982	23,744,615	24,167,308	24,224,376	21,795,323	21,434,138
Natural gas *(mcf/d)*	**1,439,212**	1,347,778	1,253,490	1,290,436	1,328,733	1,306,935	1,187,462	1,196,477
Oil and NGL *(bbls/d)*	**53,565**	51,938	45,270	45,857	47,070	45,486	38,995	36,127
Oil equivalent *(boe/d)*	**293,434**	276,568	254,185	260,930	268,526	263,309	236,905	235,540
FINANCIAL								
Total revenue from commodity sales and realized gains (losses) on risk management activities and financial instruments	**664,301**	595,487	496,711	463,845	550,166	527,106	410,591	479,269
Cash flow from operating activities	**383,120**	329,997	314,191	283,155	342,148	299,793	266,525	278,577
Per diluted share	**1.41**	1.21	1.15	1.04	1.26	1.11	0.99	1.03
Cash flow [(1)]	**419,242**	391,532	287,421	272,261	352,248	348,227	251,327	313,271
Per diluted share	**1.54**	1.44	1.06	1.00	1.30	1.29	0.93	1.16
Net earnings	**87,710**	190,895	55,296	25,639	129,588	88,079	50,580	108,580
Per basic share	**0.32**	0.70	0.20	0.09	0.48	0.33	0.19	0.40
Per diluted share	**0.32**	0.70	0.20	0.09	0.48	0.33	0.19	0.40
Total assets	**10,924,480**	10,732,457	10,429,505	10,186,188	10,212,446	10,181,528	9,916,804	9,630,468
Working capital (deficit)	**(272,500)**	(228,403)	(411,687)	(192,116)	(232,695)	(219,168)	(352,068)	(130,337)
Adjusted working capital (deficit) [(1)]	**(245,285)**	(242,043)	(341,960)	(130,834)	(206,988)	(202,484)	(350,112)	(134,212)
Cash capital expenditures	**384,384**	395,194	409,919	191,773	217,551	352,233	465,466	189,532
Dividends paid	**27,204**	27,304	27,103	24,488	21,687	–	–	–
Total outstanding shares *(000s)*	**272,050**	272,043	272,043	272,084	271,084	271,084	269,784	269,784
PER UNIT								
Natural *gas ($/mcf)*	**3.59**	3.13	2.54	2.25	2.97	2.70	2.52	3.19
Oil and NGL *($/bbl)*	**41.43**	43.40	48.91	47.93	46.08	48.31	37.63	40.01
Revenue *($/boe)*	**25.15**	23.40	21.24	19.53	22.76	21.76	18.84	22.36
Operating netback *($/boe)* [(1)]	**16.65**	15.82	13.15	12.10	15.25	14.80	12.27	15.36

(1) See Non-GAAP Financial Measures.

The oil and gas exploration and production industry is cyclical. 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 242,325 boe per day in 2017 to 265,044 boe per day in 2018 and 293,434 boe per day in the first three months of 2019. 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 $1,205.8 million in 2017, $1,303.5 million in 2018 and forecast 2019 cash flow is $1,520.9 million. The increase in forecast cash flow in 2019 reflects the significant increase in forecast annual average production over 2018. 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 access to capital markets.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

Commitments (note 13).

Subsequent events (note 3).

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(000s) (unaudited)	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2018	$ 5,909,664	$ 253,055	$1,380,593	$ 28,068	$ 7,571,380
Share-based payments	–	3,665	–	–	3,665
Capitalized share-based payments	–	2,873	–	–	2,873
Options exercised (*notes 10 and 12*)	188	(40)	–	–	148
Dividends paid (*note 10*)	–	–	(27,204)	–	(27,204)
Income attributable to common shareholders	–	–	87,710	–	87,710
Income attributable to non-controlling interest	–	–	–	(35)	(35)
Balance at March 31, 2019	**$ 5,909,852**	**$ 259,553**	**$1,441,099**	**$ 28,033**	**$ 7,638,537**

(000s) (unaudited)	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2017	$ 5,886,709	$ 221,477	$1,079,755	$ 27,816	$ 7,215,757
Share issue costs, net of tax	(6)	–	–	–	(6)
Share-based payments	–	4,086	–	–	4,086
Capitalized share-based payments	–	2,983	–	–	2,983
Dividends paid	–	–	(21,686)	–	(21,686)
Income attributable to common shareholders	–	–	129,588	–	129,588
Income attributable to non-controlling interest	–	–	–	66	66
Balance at March 31, 2018	**$ 5,886,703**	**$ 228,546**	**$1,187,657**	**$ 27,882**	**$ 7,330,788**

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

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

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2019 AND FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

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

Corporate Information:

Tourmaline Oil Corp. (the "Company") was incorporated under the laws of the Province of Alberta on July 21, 2008. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas properties.

These unaudited interim condensed consolidated financial statements reflect only the Company's proportionate interest in such activities. The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 8, 2019.

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

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These unaudited interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars and include the accounts of Tourmaline Oil Corp., and its 90.6% owned subsidiary Exshaw Oil Corp. (note 9), which both have a functional currency of Canadian dollars. Tourmaline Oil Corp. also includes its 100% owned subsidiary Tourmaline Oil Marketing Corp., which has a functional currency of US dollars.

The accounting policies and significant accounting judgments, estimates, and assumptions used in these unaudited interim condensed consolidated financial statements are consistent with those described in Notes 1 and 2 of the Company's consolidated financial statements for the year ended December 31, 2018, except as noted below.

Changes in Accounting Policies

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

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and replaces the previous leases standard, IAS 17 Leases. The new standard was adopted using the modified retrospective approach and the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

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

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

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

Leased assets:

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

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

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

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

2. DETERMINATION OF FAIR VALUE

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

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

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

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

The fair value of accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short term nature. Bank debt bears interest at a floating market rate with applicable variable margins, and accordingly the fair market value approximates the carrying amount. The Company's financial instruments have been assessed on the fair value hierarchy described above and classified as Level 2.

3. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 5 of the Company's consolidated financial statements for the year ended December 31, 2018.

As at March 31, 2019, the Company has entered into certain financial derivative contracts in order to manage commodity price, foreign exchange and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity and interest rate contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income and comprehensive income.

The Company has the following financial derivative contracts in place as at March 31, 2019 [1]:

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

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

(2) These are basis differentials for non-AECO markets. A portion of these financial basis deals have a cap on NYMEX, 5.7 mmcf/d at USD $4.00/mcf for 2019-2020.

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

The Company has entered into the following financial derivative contracts subsequent to March 31, 2019:

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

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

	2019	2020	2021	2022	2023	2024	Fair Value
Effective interest rate [1]	1.86%	1.79%	1.86%	1.93%	2.05%	2.21%	
Notional amount hedged (000s)	$ 800,602	$ 715,159	$ 727,974	$ 655,482	$ 502,723	$ 175,000	$ (1,082)

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

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

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

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

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the consolidated statements of income and comprehensive income for the three months ended March 31, 2019 and 2018:

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

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

The Company has the following physical commodity contracts in place at March 31, 2019 (1)(6):

		2019	2020	2021	2022	2023
Gas						
Fixed price (2)	*mcf/d*	201,558	23,566	–	–	–
	CAD$/mcf	$ 1.55	$ 1.82			
Basis differentials - AECO (3)	*mmbtu/d*	187,500	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	$ 0.99	$ 0.67	$ 0.31	$ 0.36	$ 0.36
Basis differentials – Other (4)	*mcf/d*	18,891	20,000	22,500	22,500	20,000
	CAD$/mcf	$ 0.11	$ 0.27	$ 0.29	$ 0.29	$ 0.27
Oil						
Fixed differential – Oil (5)	*bbls/d*	1,552	–	–	–	–
	USD$/bbl	$ (12.75)				
Basis differentials - Condensate	*bbls/d*	3,089	1,032	–	–	–
	USD$/bbl	$ (6.47)	$ (6.50)			

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

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

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

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

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

(6) Tourmaline also has entered into deals to sell 50,000 mmbtu/d priced off Chicago GDD less transportation costs and 20,000 mmbtu/d priced off Ventura GDD less transportation costs that extend into 2020; 5,000 mmbtu/d priced off Chicago GDD less transportation costs that extends to 2023; 20,000 mmbtu/d that starts in 2020. Tourmaline reserves the right to periodically fix or lock in the basis in each market.

The Company has entered into the following physical contracts subsequent to March 31, 2019:

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

4. EXPLORATION AND EVALUATION ASSETS

(000s)	
As at December 31, 2018	$ 595,667
Capital expenditures	14,279
Transfers to property, plant and equipment *(note 5)*	(2,634)
Acquisitions	1,300
Divestitures	(1,968)
Expired mineral leases	(27,865)
As at March 31, 2019	**$ 578,779**

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proven and probable reserves, as well as undeveloped land. Additions represent the Company's share of costs on E&E assets during the period.

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At March 31, 2019 and December 31, 2018, the Company determined that no indicators of impairment existed on its E&E assets; therefore, an impairment test was not performed.

5. PROPERTY, PLANT AND EQUIPMENT

Cost

(000s)	
As at December 31, 2018	$ 13,842,667
Capital expenditures	374,618
Transfers from exploration and evaluation *(note 4)*	2,634
Change in decommissioning liabilities *(note 7)*	30,673
Acquisitions	769
As at March 31, 2019	**$ 14,251,361**

Accumulated Depletion, Depreciation and Amortization

(000s)	
As at December 31, 2018	$ 4,034,918
Depletion, depreciation and amortization	199,796
As at March 31, 2019	**$ 4,234,714**

Net Book Value

(000s)	
As at December 31, 2018	$ 9,807,749
As at March 31, 2019	**$ 10,016,647**

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

Capitalization of G&A and Share-Based Payments

A total of $7.3 million in G&A expenditures have been capitalized and included in PP&E for the three months ended March 31, 2019 (December 31, 2018 – $27.3 million). Also included in PP&E are non-cash year-to-date share-based payments of $2.9 million (December 31, 2018 - $13.3 million). Borrowing costs of $1.4 million on specified projects have been capitalized and included in PP&E at March 31, 2019 (December 31, 2018 – $2.8 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment. At March 31, 2019, the Company determined that there were no indicators of impairment on any of the Company's CGUs; therefore, impairment tests were not performed.

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

Acquisitions and Dispositions of Oil and Natural Gas Properties

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

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

6. LEASES

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

Right-of-use assets

(000s)		
As at January 1, 2019	$	12,028
Additions		1,068
Depreciation		(1,135)
As at March 31, 2019	**$**	**11,961**

Lease liabilities

(000s)		
As at January 1, 2019	$	12,028
Additions		1,068
Lease interest expense		51
Lease payments		(1,168)
As at March 31, 2019	**$**	**11,979**

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

7. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its decommissioning obligations is approximately $522.1 million (December 31, 2018 – $512.5 million), with some abandonments expected to commence in 2034. A risk-free rate of 1.90% (December 31, 2018 – 2.18%) and an inflation rate of 2.0% (December 31, 2018 – 2.0%) were used to calculate the decommissioning obligations. The decommissioning obligations at March 31, 2019 have been adjusted by approximately $24.6 million (December 31, 2018 – $28.0 million) reflecting a decrease in the risk-free rate.

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

8. BANK DEBT

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

(1) Amounts shown net of prepaid interest.

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, the details of which are described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2018. The revolving credit facility is in the amount of $1.8 billion with a maturity date of June 2023. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The credit facility includes an expansion feature ("accordion") which allows the Company, upon approval from the lenders, to increase the facility amount by up to $500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

The Company has a $950.0 million term loan with a syndicate of banks. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus 157.5 basis points with a maturity of June 2023. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The covenants for the term loan are the same as those under the Company's revolving credit facility and the term loan ranks equally with the revolving credit facility.

The Company also has a covenant based, unsecured, operating credit facility with a Canadian bank in the amount of $50.0 million. The operating credit facility has a maturity date of June 2019, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility.

Additionally, the Company has a letter of credit facility payable on demand in the amount of $50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit in the amount of $10.7 million (December 31, 2018 - $9.5 million), which reduce the credit available on this facility.

The Company's aggregate borrowing capacity is $2.85 billion at March 31, 2019. As at, and for the quarter ending March 31, 2019, the Company is in compliance with all debt covenants.

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

9. NON-CONTROLLING INTEREST

The Company owns 90.6 percent of Exshaw Oil Corp., a private company engaged in oil and gas exploration in Canada. A reconciliation of the non-controlling interest is provided below:

(000s)	**As at March 31, 2019**	**As at December 31, 2018**
Balance, beginning of period	**$ 28,068**	$ 27,816
Share of subsidiary's net income for the period	**(35)**	252
Balance, end of period	**$ 28,033**	$ 28,068

10. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

Unlimited number of non-voting Preferred Shares, issuable in series.

(b) Common Shares Issued

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

(1) On May 15, 2018, the Company issued 1.0 million flow-through shares at a price of $30.00 per share for total gross proceeds of $30.0 million. The implied premium on the flow-through common shares was determined to be $6.2 million or $6.16 per share. As at December 31, 2018, the Company had spent the full committed amount. The expenditures were renounced to investors in January 2019 with an effective renunciation date of December 31, 2018.

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

During the three months ended March 31, 2019, the Company paid a cash dividend of $0.10 per common share totalling $27.2 million (for the year ended December 31, 2018 - $100.6 million).

11. EARNINGS PER SHARE

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

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

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

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

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

12. SHARE-BASED PAYMENTS

The Company has a rolling stock option plan. Under the employee stock option plan, the Company may grant options to its employees up to 23,124,263 shares of common stock, which represents 8.5% of the current outstanding common shares. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is seven years. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

			Three Months Ended March 31,	
	2019		2018	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Stock options outstanding, beginning of period	**20,452,467**	**$ 32.27**	20,948,382	$ 36.13
Granted	**336,000**	**19.14**	233,000	19.81
Exercised	**(7,500)**	**19.74**	–	–
Expired	**(345,000)**	**46.93**	(203,333)	35.15
Forfeited	**(108,716)**	**26.83**	(265,466)	35.54
Stock options outstanding, end of period	**20,327,251**	**$ 31.84**	20,712,583	$ 35.96

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

The following table summarizes stock options outstanding and exercisable at March 31, 2019:

Range of Exercise Price	**Number Outstanding at Period End**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at Period End**	**Weighted Average Exercise Price**
$17.20 - $22.27	4,074,500	6.38	21.55	97,169	20.43
$22.28 - $26.40	4,020,934	2.76	25.83	3,117,338	26.29
$26.41 - $33.58	3,705,117	5.01	27.54	1,633,471	28.32
$33.59 - $41.65	4,190,200	3.32	35.69	3,228,533	36.01
$41.66 - $56.76	4,336,500	0.49	47.01	4,336,500	47.01
	20,327,251	3.53	31.84	12,413,011	36.28

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

	March 31,	
	2019	**2018**
Fair value of options granted (weighted average)	**$ 5.11**	$ 5.35
Risk-free interest rate	**1.8%**	2.0%
Estimated hold period prior to exercise	**5 years**	5 years
Expected volatility	**35%**	33%
Forfeiture rate	**1.8%**	1.7%
Dividend per share	**$ 0.40**	$ 0.32

13. COMMITMENTS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments [1]	$ 1,813	$ 3,625	$ 3,589	$ 5,330	$ 14,357
Firm transportation and processing agreements	428,550	873,970	764,590	2,294,426	4,361,536
Capital commitments [2]	156,864	465,379	9,348	78,838	710,429
Credit facility [3]	–	–	604,704	–	604,704
Term debt [4]	33,661	67,322	989,470	–	1,090,453
	$ 620,888	$ 1,410,296	$ 2,371,701	$ 2,378,594	$ 6,781,479

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

(2) Includes drilling commitments, power commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of $300.0 million per year until at least 2020. The capital spending commitment can be deferred to future periods as agreed upon by both parties.

(3) Includes interest expense at an annual rate of 3.45% being the rate applicable to outstanding debt on the credit facility at March 31, 2019.

(4) Includes interest expense at an annual rate of 3.55% being the fixed rate on the term debt at March 31, 2019.

14. REVENUE

The Company sells its production pursuant to fixed and variable priced contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed volume of crude oil, NGLs or natural gas to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue related specifically to the Company's efforts to deliver production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

The sale of produced commodities are under contracts of varying terms of up to six years. Revenues are typically collected on the 25th day of the month following production.

The following table presents the Company's oil, gas and NGL sales disaggregated by revenue source:

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

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