

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,	December 31,
<i>(000s) (unaudited)</i>	2017	2016
Assets		
Current assets:		
Accounts receivable	\$ 208,576	\$ 201,288
Prepaid expenses and deposits	9,428	10,575
Fair value of financial instruments <i>(note 3)</i>	4,885	895
Total current assets	222,889	212,758
Long-term asset	5,871	6,034
Fair value of financial instruments <i>(note 3)</i>	4,232	2,990
Exploration and evaluation assets <i>(note 4)</i>	688,928	678,531
Property, plant and equipment <i>(note 5)</i>	8,690,475	8,457,210
Total Assets	\$ 9,612,395	\$ 9,357,523
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 555,195	\$ 396,127
Fair value of financial instruments <i>(note 3)</i>	22,791	40,412
Total current liabilities	577,986	436,539
Bank debt <i>(note 7)</i>	1,358,090	1,406,586
Fair value of financial instruments <i>(note 3)</i>	23,276	40,266
Deferred premium on flow-through shares <i>(note 9)</i>	12,141	16,167
Decommissioning obligations <i>(note 6)</i>	223,188	212,669
Deferred taxes	522,427	477,015
Shareholders' equity:		
Share capital <i>(note 9)</i>	5,836,662	5,818,867
Non-controlling interest <i>(note 8)</i>	27,704	27,549
Contributed surplus	198,405	188,883
Retained earnings	832,516	732,982
Total shareholders' equity	6,895,287	6,768,281
Total Liabilities and Shareholders' Equity	\$ 9,612,395	\$ 9,357,523

Commitments (note 12).

Subsequent events (note 3).

See accompanying notes to the interim condensed consolidated financial statements.

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

<i>(000s) except per-share amounts (unaudited)</i>	Three Months Ended March 31,	
	2017	2016
Revenue:		
Oil and natural gas sales	\$ 449,072	\$ 233,544
Royalties	(27,851)	(6,569)
Net revenue from oil and natural gas sales	421,221	226,975
Realized gain on financial instruments	17,573	45,564
Unrealized gain (loss) on financial instruments <i>(note 3)</i>	39,843	(28,643)
Other income	7,179	6,481
Total net revenue	485,816	250,377
Expenses:		
Operating	73,433	65,890
Transportation	59,099	33,625
General and administration	10,064	7,541
Share-based payments <i>(note 11)</i>	5,137	6,209
Depletion, depreciation and amortization	188,674	180,939
Realized foreign exchange (gain)	(677)	-
Unrealized foreign exchange loss	159	-
(Gain) on divestitures	(3,233)	(4,453)
Total expenses	332,656	289,751
Income (loss) from operations	153,160	(39,374)
Finance expenses	12,075	12,727
Income (loss) before taxes	141,085	(52,101)
Deferred taxes (recovery)	41,396	(12,943)
Net income (loss) and comprehensive income (loss) before non-controlling interest	99,689	(39,158)
Net income (loss) and comprehensive income (loss) attributable to:		
Shareholders of the Company	99,534	(38,390)
Non-controlling interest <i>(note 8)</i>	155	(768)
	\$ 99,689	\$ (39,158)
Net income (loss) per share attributable to common shareholders <i>(note 10)</i>		
Basic	\$ 0.37	\$ (0.17)
Diluted	\$ 0.37	\$ (0.17)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(000s) (unaudited)</i>	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2016	\$ 5,818,867	\$ 188,883	\$ 732,982	\$ 27,549	\$ 6,768,281
Issue of common shares on acquisitions (<i>note 9</i>)	14,853	–	–	–	14,853
Share issue costs, net of tax	(27)	–	–	–	(27)
Share-based payments	–	5,137	–	–	5,137
Capitalized share-based payments	–	5,137	–	–	5,137
Options exercised (<i>notes 9 and 11</i>)	2,969	(752)	–	–	2,217
Income attributable to common shareholders	–	–	99,534	–	99,534
Income attributable to non-controlling interest	–	–	–	155	155
Balance at March 31, 2017	\$ 5,836,662	\$ 198,405	\$ 832,516	\$ 27,704	\$ 6,895,287

<i>(000s) (unaudited)</i>	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2015	\$ 4,266,234	\$ 171,958	\$ 764,953	\$ 28,431	\$ 5,231,576
Share issue costs, net of tax	(80)	–	–	–	(80)
Share-based payments	–	6,209	–	–	6,209
Capitalized share-based payments	–	6,209	–	–	6,209
Options exercised (<i>notes 9 and 11</i>)	5,130	(1,437)	–	–	3,693
Loss attributable to common shareholders	–	–	(38,390)	–	(38,390)
Loss attributable to non-controlling interest	–	–	–	(768)	(768)
Balance at March 31, 2016	\$ 4,271,284	\$ 182,939	\$ 726,563	\$ 27,663	\$ 5,208,449

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Three Months Ended March 31,	
<i>(000s) (unaudited)</i>	2017	2016
Cash provided by (used in):		
Operations:		
Net income (loss)	\$ 99,534	\$ (38,390)
Items not involving cash:		
Depletion, depreciation and amortization	188,674	180,939
Accretion	1,198	790
Share-based payments	5,137	6,209
Deferred taxes (recovery)	41,396	(12,943)
Unrealized (gain) loss on financial instruments	(39,843)	28,643
(Gain) on divestitures	(3,233)	(4,453)
Amortization on long-term asset	163	163
Non-controlling interest	155	(768)
Unrealized foreign exchange loss	159	-
Decommissioning expenditures	(407)	(760)
Changes in non-cash operating working capital	45,072	16,878
Total cash flow from operating activities	338,005	176,308
Financing:		
Issue of common shares	2,217	3,693
Share issue costs	(37)	(109)
Increase (decrease) in bank debt	(48,496)	308,493
Total cash flow from (used in) financing activities	(46,316)	312,077
Investing:		
Exploration and evaluation	(31,780)	(4,634)
Property, plant and equipment	(366,810)	(245,515)
Property acquisitions	(795)	(182,708)
Proceeds from divestitures	-	18,000
Changes in non-cash investing working capital	107,696	(73,528)
Total cash flow used in investing activities	(291,689)	(488,385)
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, 2017 AND FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(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.

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, 2016.

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 8), which both have a functional currency in Canadian dollars. Tourmaline Oil Corp. also includes its 100% owned subsidiary Tourmaline Oil Marketing Corp., which has a functional currency in 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, 2016, except as noted below.

On January 1, 2017, the Company adopted the amendments made to IAS 7 – Statement of Cash Flows, which require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. There was no impact to the Company as a result of adopting the amended standard.

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 4, 2017.

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 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 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, 2016.

As at March 31, 2017, the Company has entered into certain financial derivative contracts in order to manage commodity price, foreign exchange and interest rate risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity and interest rate contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim consolidated statement of income (loss) and comprehensive income (loss).

The Company has the following financial derivative contracts in place as at March 31, 2017 ⁽¹⁾:

		2017	2018	2019	2020	Fair Value (000s)
Gas						
AECO swaps	<i>mmbtu/d</i>	18,956	–	–	–	\$ 1,708
	<i>CAD\$/mmbtu</i>	\$ 3.15				
NYMEX swaps	<i>mmbtu/d</i>	85,564	4,932	–	–	\$ (6,677)
	<i>USD\$/mmbtu</i>	\$ 3.11	\$ 3.11			
NYMEX call options (writer) ⁽²⁾	<i>mmbtu/d</i>	110,000	110,000	90,000	20,000	\$ (23,564)
	<i>USD\$/mmbtu</i>	\$ 3.52	\$ 3.68	\$ 3.94	\$ 3.75	
Oil						
Financial swaps	<i>bbls/d</i>	4,500	1,000	–	–	\$ 1,637
	<i>USD\$/bbl</i>	\$ 51.56	\$ 55.65			
Financial call swaptions ⁽³⁾	<i>bbls/d</i>	2,000	3,125	–	–	\$ (6,962)
	<i>USD\$/bbl</i>	\$ 69.45	\$ 54.30			
Total fair value						\$ (33,858)

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

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

(3) These are European and Asian swaptions whereby the Company provides the option to extend an oil swap into the period subsequent to the call date, or retroactively fix the price on the volumes under the contract.

The Company has entered into the following financial derivative contracts subsequent to March 31, 2017:

Type of Contract	Quantity	Time Period	Contract Price
Gas Financial swaps	20,000 mmbtu/d	January 2018 – December 2018	USD\$3.07/mmbtu

The Company has entered into multiple interest rate swaps over the next 7 years at an annual average interest rate as detailed below:

	2017	2018	2019	2020	2021	2022	2023	Fair Value
Effective interest rate ⁽¹⁾	1.53%	1.53%	1.56%	1.28%	1.37%	1.42%	1.71%	
Notional amount hedged (000s)	\$ 602,192	\$ 625,000	\$ 589,726	\$ 393,630	\$ 309,452	\$ 117,603	\$ 8,288	\$ (3,092)

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

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the consolidated statements of income (loss) and comprehensive income (loss) for the three months ended March 31, 2017 and 2016:

(000s)	Three Months Ended March 31,	
	2017	2016
Unrealized gain (loss) on financial instruments – commodity contracts	\$ 40,605	\$ (27,763)
Unrealized (loss) on financial instruments – interest rate swaps	(762)	(880)
Total unrealized gain (loss) on financial instruments	\$ 39,843	\$ (28,643)

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 consolidated financial statements.

The Company has the following physical contracts in place at March 31, 2017 ⁽¹⁾⁽⁵⁾:

		2017	2018	2019	2020	2021
Gas						
Fixed price – AECO	<i>mcf/d</i>	214,920	42,067	–	–	–
	<i>CAD\$/mcf</i>	\$ 3.11	\$ 3.19			
Basis differentials - AECO ⁽²⁾⁽³⁾	<i>mmbtu/d</i>	100,264	147,500	147,500	147,500	76,664
	<i>USD\$/mmbtu</i>	\$ (0.65)	\$ (0.72)	\$ (0.72)	\$ (0.72)	\$ (0.64)
Basis differentials - Dawn	<i>mmbtu/d</i>	–	18,836	25,000	25,000	6,164
	<i>USD\$/mmbtu</i>		\$ (0.15)	\$ (0.15)	\$ (0.15)	\$ (0.15)
Basis differentials – Stn 2	<i>mcf/d</i>	56,357	47,913	19,478	17,807	9,478
	<i>CAD\$/mcf</i>	\$ (0.26)	\$ (0.20)	\$ (0.05)	\$ (0.07)	\$ (0.26)
AECO Monthly Calls / Call Swaptions ⁽³⁾	<i>mcf/d</i>	7,376	71,086	–	–	–
	<i>CAD\$/mcf</i>	\$ 2.85	\$ 4.26			
Oil						
Fixed differential ⁽⁴⁾	<i>bbls/d</i>	1,333	1,552	–	–	–
	<i>USD\$/bbl</i>	\$ (6.79)	\$ (6.95)			

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

(2) Tourmaline also has an average of 53.5 mmcf/d of NYMEX-AECO basis differentials at \$(0.68) from 2022-2024. A portion of these basis deals have a cap on NYMEX, 13.6 mmcf/d at USD\$4.28/mcf for 2017, 92.5 mmcf/d at USD\$4.18/mcf from 2018-2020 and 40.0 mmcf/d at USD\$4.57/mcf from 2021-2024.

(3) These are monthly calls for 2017 that are European Swaptions, whereby the Company provides the option to extend a gas swap into the period subsequent to the call date or increase the volumes under contract. In 2018, there is a combination of monthly calls and European Swaptions.

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

(5) Tourmaline also has entered into deals to sell 30,000 mmbtu/d at Chicago GDD pricing less transportation costs from April 2015 to October 2020; 20,000 mmbtu/d at Chicago GDD pricing less transportation costs from April 2015 to March 2020; 5,000 mmbtu/d at Chicago GDD pricing less transportation costs from November 2017 to March 2023; 25,000 mmbtu/d at Emerson GDD pricing less transportation costs from November 2016 to October 2017; and 20,000 mmbtu/d at Ventura GDD pricing less transportation costs from April 2015 to October 2020.

The Company has entered into the following physical contracts subsequent to March 31, 2017:

Type of Contract	Quantity	Time Period	Contract Price
Gas Fixed Price – AECO	20,000 GJs/d	November 2017 – March 2018	CAD\$3.05/GJ
Gas Fixed Price – AECO	30,000 GJs/d	January 2018 – March 2018	CAD\$3.16/GJ
Gas Fixed Price – AECO	40,000 GJs/d	January 2018 – December 2018	CAD\$2.55/GJ
Gas Fixed Price – AECO	20,000 GJs/d	April 2018 – December 2018	CAD\$2.53/GJ
Gas Call Swaptions - AECO ⁽¹⁾	20,000 GJs/d	January 2019 – December 2019	CAD\$2.60/GJ

(1) Counterparty has a one-time option to call on December 31, 2018.

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2016	\$ 678,531
Capital expenditures	31,780
Transfers to property, plant and equipment (note 5)	(13,983)
Acquisitions	322
Divestitures	(1,221)
Expired mineral leases	(6,501)
As at March 31, 2017	\$ 688,928

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, 2017 and December 31, 2016, 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, 2016	\$11,008,617
Capital expenditures	371,947
Transfers from exploration and evaluation (note 4)	13,983
Change in decommissioning liabilities (note 6)	9,563
Acquisitions	19,945
As at March 31, 2017	\$11,424,055

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2016	\$ 2,551,407
Depletion, depreciation and amortization	182,173
As at March 31, 2017	\$ 2,733,580

Net Book Value

(000s)

As at December 31, 2016	\$ 8,457,210
As at March 31, 2017	\$ 8,690,475

Future development costs of \$6,430.7 million were included in the depletion calculation at March 31, 2017 (December 31, 2016 – \$6,417.4 million).

Capitalization of G&A and Share-Based Payments

A total of \$5.2 million in G&A expenditures have been capitalized and included in PP&E assets at March 31, 2017 (December 31, 2016 – \$23.7 million). Also included in PP&E are non-cash share-based payments of \$5.1 million (December 31, 2016 - \$22.8 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, 2017 and December 31, 2016, the Company determined that there were no indicators of impairment on any of the Company's CGUs; therefore impairment tests were not performed.

Business Combinations

Minehead-Edson-Ansell

On January 29, 2016, the Company acquired assets in the Minehead-Edson-Ansell area of the Alberta Deep Basin for cash consideration of \$183.0 million before customary adjustments. The acquisition resulted in an increase in lands, production, reserves and facilities in a core area of the Alberta Deep Basin.

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

<i>(000s)</i>	Minehead-Edson-Ansell
Fair value of net assets acquired:	
Property, plant and equipment	\$ 179,230
Exploration and evaluation	4,753
Decommissioning obligations	(983)
Total	\$ 183,000
Consideration:	
Cash	\$ 183,000

Shell Canada

On November 30, 2016, the Company acquired assets in the Alberta Deep Basin and the Northeast B.C. Gundy area ("Gundy assets") for total consideration of \$1,367.8 million, including cash consideration of \$1,000.1 million before customary adjustments and 10,017,938 Tourmaline common shares at a deemed price of \$36.70 per share. Total transaction costs incurred by the Company of \$1.6 million associated with this acquisition were expensed in the consolidated statement of income (loss) and comprehensive income (loss). The Deep Basin assets acquired resulted in significant increases in lands, production, reserves and facilities in a core development area of the Company. The Gundy assets acquired include land, production and reserves and now provide the Company with sufficient size and scope in the Northeast Montney play to drive strategic Company-operated infrastructure development.

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

<i>(000s)</i>	Shell Canada
Fair value of net assets acquired:	
Property, plant and equipment	\$ 1,333,367
Exploration and evaluation	38,493
Decommissioning obligations	(4,106)
Total	\$ 1,367,754
Consideration:	
Cash	\$ 1,000,096
Common Shares	367,658
Total	\$ 1,367,754

Acquisitions and Dispositions of Oil and Natural Gas Properties

For the three months ended March 31, 2017, the Company completed property acquisitions for cash of \$0.8 million (December 31, 2016 - \$42.5 million) and, a further \$19.3 million in acquisitions involving non-cash consideration (December 31, 2016 - \$8.0 million). Of the \$19.3 million, \$14.9 million relates to assets acquired by issuing 475,000 Tourmaline common shares at a price \$31.27 per share. The Company also assumed \$0.2 million in decommissioning liabilities as a result of these acquisitions (December 31, 2016 - \$1.4 million).

The Company did not complete any cash property dispositions for the quarter ended March 31, 2017. For the year ended December 31, 2016, the Company completed property dispositions for total cash consideration of \$48.0 million.

6. 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 \$410.5 million (December 31, 2016 - \$392.0 million), with some abandonments expected to commence in 2034. A risk-free rate of 2.31% (December 31, 2016 - 2.31%) and an inflation rate of 2.0% (December 31, 2016 - 2.0%) were used to calculate the decommissioning obligations.

<i>(000s)</i>	As at March 31, 2017	As at December 31, 2016
Balance, beginning of period	\$ 212,669	\$ 163,459
Obligation incurred	8,439	14,798
Obligation incurred on property acquisitions	165	6,520
Obligation divested	-	(1,406)
Obligation settled	(407)	(1,367)
Accretion expense	1,198	3,607
Change in future estimated cash outlays	1,124	27,058
Balance, end of period	\$ 223,188	\$ 212,669

7. BANK DEBT

The Company has a covenant-based, unsecured, bank 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, 2016. This is an extendible revolving facility in the amount of \$1,800.0 million with an initial maturity date of June 2020. 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 Company also has a \$50.0 million operating revolver, resulting in total bank credit facility capacity of \$1,850.0 million. The facility can be drawn in either Canadian or U.S. funds and bears interest at the bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins, which range from 0.50% to 3.90% depending on the type of borrowing and the Company's senior debt to adjusted EBITDA ratio.

The Company also has a term loan with a syndicate of banks. On February 3, 2017, the Company increased the term loan from \$250.0 million to \$650.0 million and extended its maturity date to February 2022. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus 200 basis points. With the exception of the increase in amount and maturity date extension the term debt was renewed under the same terms and conditions as those outlined in note 9 of the Company's consolidated financial statements for the year ended December 31, 2016. The maturity date may, at the request of the Company and with consent of the lender, 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 will rank equally with the obligation under the Company's credit facility.

The Company's aggregate borrowing capacity is now \$2,500.0 million.

As at March 31, 2017, the Company had \$647.8 million in long-term debt outstanding and \$710.3 million drawn against the bank credit facility for total bank debt of \$1,358.1 million (net of prepaid interest and debt issue costs) (December 31, 2016 - \$1,406.6 million). In addition, Tourmaline has outstanding letters of credit of \$18.6 million (December 31, 2016 - \$18.6 million), which reduce the credit available on the facility. The effective interest rate for the three months ended March 31, 2017 was 2.44% (three months ended March 31, 2016 - 2.45%). As at March 31, 2017, the Company is in compliance with all debt covenants.

8. 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:

	As at March 31, 2017	As at December 31, 2016
<i>(000s)</i>		
Balance, beginning of period	\$ 27,549	\$ 28,431
Share of subsidiary's net income (loss) for the period	155	(882)
Balance, end of period	\$ 27,704	\$ 27,549

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Common Shares without par value.

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

(b) Common Shares Issued

	As at March 31, 2017		As at December 31, 2016	
<i>(000s) except share amounts</i>	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	268,595,812	\$ 5,818,867	221,335,925	\$ 4,266,234
For cash on public offering of common shares ⁽¹⁾⁽⁴⁾	–	–	32,146,200	1,037,722
For cash on public offering of flow-through common shares ⁽²⁾⁽³⁾	–	–	2,210,500	69,760
Issued on corporate and property acquisitions (<i>note 5</i>)	475,000	14,853	10,017,938	367,658
For cash on exercise of stock options	98,133	2,217	2,885,249	82,217
Contributed surplus on exercise of stock options	–	752	–	28,717
Share issue costs	–	(37)	–	(45,684)
Tax effect of share issue costs	–	10	–	12,243
Balance, end of period	269,168,945	\$ 5,836,662	268,595,812	\$ 5,818,867

(1) On April 5, 2016, the Company issued 10.388 million common shares at a price of \$27.11 per share for total gross proceeds of \$281.6 million. A total of 37,500 common shares were purchased by insiders.

(2) On May 17, 2016, the Company issued 1.320 million flow-through shares at a price of \$35.50 per share for total gross proceeds of \$46.9 million. The implied premium on the flow-through common shares was determined to be \$9.0 million or \$6.85 per share. As at March 31, 2017, the Company is committed to spend \$23.1 million on qualified exploration expenditures by December 31, 2017. The expenditures were renounced to investors in January 2017 with an effective renunciation date of December 31, 2016.

(3) On October 20, 2016, the Company issued 0.891 million flow-through shares at a price of \$44.50 per share for total gross proceeds of \$39.6 million. The implied premium on the flow-through common shares was determined to be \$7.7 million or \$8.63 per share. As at March 31, 2017, the Company is committed to spend the full amount on qualified exploration expenditures by December 31, 2017. The expenditures were renounced to investors in January 2017 with an effective renunciation date of December 31, 2016.

(4) On November 30, 2016, the Company issued 21.759 million common shares at a price of \$34.75 per share for total gross proceeds of \$756.1 million. A total of 175,000 common shares were purchased by insiders.

10. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended March 31,	
	2017	2016
Net earnings (loss) for the period (<i>000s</i>)	\$ 99,534	\$ (38,390)
Weighted average number of common shares – basic	269,055,152	221,403,764
Earnings (loss) per share – basic	\$ 0.37	\$ (0.17)

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

	Three Months Ended March 31,	
	2017	2016
Net earnings (loss) for the period (<i>000s</i>)	\$ 99,534	\$ (38,390)
Weighted average number of common shares – diluted	269,394,040	221,403,764
Earnings (loss) per share – fully diluted	\$ 0.37	\$ (0.17)

There were 16,583,365 options excluded from the weighted-average share calculations for the three-month period ended March 31, 2017 because they were anti-dilutive (three months ended March 31, 2016 – 19,619,746 options were anti-dilutive).

11.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 22,879,360 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,			
	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	20,037,497	\$ 37.26	19,746,414	\$ 36.50
Granted	439,500	30.47	125,000	28.18
Exercised	(98,133)	22.59	(148,334)	24.90
Forfeited	-	-	(103,334)	40.53
Stock options outstanding, end of period	20,378,864	\$ 37.18	19,619,746	\$ 36.51

The weighted average trading price of the Company's common shares was \$30.46 during the three months ended March 31, 2017 (three months ended March 31, 2016 – \$26.09).

The following table summarizes stock options outstanding and exercisable at March 31, 2017:

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
\$22.49 - \$29.26	4,093,499	3.22	26.17	1,683,866	25.43
\$30.06 - \$39.57	7,261,365	3.91	34.60	2,790,165	34.05
\$40.18 - \$48.99	7,379,000	1.95	42.11	6,346,333	41.95
\$51.47 - \$56.76	1,645,000	2.27	53.85	1,096,667	53.85
	20,378,864	2.93	37.18	11,917,031	38.86

The fair value of options granted during the three-month period ended March 31, 2017 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,	
	2017	2016
Fair value of options granted (weighted average)	\$ 9.53	\$ 8.30
Risk-free interest rate	1.16%	2.06%
Estimated hold period prior to exercise	5 years	4 years
Expected volatility	33%	34%
Forfeiture rate	2%	2%
Dividend per share	\$ 0.00	\$ 0.00

12.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 leases	\$ 5,736	\$ 10,875	\$ –	\$ –	\$ 16,611
Firm transportation and processing agreements	244,514	550,526	568,801	1,487,242	2,851,083
Capital commitments ⁽¹⁾	316,329	609,852	158,010	34,221	1,118,412
Flow-through share commitments	62,731	–	–	–	62,731
Credit facility ⁽²⁾	–	–	777,112	–	777,112
Term debt ⁽³⁾	19,091	38,182	684,671	–	741,944
	\$ 648,401	\$ 1,209,435	\$ 2,188,594	\$ 1,521,463	\$ 5,567,893

(1) Includes drilling commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of \$300.0 million per year from 2015 to 2019. 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 2016, an economic downturn event resulted in \$216.0 million of capital spending being deferred into future periods.

(2) Includes interest expense at an annual rate of 2.64% being the rate applicable to outstanding debt on the credit facility at March 31, 2017.

(3) Includes interest expense at an annual rate of 2.94% being the fixed rate on the term debt at March 31, 2017.