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

As at March 31, 2018 and for the three months ended March 31, 2018 and 2017

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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, 2018 and the consolidated financial statements for the year ended December 31, 2017. The consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated May 8, 2018.

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

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

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

Forward-Looking Statements - Certain information regarding Tourmaline set forth in this 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, 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, NGL and natural gas properties; crude oil, 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, 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, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil, NGL and natural gas operations; environmental 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, 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 statements 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 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,		
	2018	**2017**	**Change**
Natural gas *(mcf/d)*	**1,328,733**	1,194,380	11%
Oil *(bbl/d)*	**23,065**	15,871	45%
NGL *(bbl/d)*	**24,005**	18,344	31%
Oil equivalent *(boe/d)*	**268,526**	233,278	15%
Natural gas %	**82%**	85%	

Production for the three months ended March 31, 2018 averaged 268,526 boe/d, a 15% increase over the average production for the same quarter of 2017 of 233,278 boe/d. The increase in production is primarily related to the Company's successful exploration and production program. The significant growth in oil and NGL production is the result of increased drilling in the Spirit River/Peace River High Charlie Lake oil plays, incremental liquids recovered in the Wild River area via deep-cut processing, and strong condensate recoveries from new wells commencing production as the liquids-rich Montney Turbidite is developed in Northeast British Columbia.

Full-year average production guidance for 2018 is unchanged from 270,000-280,000 boe/d, which is in the range of the initial Company guidance released in the Company's November 8, 2017 press release.

REVENUE

	Three Months Ended March 31,		
(000s)	**2018**	**2017**	**Change**
Revenue from:			
Natural gas	**$ 292,497**	$ 320,755	(9)%
Oil and NGL	**204,799**	128,317	60%
Realized gain (loss) from:			
Natural gas	**62,441**	17,375	259%
Oil and NGL	**(9,571)**	198	(4,934)%
Total revenue from natural gas, oil and NGL sales	**$ 550,166**	$ 466,645	18%

Revenue for the three months ended March 31, 2018 increased 18% to $550.2 million from $466.6 million for the same quarter of 2017. Higher revenue for the period is primarily due to the significant increase in oil and NGL production and higher realized gains on natural gas. Revenue includes all petroleum, natural gas and NGL sales and the realized gain on risk management activities.

Revenue for the first quarter of 2018 included a gain on risk management activities of $52.9 million compared to a gain of $17.6 million for the same period of the prior year. Realized gains on commodity contracts for the period ended March 31, 2018 have increased compared to the same period of the prior year primarily due to the decline in Canadian natural gas prices resulting in higher gains on commodity contracts as well as an increase in gains related to Tourmaline's market diversification strategy including gas sold in California and at Dawn. Realized prices exclude the effect of unrealized gains or losses on commodity contracts. Once these gains and losses are realized they are included in the per-unit amounts.

TOURMALINE REALIZED PRICES:

	Three Months Ended March 31,		
	2018	**2017**	**Change**
Natural gas *($/mcf)*	**$ 2.97**	$ 3.15	(6)%
Oil *($/bbl)*	**$ 67.53**	$ 63.37	7%
NGL *($/bbl)*	**$ 25.48**	$ 23.02	11%
Oil equivalent *($/boe)*	**$ 22.76**	$ 22.23	2%

BENCHMARK OIL AND GAS PRICES:

	Three Months Ended March 31,		
	2018	**2017**	**Change**
Natural gas			
NYMEX Last Day *(USD$/mmbtu)*	**$ 3.00**	$ 3.32	(10)%
AECO *(CAD$/mcf)*	**$ 2.08**	$ 2.69	(23)%
West Coast Station 2 (*CAD$/mcf*)	**$ 1.91**	$ 2.48	(23)%
Sumas (*USD$/mmbtu*)	**$ 2.34**	$ 2.83	(17)%
ATP 5A Day Ahead (*CAD$/GJ*)	**$ 2.42**	$ 2.93	(17)%
Chicago City Gate (*USD$/mmbtu*)	**$ 2.94**	$ 2.98	(1)%
Ventura (*USD$/mmbtu*)	**$ 2.95**	$ 2.90	2%
PG&E Malin (*USD$/mmbtu*)	**$ 2.44**	$ 2.84	(14)%
PG&E City Gate (*USD$/mmbtu*)	**$ 2.79**	$ 3.34	(16)%
Dawn (*USD$/mmbtu*)	**$ 3.03**	$ 3.21	(6)%
Oil			
NYMEX *(USD$/bbl)*	**$ 62.89**	$ 51.78	21%
Edmonton Par *(CAD$/bbl)*	**$ 72.31**	$ 64.71	12%

RECONCILIATION OF WEIGHTED-AVERAGE INDEX PRICE TO TOURMALINE'S REALIZED GAS PRICES:

	Three Months Ended March 31,		
($/mcf)	**2018**	**2017**	**Change**
Weighted average index natural gas prices	**$ 2.29**	$ 2.77	(17)%
Heat/quality differential	**0.16**	0.22	(27)%
Realized gain	**0.52**	0.16	225%
Tourmaline realized natural gas price	**$ 2.97**	$ 3.15	(6)%
Premium to benchmark pricing due to higher heat content	**7%**	8%	

CURRENCY – EXCHANGE RATES:

	Three Months Ended March 31,		
	2018	**2017**	**Change**
CAD$/USD$ (1)	**$ 0.7911**	$ 0.7554	5%

(1) Average rates for the period.

The realized average natural gas price for the three months ended March 31, 2018 was $2.97/mcf, which is 6% lower than the same period of the prior year. The decrease reflects lower overall natural gas benchmark prices in the quarter partially offset by higher realized gains on risk management activities.

Included in realized gains on risk management activities are the premiums that Tourmaline receives from selling gas to markets outside Alberta and British Columbia. Since the third quarter of 2016, Tourmaline has significantly diversified the markets where its natural gas is sold. These markets include Malin, PG&E City Gate, Chicago, and as of the fourth quarter of 2017 Dawn, Ontario, all of which during the quarter had higher natural gas prices compared to AECO. As a result, the Company's realized gains on natural gas have increased due to this diversification strategy.

Realized oil prices increased by 7% for the three months ended March 31, 2018 compared to the same period of the prior year. The increase in price reflects the higher benchmark price for oil partially offset by a realized loss on risk management activities.

For the three months ended March 31, 2018, the realized NGL price increased by 11% to $25.48/bbl. The increase reflects the higher benchmark price for oil which is correlated to the NGL prices for pentane, butane and propane and was partially offset by lower ethane prices which is more correlated with the benchmark price for natural gas.

ROYALTIES

	Three Months Ended March 31,	
(000s)	**2018**	**2017**
Natural gas	**$ 2,683**	$ 13,212
Oil and NGL	**17,436**	14,639
Total royalties	**$ 20,119**	$ 27,851
Royalties as a percentage of revenue	**4.0%**	6.2%

For the quarter ended March 31, 2018, the average effective royalty rate was 4.0%. This reflects a decrease in the rate when compared to the first quarter of 2017 which is mostly attributable to significantly lower Canadian natural gas benchmark prices. Both AECO and Station 2 benchmark prices were 23% lower when compared to the same quarter of the prior year.

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.

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

After taking into account the Company's first quarter 2018 financial results, the Company now expects its royalty rate for 2018 to be approximately 5%, which is lower than the previously disclosed estimate of 6% in the Company's December 31, 2017 MD&A. The royalty rate is sensitive to commodity prices, and as such, fluctuations in commodity prices will impact the actual rate.

COMMODITY MARKETING

(000s)	Three Months Ended March 31, 2018	2017	Change
Marketing revenue	**$ 5,880**	$ –	100%
Marketing purchases	**(5,726)**	–	100%
Net marketing income	**$ 154**	$ –	100%

During the second quarter of 2017, the Company commissioned the Mulligan marketing terminal in the Gordondale area of Alberta. The throughput from the marketing terminal is comprised of Tourmaline produced oil and NGL volumes as well as oil and NGL volumes purchased from third parties. The revenue and purchases from third parties 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.

OTHER INCOME

(000s)	Three Months Ended March 31, 2018	2017	Change
Other income	**$ 9,097**	$ 7,179	27%

Other income increased from $7.2 million in the first quarter of 2017 to $9.1 million for the same quarter of 2018. The increase in other income is due to the Company utilizing existing infrastructure to provide additional services to third parties including gas processing, water disposal, and road access.

OPERATING EXPENSES

(000s) except per unit amounts	Three Months Ended March 31, 2018	2017	Change
Operating expenses	**$ 81,307**	$ 73,433	11%
Per boe	**$ 3.36**	$ 3.50	(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 2018, total operating expenses were $81.3 million compared to $73.4 million in 2017, an increase of 11% over a production base increase of 15% for the same period.

On a per-boe basis, the costs decreased from $3.50/boe for the first quarter of 2017 to $3.36/boe in the first quarter of 2018. Along with a commitment to continue to drive down the overall cost structure, the Company continues to realize increased operational efficiencies in all three core areas along with fixed costs being distributed over a significantly higher production base.

The Company continues to expect full-year 2018 operating expenses to average approximately $3.30/boe in 2018 as originally disclosed in the Company's December 31, 2017 MD&A. The slight increase over 2017 per-boe costs takes into consideration higher anticipated property taxes as well as operating expenses attributable to an

increased liquids portfolio, which carry higher operating costs. Actual operating costs per boe can change, however, depending on a number of factors, including the Company's actual production levels.

TRANSPORTATION

		Three Months Ended March 31,	
(000s) except per unit amounts	**2018**	**2017**	**Change**
Natural gas transportation	**$ 57,974**	$ 45,978	26%
Oil and NGL transportation	**22,375**	13,121	71%
Total transportation	**$ 80,349**	$ 59,099	36%
Per boe	**$ 3.32**	$ 2.81	18%

For the first quarter of 2018, total transportation expenses were $80.3 million compared to $59.1 million in the first quarter of 2017. On a per-boe basis, the transportation increased from $2.81/boe for the first quarter of 2017 to $3.32/boe in the first quarter of 2018. The increase in per-unit costs in 2018 reflects an increased focus on diversifying markets where Tourmaline sells its natural gas. In the fourth quarter of 2017, Tourmaline began selling natural gas at Dawn, Ontario, further diversifying its sales markets. At Dawn, the Company received a higher price for its natural gas when compared to the AECO benchmark price. The increased distance resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

		Three Months Ended March 31,	
(000s) except per unit amounts	**2018**	**2017**	**Change**
G&A expenses	**$ 20,568**	$ 16,875	22%
Administrative and capital recovery	**(2,241)**	(1,568)	43%
Capitalized G&A	**(6,836)**	(5,243)	30%
Total G&A expenses	**$ 11,491**	$ 10,064	14%
Per boe	**$ 0.48**	$ 0.48	–%

Total G&A expenses in the first quarter of 2018 were $11.5 million compared to $10.1 million for the same quarter of 2017. The increase is primarily due to staff and office space additions needed to manage the larger production, reserve and land base.

On a per-boe basis, G&A expenses for the three months ended March 31, 2018 have remained consistent with the first quarter of 2017.

G&A expenses for 2018 are expected to average approximately $0.45/boe which is unchanged from the initial guidance released in the Company's December 31, 2017 MD&A. As production increases throughout the year, the per-boe costs will trend downward. 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	**2018**	**2017**
Share-based payments	**$ 7,069**	$ 10,274
Capitalized share-based payments	**(2,983)**	(5,137)
Total share-based payments	**$ 4,086**	$ 5,137
Per boe	**$ 0.17**	$ 0.24

The Company uses the fair-value method for the determination of non-cash related share-based payments expense. During the first quarter of 2018, 233,000 stock options were granted at a weighted-average exercise price of $19.81.

The Company recognized $4.1 million of share-based payments expense in the first quarter of 2018 compared to $5.1 million in the first quarter of 2017. Capitalized share-based payments for the first quarter of 2018 were $3.0 million compared to $5.1 million for the same period of the prior year.

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

DEPLETION, DEPRECIATION AND AMORTIZATION (“DD&A”)

	Three Months Ended March 31,	
(000s) except per unit amounts	**2018**	**2017**
Total depletion, depreciation and amortization	**$ 198,672**	$ 188,674
Less mineral lease expiries	**(11,741)**	(6,501)
Depletion, depreciation and amortization	**$ 186,931**	$ 182,173
Per boe	**$ 7.73**	$ 8.68

DD&A expense, excluding mineral lease expiries, was $186.9 million for the first quarter of 2018 compared to $182.2 million for the same period of 2017. The increase in DD&A expense in 2018 over 2017 is primarily due to higher production volumes.

The per-unit DD&A rate (excluding the impact of mineral lease expiries) was $7.73/boe for the first quarter of 2018 compared to the rate of $8.68/boe for the same quarter of 2017. The lower rate in the first quarter of 2018 compared to the same period in 2017 reflects lower future development costs per well as drilling and completion costs continued to decrease over the past year thereby adding a higher proportion of reserves with lower associated future development costs, resulting in a lower depletion rate.

Mineral lease expiries for the three months ended March 31, 2018 were $11.7 million, compared to expiries in the same quarter of the prior year of $6.5 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)	**2018**	**2017**	**Change**
Interest expense	**$ 12,368**	$ 10,075	23%
Accretion expense	**1,363**	1,198	14%
Foreign exchange (gain) loss on U.S. denominated debt	**43,696**	(506)	8,736%
Realized (gain) loss on cross-currency swaps	**(43,696)**	506	(8,736)%
Realized loss on interest rate swaps	**195**	750	(74)%
Transaction costs on property acquisitions	**43**	52	(17)%
Total finance expenses	**$ 13,969**	$ 12,075	16%

Finance expenses for the three months ended March 31, 2018 totaled $14.0 million compared to $12.1 million for the same period of 2017. The average bank debt outstanding and the average effective interest rate on the debt was $1,605.4 million and 2.79% for the three months ended March 31, 2018 compared to $1,466.8 million and 2.44% for the same period of 2017. The higher average bank debt outstanding and increase in interest rates has resulted in higher interest expense for the current period. Accretion expense has also increased during the period due to a higher decommissioning obligation balance.

For the three-month period ended March 31, 2018, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility, which when repaid created a foreign exchange loss. 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, 2018, the provision for deferred income tax expense was $51.5 million compared to deferred income tax expense of $41.4 million for the same period in 2017. The increase in deferred income tax expense is primarily due to the increase in pre-tax income which was $181.1 million in the first quarter of 2018 compared to the pre-tax income of $141.1 million for the same period of 2017.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

	Three Months Ended March 31,		
(000s) except per unit amounts	**2018**	**2017**	**Change**
Cash flow from operating activities	**$ 342,148**	$ 338,005	1%
Per share [(1)]	**$ 1.26**	$ 1.25	1%
Cash flow [(2)]	**$ 352,248**	$ 292,933	20%
Per share [(1)(2)]	**$ 1.30**	$ 1.09	19%
Net earnings	**$ 129,588**	$ 99,534	30%
Per share [(1)]	**$ 0.48**	$ 0.37	30%
Operating netback per boe [(2)]	**$ 15.25**	$ 14.59	5%

(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, 2018 was $352.2 million or $1.30 per diluted share compared to $292.9 million or $1.09 per diluted share for the same period of 2017. The Company had after-tax net earnings for the three months ended March 31, 2018 of $129.6 million or $0.48 per diluted share compared to after-tax net earnings of $99.5 million or $0.37 per share for the same period of 2017. The increase in both cash flow and after-tax net earnings in 2018 reflects higher realized oil and NGL prices and an increase in production over 2017.

CAPITAL EXPENDITURES

	Three Months Ended March 31,	
(000s)	**2018**	**2017**
Land and seismic	**$ 10,939**	$ 16,873
Drilling and completions	**188,304**	241,290
Facilities	**80,968**	134,799
Property acquisitions	**1,449**	795
Property dispositions	**(71,234)**	–
Other	**7,125**	5,628
Total cash capital expenditures	**$ 217,551**	$ 399,385

During the first quarter of 2018, the Company invested $217.6 million of cash consideration, net of dispositions, compared to $399.4 million for the same period of 2017. Expenditures on exploration and production were $280.2 million compared to $393.0 million for the same quarter of 2017.

Facilities expenditures in the quarter include construction costs for the Gundy Deep Cut Gas Plant, expected to be commissioned in 2019, as well as preliminary costs associated with the Doe Sour Gas Plant expected to be commissioned in early 2019.

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

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Gross	**Net**	**Gross**	**Net**
Drilled	**57**	**50.18**	107	91.71
Completed	**65**	**56.45**	62	51.31
Tied-in	**52**	**46.96**	74	66.86

Exploration and production capital expenditures in 2018 are forecast to be $1.1 billion (including proceeds from non-core asset dispositions of $71.2 million received in the first quarter 2018. The net amount is unchanged from the initial guidance disclosed in the November 8, 2018 press release. The Company expects drilling and completions costs of approximately $810.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of $320.0 million as well as land and seismic expenditures of $25.0 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.

2017

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

LIQUIDITY AND CAPITAL RESOURCES

The Company has a covenant-based, unsecured, 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, 2017 and in note 7 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018. This includes a five-year extendible revolving facility in the amount of $1,800.0 million with a maturity date of June 2022. 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 a total bank credit facility capacity of $1,850.0 million without giving effect to the accordion feature. 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.

The Company also 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 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 February 2023. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The covenants for the term loan are the same as those under the Company's current credit facility and the term loan will rank equally with the obligation under the Company's credit facility.

Additionally, the Company has a letter of credit payable on demand in the amount of $50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit of $18.5 million (December 31, 2017 - $17.6 million), which reduce the credit available on this facility.

The Company's aggregate borrowing capacity is $2.85 billion at March 31, 2018. As at, and for the quarter ended March 31, 2018, the Company is in compliance with all debt covenants.

As at March 31, 2018, the Company had negative working capital of $207.0 million, after adjusting for the fair value of financial instruments (the unadjusted working capital deficiency was $232.7 million) (December 31, 2017 – $202.5 million and $219.2 million, respectively). As at March 31, 2018, the Company had $947.9 million in long-term debt outstanding and $468.7 million drawn against the revolving credit facility for total bank debt of $1,416.6 million (net of prepaid interest and debt issue costs) (December 31, 2017 - $1,534.8 million). Net debt at March 31, 2018 was $1,623.6 million excluding the fair value of financial instruments (December 31, 2017 - $1,737.2 million).

The 2018 exploration and development program will continue to be diligently monitored and adjusted as necessary depending on commodity prices. As at March 31, 2018, the Company also has $1,414.9 million in unutilized borrowing capacity. Management is dedicated to keeping a strong balance sheet, which has proven to be very important, especially in the current commodity price environment.

On March 29, 2018, the Company paid a cash dividend of $21.7 million.

SHARES AND STOCK OPTIONS OUTSTANDING

As at May 8, 2018, the Company has 271,083,946 common shares and 20,464,784 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 leases	$ 5,445	$ 5,430	$ –	$ –	$ 10,875
Firm transportation and processing agreements	337,093	731,014	643,500	1,715,135	3,426,742
Capital commitments [(1)]	311,731	530,579	6,853	57,557	906,720
Flow-through share commitments	29,095	–	–	–	29,095
Credit facility [(2)]	–	–	538,678	–	538,678
Term debt [(3)]	30,379	60,759	1,004,994	–	1,096,132
	$ 713,743	$ 1,327,782	$ 2,194,025	$ 1,772,692	$ 6,008,242

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

(2) Includes interest expense at an annual rate of 3.08% being the rate applicable to outstanding debt on the credit facility at March 31, 2018.

(3) Includes interest expense at an annual rate of 3.20% being the fixed rate on the term debt at March 31, 2018.

OFF BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2017.

As at March 31, 2018, 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 gain (loss) on the consolidated statement of income and comprehensive income. The contracts that the Company has in place at March 31, 2018 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018 and 2017.

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, 2018 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, 2018 and 2017.

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, 2017.

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, 2018 and ending on March 31, 2018 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 pronouncements as issued by the International Accounting Standards Board ("IASB") have been adopted by the Company effective January 1, 2018.

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

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

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

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

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

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

Revenue Recognition:

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

STANDARDS ISSUED BUT NOT YET ADOPTED

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

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and replaces the previous leases standard, IAS 17 Leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the early stages of evaluating the impact of IFRS 16 on its consolidated financial statements and the extent of the impact has not yet been determined.

NON-GAAP FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms "cash flow", "operating netback", "working capital (adjusted for the fair value of financial instruments)", "net debt", "adjusted EBITDA", "senior debt",

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

Cash Flow

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

	Three Months Ended March 31,	
(000s)	**2018**	**2017**
Cash flow from operating activities (per GAAP)	**$ 342,148**	$ 338,005
Change in non-cash working capital	**10,100**	(45,072)
Cash flow	**$ 352,248**	$ 292,933

Operating Netback

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

	Three Months Ended March 31,	
($/boe)	**2018**	**2017**
Revenue, excluding processing income	**$ 22.76**	$ 22.23
Royalties	**(0.83)**	(1.33)
Transportation costs	**(3.32)**	(2.81)
Operating expenses	**(3.36)**	(3.50)
Operating netback	**$ 15.25**	$ 14.59

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

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

(000s)	**As at March 31, 2018**	As at December 31, 2017
Working capital (deficit)	**$ (232,695)**	$ (219,168)
Fair value of financial instruments – short-term (net)	**25,707**	16,684
Working capital (deficit) (adjusted for the fair value of financial instruments)	**$ (206,988)**	$ (202,484)

Net Debt

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

(000s)	**As at March 31, 2018**	As at December 31, 2017
Bank debt	**$ (1,416,632)**	$(1,534,757)
Working capital (deficit)	**(232,695)**	(219,168)
Fair value of financial instruments – short-term (net)	**25,707**	16,684
Net debt	**$ (1,623,620)**	$(1,737,241)

SELECTED QUARTERLY INFORMATION

	2018				2017			2016
($000s, unless otherwise noted)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
PRODUCTION								
Natural gas *(mcf)*	**119,585,930**	120,238,014	109,246,506	108,879,426	107,494,272	90,409,566	82,363,542	89,091,644
Oil and NGL*(bbls)*	**4,236,320**	4,184,707	3,587,572	3,287,567	3,079,321	2,578,571	1,852,618	2,060,260
Oil equivalent *(boe)*	**24,167,308**	24,224,376	21,795,323	21,434,138	20,995,033	17,646,832	15,579,875	16,908,867
Natural gas *(mcf/d)*	**1,328,733**	1,306,935	1,187,462	1,196,477	1,194,380	982,713	895,256	979,029
Oil and NGL *(bbls/d)*	**47,070**	45,486	38,995	36,127	34,215	28,028	20,138	22,640
Oil equivalent *(boe/d)*	**268,526**	263,309	236,905	235,540	233,278	191,814	169,347	185,812
FINANCIAL								
Total revenue from natural gas, oil and NGL sales, net of royalties	**530,047**	505,993	398,326	459,860	438,794	366,697	292,495	238,572
Cash flow from operating activities	**342,148**	299,793	266,525	278,577	338,005	192,134	185,067	143,392
Cash flow [(1)]	**352,248**	348,227	251,327	313,271	292,933	252,542	185,531	134,298
Per diluted share	**1.30**	1.29	0.93	1.16	1.09	1.02	0.79	0.58
Net earnings (loss)	**129,588**	88,079	50,580	108,580	99,534	59,621	24,738	(77,940)
Per basic share	**0.48**	0.33	0.19	0.40	0.37	0.24	0.11	(0.34)
Per diluted share	**0.48**	0.33	0.19	0.40	0.37	0.24	0.10	(0.34)
Total assets	**10,212,446**	10,181,528	9,916,804	9,630,468	9,612,395	9,357,523	7,790,816	7,694,141
Working capital (deficit)	**(232,695)**	(219,168)	(352,068)	(130,337)	(355,097)	(223,781)	(162,280)	(60,567)
Working capital (deficit)(adjusted for the fair value of financial instruments) [(1)]	**(206,988)**	(202,484)	(350,112)	(134,212)	(337,191)	(184,264)	(148,431)	(43,755)
Cash capital expenditures	**217,551**	352,233	465,466	189,532	399,385	1,244,974	224,448	49,010
Total outstanding shares *(000s)*	**271,084**	271,084	269,784	269,784	269,169	268,596	234,966	234,161
PER UNIT								
Natural *gas ($/mcf)*	**2.97**	2.70	2.52	3.19	3.15	3.20	2.80	1.87
Oil and NGL *($/bbl)*	**46.08**	48.31	37.63	40.01	41.73	38.42	39.98	38.94
Revenue *($/boe)*	**22.76**	21.76	18.84	22.36	22.23	22.01	19.54	14.61
Operating netback *($/boe)* [(1)]	**15.25**	14.80	12.27	15.36	14.59	15.00	12.69	8.63

(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 185,672 boe per day in 2016 to 242,325 boe per day in 2017 and 268,526 boe per day in the first three months of 2018. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flow was $731.8 million in 2016, $1,205.8 million in 2017 and forecast 2018 cash flow is $1,343.0 million. The increase in forecast cash flow in 2018 reflects the significant increase in forecast annual average production over 2017. 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, 2018**	December 31, 2017
Assets		
Current assets:		
Accounts receivable	**$ 231,038**	$ 270,861
Prepaid expenses and deposits	**11,126**	11,268
Fair value of financial instruments *(note 3)*	**20,410**	17,338
Total current assets	**262,574**	299,467
Long-term asset	**6,123**	6,307
Fair value of financial instruments *(note 3)*	**17,099**	14,729
Exploration and evaluation assets *(note 4)*	**639,014**	664,552
Property, plant and equipment *(note 5)*	**9,287,636**	9,196,473
Total Assets	**$10,212,446**	$ 10,181,528
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 449,152**	$ 484,613
Fair value of financial instruments *(note 3)*	**46,117**	34,022
Total current liabilities	**495,269**	518,635
Bank debt *(note 7)*	**1,416,632**	1,534,757
Fair value of financial instruments *(note 3)*	**8,949**	7,398
Deferred premium on flow-through shares (*note 9*)	**6,022**	8,396
Decommissioning obligations *(note 6)*	**256,577**	252,222
Deferred taxes	**698,209**	644,363
Shareholders' equity:		
Share capital *(note 9)*	**5,886,703**	5,886,709
Non-controlling interest *(note 8)*	**27,882**	27,816
Contributed surplus	**228,546**	221,477
Retained earnings	**1,187,657**	1,079,755
Total shareholders' equity	**7,330,788**	7,215,757
Total Liabilities and Shareholders' Equity	**$10,212,446**	$ 10,181,528

Commitments (note 12).

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, 2018	2017
Revenue:		
Oil and natural gas sales (*note 13*)	**$ 497,296**	$ 449,072
Royalties	**(20,119)**	(27,851)
Net revenue from oil and natural gas sales	**477,177**	421,221
Realized gain on risk management activities	**52,870**	17,573
Unrealized gain (loss) on financial instruments *(note 3)*	**(8,204)**	39,843
Marketing revenue	**5,880**	–
Other income	**9,097**	7,179
Total net revenue	**536,820**	485,816
Expenses:		
Operating	**81,307**	73,433
Transportation	**80,349**	59,099
Marketing purchases	**5,726**	–
General and administration	**11,491**	10,064
Share-based payments *(note 11)*	**4,086**	5,137
Depletion, depreciation and amortization	**198,672**	188,674
Realized foreign exchange (gain) loss	**890**	(677)
Unrealized foreign exchange (gain) loss	**(618)**	159
(Gain) on divestitures	**(40,180)**	(3,233)
Total expenses	**341,723**	332,656
Income from operations	**195,097**	153,160
Finance expenses	**13,969**	12,075
Income before taxes	**181,128**	141,085
Deferred taxes	**51,474**	41,396
Net income and comprehensive income before non-controlling interest	**129,654**	99,689
Net income and comprehensive income attributable to:		
Shareholders of the Company	**129,588**	99,534
Non-controlling interest *(note 8)*	**66**	155
	$ 129,654	$ 99,689
Net income per share attributable to common shareholders *(note 10)*		
Basic	**$ 0.48**	$ 0.37
Diluted	**$ 0.48**	$ 0.37

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, 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 (*note 9*)	–	–	(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**

(000s) (unaudited)	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	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	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

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended March 31, 2018	2017
Cash provided by (used in):		
Operations:		
Net income	**$ 129,588**	$ 99,534
Items not involving cash:		
Depletion, depreciation and amortization	**198,672**	188,674
Accretion	**1,363**	1,198
Share-based payments	**4,086**	5,137
Deferred taxes	**51,474**	41,396
Unrealized (gain) loss on financial instruments	**8,204**	(39,843)
(Gain) on divestitures	**(40,180)**	(3,233)
Amortization on long-term asset	**184**	163
Non-controlling interest	**66**	155
Unrealized foreign exchange (gain) loss	**(618)**	159
Decommissioning expenditures	**(591)**	(407)
Changes in non-cash operating working capital	**(10,100)**	45,072
Total cash flow from operating activities	**342,148**	338,005
Financing:		
Issue of common shares	–	2,217
Share issue costs	**(8)**	(37)
Dividends paid	**(21,686)**	–
(Decrease) in bank debt	**(118,125)**	(48,496)
Total cash flow used in financing activities	**(139,819)**	(46,316)
Investing:		
Exploration and evaluation	**(17,780)**	(31,780)
Property, plant and equipment	**(269,556)**	(366,810)
Property acquisitions	**(1,449)**	(795)
Proceeds from divestitures	**71,234**	–
Changes in non-cash investing working capital	**15,222**	107,696
Total cash flow used in investing activities	**(202,329)**	(291,689)
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, 2018 AND FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(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, 2018.

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, 2017.

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 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, 2017, except as noted below.

Changes in Accounting Policies

IFRS 9

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

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

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

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

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

IFRS 15

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

Revenue Recognition:

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

Future Accounting Changes

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

IFRS 16 – Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and replaces the previous leases standard, IAS 17 Leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the early stages of evaluating the impact of IFRS 16 on its consolidated financial statements and the extent of the impact has not yet been determined.

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, 2017.

As at March 31, 2018, 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, 2018 [1]:

		2018	2019	2020	2021	Fair Value *(000s)*
Gas						
NYMEX swaps	*mmbtu/d*	130,636	13,260	–	–	$ 6,954
	USD$/mmbtu	$ 2.99	$ 2.84			
Basis differentials – other [2]	*mmbtu/d*	59,564	12,466	2,486	–	$ 8,168
	USD$/mmbtu	$ (0.32)	$ (0.30)	$ (0.30)		
NYMEX call options (writer) [3]	*mmbtu/d*	110,000	105,000	40,000	–	$ (3,474)
	USD$/mmbtu	$ 3.65	$ 3.83	$ 3.74		
Oil						
Financial swaps	*bbls/d*	8,665	5,000	–	–	$ (36,426)
	USD$/bbl	$ 53.94	$ 55.45			
Financial call swaptions [4]	*bbls/d*	2,125	500	–	–	$ (10,851)
	USD$/bbl	$ 52.18	$ 58.35			
Total fair value						$ (35,629)

(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, 14.3 mmcf/d at USD $3.55/mcf for 2018-2020.

(3) These are European calls whereby the counterparty can exercise the option monthly on a particular day to purchase NYMEX at a specified price. In 2019, 15 mmcf/d are one time European Swaptions.

(4) 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, 2018:

Type of Contract	Quantity	Time Period	Contract Price
NYMEX swaps	20,000 mmbtu/d	May 2018 – October 2018	USD$2.82/mmbtu
Oil swap	500 bbls/d	May 2018 – December 2018	USD$66.48/bbl
Oil swaps	3,000 bbls/d	January 2019 – December 2019	USD$59.24/bbl average

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

	2018	2019	2020	2021	2022	2023	2024	Fair Value
Effective interest rate [1]	1.63%	1.66%	1.55%	1.64%	1.77%	1.91%	1.83%	
Notional amount hedged (000s)	$ 775,000	$ 757,799	$ 620,739	$ 566,164	$ 417,397	$ 244,589	$ 125,000	$ 19,580

(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, 2018:

		2018	2019	Fair Value *(000s)*
Costless collar	*$CAD(000s) Monthly*	$ 10,000	$ 1,000	$ (620)
	$CAD/$USD	$1.250 – $1.307	$1.250 – $1.320	
Average rate forwards	*$CAD(000s) Monthly*	$ 3,000	–	$ (888)
	$CAD/$USD	$ 1.254	–	
Total fair value				$ (1,508)

The Company has entered into the following financial foreign currency derivative contracts subsequent to March 31, 2018:

Type of Contract	**Monthly Notional (000s)**	**Time Period**	**Rate**
Average rate forward [(1)]	$ 2,000	May 2018 – December 2018	$1.269 $CAD/$USD
Average rate forward	$ 3,000	May 2018 – December 2019	$1.263 $CAD/$USD
Costless collar [(1)]	$ 2,000	January 2019 – December 2019	$1.250 – $1.286 $CAD/$USD

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

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, 2018 and 2017:

	Three Months Ended March 31,	
(000s)	**2018**	**2017**
Unrealized gain (loss) on financial instruments – commodity contracts	**$ (8,126)**	$ 40,605
Unrealized gain (loss) on financial instruments – interest rate swaps	**2,491**	(763)
Unrealized (loss) on financial instruments – foreign currency	**(2,569)**	–
Total unrealized gain (loss) on financial instruments	**$ (8,204)**	$ 39,842

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, 2018 [1][7]:

		2018	2019	2020	2021	2022
Gas						
Fixed price [2]	*mcf/d*	169,423	–	–	–	–
	CAD$/mcf	$ 1.99				
Basis differentials - AECO [3]	*mmbtu/d*	223,064	192,432	187,500	94,062	82,500
	USD$/mmbtu	$ (0.80)	$ (0.75)	$ (0.75)	$ (0.68)	$ (0.66)
Basis differentials - Dawn	*mmbtu/d*	62,782	35,000	25,000	6,164	–
	USD$/mmbtu	$ (0.10)	$ (0.13)	$ (0.15)	$ (0.15)	
Basis differentials – Stn 2	*mcf/d*	52,349	39,478	37,812	29,478	20,000
	CAD$/mcf	$ (0.08)	$ 0.00	$ (0.03)	$ (0.17)	$ (0.10)
AECO monthly calls / call swaptions [4]	*mcf/d*	28,435	37,913	–	–	–
	CAD$/mcf	$ 3.43	$ 2.74			
Oil						
Fixed differential - Oil [5]	*bbls/d*	2,328	–	–	–	–
	USD$/bbl	$ (6.68)				
Fixed differential - condensate[6]	*bbls/d*	1,034	–	–	–	–
	USD$/bbl	$ 1.05				

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

(2) These include AECO and Dawn.

(3) Tourmaline also has an average of 50 mmcf/d of NYMEX-AECO basis differentials at $(0.72) from 2023-2024. A portion of these basis deals have a cap on NYMEX, 139.8 mmcf/d at USD$4.06/mcf from 2018-2020 and 49.8 mmcf/d at USD$4.46/mcf from 2021-2024.

(4) These are monthly calls for 2018 that are European Swaptions, whereby the Company provides the option to extend a gas swap into the period subsequent to the calls date. In 2019, these are one time European Swaptions.

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

(6) Tourmaline sells physical condensate at a fixed differential to NYMEX.

(7) 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.

The Company has entered into the following physical contracts subsequent to March 31, 2018:

Type of Contract	Quantity	Time Period	Contract Price
Fixed differential - oil	775 bbls/d	January 2019 – December 2019	USD$11.00/bbl

4. EXPLORATION AND EVALUATION ASSETS

(000s)	
As at December 31, 2017	$ 664,552
Capital expenditures	17,780
Transfers to property, plant and equipment *(note 5)*	(13,250)
Acquisitions	1,583
Divestitures	(19,910)
Expired mineral leases	(11,741)
As at March 31, 2018	**$ 639,014**

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, 2018 and December 31, 2017, 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, 2017	$12,485,523
Capital expenditures	272,539
Transfers from exploration and evaluation *(note 4)*	13,250
Change in decommissioning liabilities *(note 6)*	4,286
Acquisitions	100
Divestiture	(12,081)
As at March 31, 2018	**$12,763,617**

Accumulated Depletion, Depreciation and Amortization

(000s)	
As at December 31, 2017	$ 3,289,050
Depletion, depreciation and amortization	186,931
As at March 31, 2018	**$ 3,475,981**

Net Book Value

(000s)	
As at December 31, 2017	$ 9,196,473
As at March 31, 2018	**$ 9,287,636**

Future development costs of $7,036.5 million were included in the depletion calculation at March 31, 2018 (December 31, 2017 – $7,095.3 million).

Capitalization of G&A and Share-Based Payments

A total of $6.8 million in G&A expenditures have been capitalized and included in PP&E for the three months ended March 31, 2018 (December 31, 2017 – $25.6 million). Also included in PP&E are non-cash year-to-date share-based payments of $3.0 million (December 31, 2017 - $19.1 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, 2018, 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, 2017, the Company identified indicators of impairment on all of its CGUs due to the decline in current and forward commodity prices for natural gas and performed impairment tests accordingly. The Company determined that there was no impairment to PP&E at December 31, 2017.

Acquisitions and Dispositions of Oil and Natural Gas Properties

For the three months ended March 31, 2018, the Company completed property acquisitions for cash of $1.4 million (December 31, 2017 - $47.5 million) and, a further $0.2 million in acquisitions involving non-cash consideration (December 31, 2017 - $56.1 million). The Company also assumed $0.1 million in decommissioning liabilities as a result of these acquisitions (December 31, 2017 - $0.7 million).

The Company also completed property dispositions for the three months ended March 31, 2018 for total cash consideration of $71.2 million (December 31, 2017 - $4.6 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 $466.8 million (December 31, 2017 – $459.8 million), with some abandonments expected to commence in 2034. A risk-free rate of 2.31% (December 31, 2017 – 2.31%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%) were used to calculate the decommissioning obligations.

(000s)	**As at March 31, 2018**	**As at December 31, 2017**
Balance, beginning of period	**$ 252,222**	$ 212,669
Obligation incurred	**4,286**	22,508
Obligation incurred on property acquisitions	**100**	744
Obligation divested	**(803)**	(86)
Obligation settled	**(591)**	(2,965)
Accretion expense	**1,363**	5,334
Change in future estimated cash outlays	**–**	14,018
Balance, end of period	**$ 256,577**	$ 252,222

7. BANK DEBT

(000s)	As at March 31, 2018	As at December 31, 2017
Revolving credit facility[1]	**$ 473,492**	$ 592,185
Term debt[1]	**949,250**	949,220
Debt issue costs	**(6,110)**	(6,648)
Bank debt	**$ 1,416,632**	$ 1,534,757

(1) Amounts shown net of prepaid interest.

The Company has a covenant-based, unsecured, 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, 2017. This includes a five-year extendible revolving facility in the amount of $1,800.0 million with a maturity date of June 2022. 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 a total bank credit facility capacity of $1,850.0 million without giving effect to the accordion feature. 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.

The Company also 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 bank's prime lending rate, banker's acceptance rates or LIBOR (for U.S. borrowings), plus 157.5 basis points with a maturity of February 2023. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The covenants for the term loan are the same as those under the Company's current credit facility and the term loan will rank equally with the obligation under the Company's credit facility.

Additionally, the Company has a letter of credit payable on demand in the amount of $50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit of $18.5 million (December 31, 2017 - $17.6 million), which reduce the credit available on this facility.

The Company's aggregate borrowing capacity is $2.85 billion at March 31, 2018.

As at March 31, 2018, the Company had $947.9 million in long-term debt outstanding and $468.7 million drawn against the bank credit facility for total bank debt of $1,416.6 million (net of prepaid interest and debt issue costs) (December 31, 2017 - $1,534.8 million). The effective interest rate for the three months ended March 31, 2018 was 2.79% (three months ended March 31, 2017 – 2.44%). As at March 31, 2018, 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:

(000s)	**As at March 31, 2018**	As at December 31, 2017
Balance, beginning of period	**$ 27,816**	$ 27,549
Share of subsidiary's net income for the period	**66**	267
Balance, end of period	**$ 27,882**	$ 27,816

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, 2018		**As at December 31, 2017**	
(000s) except share amounts	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance, beginning of period	**271,083,946**	**$ 5,886,709**	268,595,812	$ 5,818,867
For cash on public offering of flow-through common shares [1]	–	–	1,300,000	32,162
Issued on corporate and property acquisitions	–	–	475,000	14,854
For cash on exercise of stock options	–	–	713,134	16,549
Contributed surplus on exercise of stock options	–	–	–	5,668
Share issue costs	–	**(8)**	–	(2,005)
Tax effect of share issue costs	–	**2**	–	614
Balance, end of period	**271,083,946**	**$ 5,886,703**	271,083,946	$ 5,886,709

(1) On December 5, 2017, the Company issued 1.300 million flow-through shares at a price of $31.20 per share for total gross proceeds of $40.6 million. The implied premium on the flow-through common shares was determined to be $8.4 million or $6.46 per share. As at March 31, 2018, the Company is committed to spend $29.1 million on qualified exploration expenditures by December 31, 2018. The expenditures were renounced to investors in January 2018 with an effective renunciation date of December 31, 2017.

During the three months ended March 31, 2018, the Company paid a cash dividend of $0.08 per common share totalling $21.7 million (2017 - nil).

10. EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2018	**2017**
Net earnings for the period *(000s)*	**$ 129,588**	$ 99,534
Weighted average number of common shares – basic	**271,083,946**	269,055,152
Earnings per share – basic	**$ 0.48**	$ 0.37

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

	Three Months Ended March 31,	
	2018	**2017**
Net earnings for the period *(000s)*	**$ 129,588**	$ 99,534
Weighted average number of common shares – diluted	**271,083,946**	269,394,040
Earnings per share – fully diluted	**$ 0.48**	$ 0.37

There were 20,712,583 options excluded from the weighted-average share calculations for the three-month period ended March 31, 2018 because they were anti-dilutive (three months ended March 31, 2017 – 16,583,365 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 23,042,135 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,			
	2018		**2017**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Stock options outstanding, beginning of period	**20,948,382**	**$ 36.13**	20,037,497	$ 37.26
Granted	**233,000**	**19.81**	439,500	30.47
Exercised	–	–	(98,133)	22.59
Expired	**(203,333)**	**35.15**	–	–
Forfeited	**(265,466)**	**35.54**	–	–
Stock options outstanding, end of period	**20,712,583**	**$ 35.96**	20,378,864	$ 37.18

The average trading price of the Company's common shares was $20.25 during the three months ended March 31, 2018 (three months ended March 31, 2017 – $30.46).

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

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
$18.49 - $26.40	3,850,033	3.52	25.69	1,951,248	26.37
$26.41 - $33.58	3,741,350	6.02	27.53	397,270	30.76
$33.59 - $39.55	4,445,700	4.11	35.83	2,141,299	36.56
$39.56 - $42.34	3,891,000	0.47	40.85	3,874,334	40.85
$42.35 - $56.76	4,784,500	1.45	46.97	4,784,500	46.97
	20,712,583	3.04	35.96	13,148,651	39.92

The fair value of options granted during the three-month period ended March 31, 2018 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,	
	2018	2017
Fair value of options granted (weighted average)	**$ 5.35**	$ 9.53
Risk-free interest rate	**2.0%**	1.2%
Estimated hold period prior to exercise	**5 years**	5 years
Expected volatility	**33%**	33%
Forfeiture rate	**1.7%**	2.0%
Dividend per share	**$ 0.32**	$ 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	$ 5,445	$ 5,430	$ –	$ –	$ 10,875
Firm transportation and processing agreements	337,093	731,014	643,500	1,715,135	3,426,742
Capital commitments [(1)]	311,731	530,579	6,853	57,557	906,720
Flow-through share commitments	29,095	–	–	–	29,095
Credit facility [(2)]	–	–	538,678	–	538,678
Term debt [(3)]	30,379	60,759	1,004,994	–	1,096,132
	$ 713,743	$ 1,327,782	$ 2,194,025	$ 1,772,692	$ 6,008,242

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

(2) Includes interest expense at an annual rate of 3.08% being the rate applicable to outstanding debt on the credit facility at March 31, 2018.

(3) Includes interest expense at an annual rate of 3.20% being the fixed rate on the term debt at March 31, 2018.

13. 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:

	Three Months Ended March 31,	
	2018	**2017**
Natural gas	**$ 292,497**	$ 320,755
Crude oil	**149,750**	90,314
NGL	**55,049**	38,003
Oil and natural gas sales	**$ 497,296**	$ 449,072