

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30,	December 31,
<i>(000s) (unaudited)</i>	2016	2015
Assets		
Current assets:		
Accounts receivable	\$ 137,226	\$ 175,624
Prepaid expenses and deposits	12,759	14,769
Fair value of financial instruments <i>(note 3)</i>	1,223	39,677
Total current assets	151,208	230,070
Long-term asset	6,196	6,688
Fair value of financial instruments <i>(note 3)</i>	116	-
Exploration and evaluation assets <i>(note 4)</i>	644,129	620,142
Property, plant and equipment <i>(note 5)</i>	6,989,167	6,783,771
Total Assets	\$ 7,790,816	\$ 7,640,671
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 298,416	\$ 474,176
Fair value of financial instruments <i>(note 3)</i>	15,072	3,285
Total current liabilities	313,488	477,461
Bank debt <i>(note 7)</i>	1,240,970	1,266,604
Fair value of financial instruments <i>(note 3)</i>	35,561	9,701
Deferred premium on flow-through shares <i>(note 9)</i>	10,661	5,982
Decommissioning obligations <i>(note 6)</i>	190,008	163,459
Deferred taxes	461,625	485,888
Shareholders' equity:		
Share capital <i>(note 9)</i>	4,650,801	4,266,234
Non-controlling interest <i>(note 8)</i>	27,155	28,431
Contributed surplus	187,186	171,958
Retained earnings	673,361	764,953
Total shareholders' equity	5,538,503	5,231,576
Total Liabilities and Shareholders' Equity	\$ 7,790,816	\$ 7,640,671

Commitments (note 12).

Subsequent events (notes 3 and 13).

See accompanying notes to the interim condensed consolidated financial statements.

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

(000s) except per-share amounts (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Oil and natural gas sales	\$ 283,124	\$ 267,210	\$ 722,662	\$ 781,990
Royalties	(11,985)	(14,755)	(27,105)	(35,286)
Net revenue from oil and natural gas sales	271,139	252,455	695,557	746,704
Realized gain on financial instruments	21,356	45,434	108,049	150,653
Unrealized gain (loss) on financial instruments (note 3)	16,728	27,874	(75,985)	11,196
Other income	6,124	7,941	19,774	22,322
Total net revenue	315,347	333,704	747,395	930,875
Expenses:				
Operating	50,754	62,299	174,274	176,637
Transportation	43,998	27,384	112,409	82,510
General and administration	7,693	7,682	23,239	19,913
Share-based payments (note 11)	5,273	7,585	17,580	24,009
(Gain) on divestitures	-	-	(7,074)	(35,232)
Depletion, depreciation and amortization	159,861	174,772	509,186	520,105
Total expenses	267,579	279,722	829,614	787,942
Income (loss) from operations	47,768	53,982	(82,219)	142,933
Finance expenses	11,431	11,986	35,640	33,520
Income (loss) before taxes	36,337	41,996	(117,859)	109,413
Deferred taxes (recovery)	11,793	13,969	(24,991)	65,232
Net income (loss) and comprehensive income (loss) before non-controlling interest	24,544	28,027	(92,868)	44,181
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	24,738	28,489	(91,592)	45,451
Non-controlling interest (note 8)	(194)	(462)	(1,276)	(1,270)
	\$ 24,544	\$ 28,027	\$ (92,868)	\$ 44,181
Net income (loss) per share attributable to common shareholders (note 10)				
Basic	\$ 0.11	\$ 0.13	\$ (0.40)	\$ 0.22
Diluted	\$ 0.10	\$ 0.13	\$ (0.40)	\$ 0.21

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, 2015	\$ 4,266,234	\$ 171,958	\$ 764,953	\$ 28,431	\$ 5,231,576
Issue of common shares <i>(note 9)</i>	319,423	–	–	–	319,423
Share issue costs, net of tax <i>(note 9)</i>	(10,009)	–	–	–	(10,009)
Share-based payments	–	17,580	–	–	17,580
Capitalized share-based payments	–	17,580	–	–	17,580
Options exercised <i>(note 9)</i>	75,153	(19,932)	–	–	55,221
Loss attributable to common shareholders	–	–	(91,592)	–	(91,592)
Loss attributable to non-controlling interest	–	–	–	(1,276)	(1,276)
Balance at September 30, 2016	\$ 4,650,801	\$ 187,186	\$ 673,361	\$ 27,155	\$ 5,538,503

<i>(000s) (unaudited)</i>	Share Capital	Contributed Surplus	Retained Earnings	Non-Controlling Interest	Total Equity
Balance at December 31, 2014	\$ 3,615,378	\$ 124,325	\$ 684,866	\$ 30,006	\$ 4,454,575
Issue of common shares <i>(note 9)</i>	221,108	–	–	–	221,108
Issue of common shares on acquisitions <i>(note 9)</i>	372,878	–	–	–	372,878
Share issue costs, net of tax	(6,562)	–	–	–	(6,562)
Share-based payments	–	24,009	–	–	24,009
Capitalized share-based payments	–	24,009	–	–	24,009
Options exercised <i>(note 9)</i>	49,968	(13,717)	–	–	36,251
Income attributable to common shareholders	–	–	45,451	–	45,451
Loss attributable to non-controlling interest	–	–	–	(1,270)	(1,270)
Balance at September 30, 2015	\$ 4,252,770	\$ 158,626	\$ 730,317	\$ 28,736	\$ 5,170,449

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(000s) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ 24,738	\$ 28,489	\$ (91,592)	\$ 45,451
Items not involving cash:				
Depletion, depreciation and amortization	159,861	174,772	509,186	520,105
Accretion	775	788	2,278	2,038
Share-based payments	5,273	7,585	17,580	24,009
Deferred taxes (recovery)	11,793	13,969	(24,991)	65,232
Unrealized (gain) loss on financial instruments	(16,728)	(27,874)	75,985	(11,196)
(Gain) on divestitures	–	–	(7,074)	(35,232)
Amortization on long-term asset	166	–	492	–
Non-controlling interest	(194)	(462)	(1,276)	(1,270)
Decommissioning expenditures	(153)	(167)	(1,329)	(1,268)
Changes in non-cash operating working capital	(464)	64,298	25,508	(1,073)
Total cash flow from operating activities	185,067	261,398	504,767	606,796
Financing:				
Issue of common shares	23,365	18,210	383,684	263,676
Share issue costs	–	(3)	(13,642)	(9,386)
Increase/(decrease) in bank debt	(89,124)	(38,785)	(25,634)	239,808
Total cash flow from/(used in) financing activities	(65,759)	(20,578)	344,408	494,098
Investing:				
Exploration and evaluation	(24,026)	(38,785)	(38,030)	(106,834)
Property, plant and equipment	(162,788)	(389,033)	(442,836)	(1,019,128)
Property acquisitions	(37,634)	(955)	(225,449)	(91,341)
Proceeds from divestitures	–	6,144	18,000	6,663
Net repayment of long-term obligation	–	(671)	–	(2,402)
Changes in non-cash investing working capital	105,140	182,480	(160,860)	(150,904)
Total cash flow used in investing activities	(119,308)	(240,820)	(849,175)	(1,363,946)
Changes in cash	–	–	–	(263,052)
Cash, beginning of period	–	–	–	263,052
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 SEPTEMBER 30, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(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 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, 2015.

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, 2015, except as noted below.

On January 1, 2016, the Company adopted the amendments made to IFRS 11 – Joint Arrangements, which provided new guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. There was no impact on the Company as a result of adopting the amended standard.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2016.

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 cash and cash equivalents, 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, 2015.

As at September 30, 2016, 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 condensed 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 condensed interim consolidated statement of income (loss) and comprehensive income (loss).

The Company has the following financial derivative commodity contracts in place as at September 30, 2016 ⁽¹⁾:

(000s)	2016	2017	2018	2019	2020	Fair Value
Gas						
Financial swaps <i>mmbtu/d</i>	101,957	15,068	4,932	–	–	\$ 548
<i>USD\$/mmbtu</i>	\$ 3.02	\$ 3.11	\$ 3.11			
NYMEX call options (writer) ⁽²⁾ <i>mmbtu/d</i>	–	110,000	110,000	90,000	20,000	\$ (25,031)
<i>USD\$/mmbtu</i>		\$ 3.77	\$ 3.77	\$ 3.94	\$ 3.75	
Oil						
Financial swaps <i>bbls/d</i>	3,500	3,000	–	–	–	\$ (2,222)
<i>USD\$/bbl</i>	\$ 49.28	\$ 49.63				
Financial call swaptions ⁽³⁾ <i>bbls/d</i>	400	4,000	2,125	–	–	\$ (12,646)
<i>USD\$/bbl</i>	\$ 80.10	\$ 62.45	\$ 52.18			
Total Fair Value						\$ (39,351)

(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 commodity contracts subsequent to September 30, 2016:

Type of Contract	Quantity	Time Period	Contract Price
Gas Financial swaps	30,000 mmbtu/d	November 2016	USD\$3.23/mmbtu
Gas Financial swaps	20,000 mmbtu/d	December 2016	USD\$3.47/mmbtu
Gas Financial swaps	10,000 mmbtu/d	April 2017 – December 2017	USD\$3.19/mmbtu

The Company has the following interest rate swap arrangements:

(000s)	Type (Floating to Fixed)	Amount	Company Fixed Interest Rate	Counter Party Floating Rate Index	Fair Value
Apr 5, 2016 – Apr 5, 2019	Swap	\$ 50,000	0.867%	Floating Rate	\$ 1
Nov 28, 2014 – Nov 28, 2019	Swap	\$ 250,000	2.065%	Floating Rate	\$ (9,322)
Jun 6, 2016 – Jun 6, 2020	Swap	\$ 50,000	1.025%	Floating Rate	\$ (276)
Apr 5, 2016 – Apr 5, 2021	Swap	\$ 50,000	0.988%	Floating Rate	\$ (205)
Jun 13, 2016 – Jun 13, 2021	Swap	\$ 25,000	0.973%	Floating Rate	\$ (85)
Aug 31, 2016 – Aug 31, 2021	Swap	\$ 25,000	0.958%	Floating Rate	\$ (61)
Sep 30, 2016 – Sep 28, 2021	Swap	\$ 25,000	0.900%	Floating Rate	\$ 17
Nov 28, 2019 – Nov 28, 2022	Swap	\$ 50,000	1.025%	Floating Rate	\$ (12)
Total Fair Value					\$ (9,943)

The following table provides a summary of the unrealized gains (losses) on financial instruments recorded in the interim condensed consolidated statements of income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Unrealized gain/(loss) on financial instruments – commodity contracts	\$ 15,689	\$ 29,063	\$ (76,420)	\$ 17,922
Unrealized gain/(loss) on financial instruments – interest rate swaps	1,039	(1,189)	435	(6,726)
Total unrealized gain/(loss) on financial instruments	\$ 16,728	\$ 27,874	\$ (75,985)	\$ 11,196

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

The Company has the following physical contracts in place at September 30, 2016 ⁽¹⁾⁽⁷⁾:

		2016	2017	2018	2019	2020
Gas						
Fixed price – AECO	<i>mcf/d</i>	289,308	58,114	–	–	–
	<i>CAD\$/mcf</i>	\$ 2.38	\$ 2.47	–	–	–
Basis differentials ⁽²⁾⁽³⁾	<i>mmbtu/d</i>	171,087	76,678	57,500	57,500	57,500
	<i>USD\$/mmbtu</i>	\$ (0.53)	\$ (0.61)	\$ (0.62)	\$ (0.62)	\$ (0.62)
Basis differentials – Stn 2 ⁽⁴⁾	<i>mcf/d</i>	52,151	45,463	47,928	19,482	17,811
	<i>CAD\$/mcf</i>	\$ (0.33)	\$ (0.24)	\$ (0.22)	\$ (0.10)	\$ (0.12)
AECO monthly calls / call swaptions ⁽⁵⁾	<i>mcf/d</i>	10,430	75,857	71,116	–	–
	<i>CAD\$/mcf</i>	\$ 5.56	\$ 4.60	\$ 4.25	–	–
Oil						
Fixed differential ⁽⁶⁾	<i>bbls/d</i>	2,328	962	–	–	–
	<i>USD\$/bbl</i>	\$ (6.78)	\$ (6.84)	–	–	–

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

(2) Tourmaline also has 39.3 mmcf/d of NYMEX-AECO basis differentials at \$(0.67) from 2021-2024.

(3) Tourmaline also has 10,000 mmbtu/d SoCal – AECO basis differential at \$(0.73) until October 2016.

(4) Tourmaline also has 9,482 mcf/d of Stn 2. basis differentials at \$(0.26) for 2021.

(5) These are monthly calls for 2016 and in 2017 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.

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

(7) 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; 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 September 30, 2016:

Type of Contract	Quantity	Time Period	Contract Price
Gas Fixed Price – AECO	25,000 GJs/d	April 2017 – October 2017	CAD\$2.87/GJ
Gas Fixed Price – AECO	20,000 GJs/d	April 2017 – December 2017	CAD\$2.85/GJ
Gas Basis Differentials	20,000 mmbtu/d	January 2018 – December 2024	USD(\$0.69)/mmbtu

4. EXPLORATION AND EVALUATION ASSETS

(000s)

As at December 31, 2015	\$ 620,142
Capital expenditures	38,030
Transfers to property, plant and equipment (note 5)	(14,909)
Acquisitions	16,220
Divestitures	(743)
Expired mineral leases	(14,611)
As at September 30, 2016	\$ 644,129

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 September 30, 2016 and December 31, 2015, the Company determined that no indicators of impairment existed on its E&E assets; therefore, impairment tests were not performed.

5. PROPERTY, PLANT AND EQUIPMENT

Cost

(000s)

As at December 31, 2015	\$ 8,685,985
Capital expenditures	460,416
Transfers from exploration and evaluation (note 4)	14,909
Change in decommissioning liabilities (note 6)	24,576
Acquisitions	219,702
Divestitures	(19,918)
As at September 30, 2016	\$ 9,385,670

Accumulated Depletion, Depreciation and Amortization

(000s)

As at December 31, 2015	\$ 1,902,214
Depletion, depreciation and amortization	494,575
Divestitures	(286)
As at September 30, 2016	\$ 2,396,503

Net Book Value

(000s)

As at December 31, 2015	\$ 6,783,771
As at September 30, 2016	\$ 6,989,167

Future development costs of \$4,890.7 million were included in the depletion calculation at September 30, 2016 (December 31, 2015 – \$4,523.1 million).

Capitalization of G&A and Share-Based Payments

A total of \$17.9 million in G&A expenditures have been capitalized and included in E&E and PP&E assets at September 30, 2016 (December 31, 2015 – \$22.9 million). Also included in E&E and PP&E are non-cash share-based payments of \$17.6 million (December 31, 2015 - \$30.8 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed on a Cash Generating Unit (“CGU”) if the Company identifies an indicator of impairment. At September 30, 2016, the Company determined that there were no indicators of impairment on any of the Company’s CGUs; therefore, an impairment test was not performed.

For the year ended December 31, 2015, the Company identified indicators of impairment on all of its CGUs due to the decline in current and forward commodity prices for oil and natural gas and performed impairment tests accordingly. The Company determined that there was no impairment to PP&E at December 31, 2015.

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 unaudited interim condensed 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

Perpetual Energy Inc.

On April 1, 2015, the Company acquired Perpetual Energy Inc.’s (“Perpetual”) interests in the West Edson area of the Alberta Deep Basin with the issuance of 6,750,000 Tourmaline shares at a price of \$38.32 per share for total consideration of \$258.7 million. The acquisition resulted in an increase in land, production, reserves and processing capacity along with allowing the Company to leverage operational synergies created from having full ownership of the assets.

Results from operations are included in the Company's unaudited interim condensed 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>	Perpetual Energy Inc.
Fair value of net assets acquired:	
Property, plant and equipment	\$ 226,943
Exploration and evaluation	34,160
Decommissioning obligations	(2,443)
Total	\$ 258,660
Consideration:	
Common shares issued	\$ 258,660

Corporate Acquisitions

Bergen Resources Inc.

On July 20, 2015, the Company acquired all of the issued and outstanding shares of Bergen Resources Inc. ("Bergen"). As consideration, the Company issued of 725,000 Tourmaline shares at a price of \$33.90 per share for total consideration of \$24.6 million. Total transaction costs incurred by the Company of \$0.2 million associated with this acquisition were expensed in the interim condensed consolidated statement of income (loss) and comprehensive income (loss). The acquisition resulted in an increase in Property, Plant and Equipment ("PP&E") of approximately \$26.8 million and Exploration and Evaluation ("E&E") assets of \$2.1 million along with net debt of \$8.4 million. Results from operations for Bergen are included in the Company's unaudited interim consolidated financial statements from the closing date of the transaction. The acquisition of Bergen consolidated the Company's working interest in a core area of the Peace River High.

Mapan Energy Ltd.

On August 14, 2015, the Company acquired all of the issued and outstanding shares of Mapan Energy Ltd. ("Mapan"). As consideration, the Company issued of 2,718,026 Tourmaline shares at a price of \$32.98 per share for total consideration of \$89.6 million. Total transaction costs incurred by the Company of \$1.1 million associated with this acquisition were expensed in the interim condensed consolidated statement of income and comprehensive income. The acquisition of Mapan resulted in an increase in lands and production in a core area of the Alberta Deep Basin.

Results from operations for Mapan are included in the Company's unaudited interim condensed 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>	Mapan Energy Ltd.
Fair value of net assets acquired:	
Cash	\$ 11,011
Working capital	4,000
Property, plant and equipment	58,471
Fair value of financial instruments	(122)
Decommissioning obligations	(3,157)
Deferred income tax asset	19,437
Total	\$ 89,640
Consideration:	
Common shares issued	\$ 89,640

Acquisitions and Dispositions of Oil and Natural Gas Properties

For the nine months ended September 30, 2016, the Company completed property cash acquisitions for total cash consideration of \$42.5 million excluding the Minehead-Edson-Ansell acquisition (December 31, 2015 - \$92.0 million). There were also \$8.0 million in acquisitions involving non-cash consideration (December 31, 2015 - \$73.4 million). The Company also assumed \$1.4 million in decommissioning liabilities in addition to the Minehead-Edson-Ansell acquisition (December 31, 2015 - \$3.0 million).

On March 1, 2016, the Company sold non-core assets for cash consideration of \$18.0 million, before customary adjustments. The net book value of the oil and natural gas properties disposed was equal to the cash consideration received.

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 \$241.0 million (December 31, 2015 – \$224.5 million), with some abandonments expected to commence in 2021. A risk-free rate of 1.72% (December 31, 2015 – 2.15%) and an inflation rate of 1.8% (December 31, 2015 – 1.8%) were used to calculate the decommissioning obligations. The downward adjustment during the year in the risk-free rate used to calculate decommissioning obligations resulted in the majority of the increase in future estimated cash outlays.

<i>(000s)</i>	As at September 30, 2016	As at December 31, 2015
Balance, beginning of period	\$ 163,459	\$ 114,038
Obligation incurred	7,972	16,780
Obligation incurred on corporate acquisitions	–	3,516
Obligation incurred on property acquisitions	2,430	5,484
Obligation divested	(1,406)	(270)
Obligation settled	(1,329)	(1,613)
Accretion expense	2,278	2,854
Change in estimate	16,604	22,670
Balance, end of period	\$ 190,008	\$ 163,459

7. BANK DEBT

The Company has a covenant-based, unsecured, revolving credit facility in place with a syndicate of banks in the amount of \$1,800.0 million. In addition, the Company has a \$50.0 million operating revolver, resulting in total bank credit facility capacity of \$1,850.0 million. In June 2016, the Company extended the term of the facility from three to four years resulting in a maturity of June 2020. In addition, the maximum ratio of senior debt to adjusted EBITDA was increased from 3.0 to 3.75 times and the maximum ratio of senior debt to total capitalization has increased from 0.5 to 0.55 times, respectively. With the exception of the increase in length of term and the changes to the financial covenants, the 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, 2015.

The credit 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 \$250.0 million term loan with a Canadian Chartered Bank. 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 220 basis points with a maturity of November, 2020. 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.

As at September 30, 2016, the Company had \$248.8 million in long-term debt outstanding and \$992.2 million drawn against the bank credit facility for total bank debt of \$1,241.0 million (net of prepaid interest and debt issue costs) (December 31, 2015 - \$1,266.6 million). In addition, Tourmaline has outstanding letters of credit of \$18.5 million (December 31, 2015 - \$13.4 million), which reduce the credit available on the facility. The effective interest rate for the nine months ended September 30, 2016 was 2.52% (nine months ended September 30, 2015 - 2.69%). As at September 30, 2016, 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:

<i>(000s)</i>	As at September 30, 2016	As at December 31, 2015
Balance, beginning of period	\$ 28,431	\$ 30,006
Share of subsidiary's net loss for the period	(1,276)	(1,575)
Balance, end of period	\$ 27,155	\$ 28,431

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 September 30, 2016		As at December 31, 2015	
	Number of Shares	Amount	Number of Shares	Amount
<i>(000s) except share amounts</i>				
Balance, beginning of period	221,335,925	\$ 4,266,234	203,162,112	\$ 3,615,378
For cash on public offering of common shares ⁽¹⁾⁽⁴⁾	10,387,500	281,605	4,947,500	195,425
For cash on public offering of flow-through common shares ⁽²⁾⁽³⁾⁽⁵⁾	1,320,000	37,818	1,122,700	38,403
Issued on corporate and property acquisitions (<i>note 5</i>)	–	–	10,193,026	372,878
For cash on exercise of stock options	1,922,480	55,221	1,910,587	37,159
Contributed surplus on exercise of stock options	–	19,932	–	14,051
Share issue costs	–	(13,642)	–	(10,066)
Tax effect of share issue costs	–	3,633	–	3,006
Balance, end of period	234,965,905	\$ 4,650,801	221,335,925	\$ 4,266,234

(1) On April 5, 2016, the Company issued 10.388 million common shares at a price of \$27.11 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 September 30, 2016, the Company is committed to spend the full amount on qualified exploration expenditures by December 31, 2017. The expenditures will be renounced to investors with an effective date of December 31, 2016.

(3) On March 12, 2015, the Company issued 0.64 million flow-through shares at a price of \$50.00 per share for total gross proceeds of \$32.0 million. The implied premium on flow-through common shares was determined to be \$6.3 million or \$9.87 per share. As at September 30, 2016, the Company had spent the full committed amount. The expenditures were renounced to investors with an effective renunciation date of December 31, 2015.

(4) On June 23, 2015, the Company issued 4.948 million common shares at a price of \$39.50 for total gross proceeds of \$195.4 million. A total of 54,000 common shares were purchased by insiders.

(5) On November 25, 2015, the Company issued 0.48 million flow-through shares at a price of \$34.10 per share for total gross proceeds of \$16.5 million. The implied premium on flow-through common shares was determined to be \$3.7 million or \$7.75 per share. As at September 30, 2016, the Company is committed to spend \$7.1 million on qualified exploration expenditures by December 31, 2016. The expenditures were renounced to investors with an effective renunciation date of December 31, 2015.

10. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net earnings (loss) for the period (<i>000s</i>)	\$ 24,738	\$ 28,489	\$ (91,592)	\$ 45,451
Weighted average number of common shares – basic	234,600,727	218,745,913	229,507,106	211,389,015
Earnings (loss) per share – basic	\$ 0.11	\$ 0.13	\$ (0.40)	\$ 0.22

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net earnings (loss) for the period (<i>000s</i>)	\$ 24,738	\$ 28,489	\$ (91,592)	\$ 45,451
Weighted average number of common shares – diluted	235,627,273	219,376,160	229,507,106	212,561,337
Earnings (loss) per share – fully diluted	\$ 0.10	\$ 0.13	\$ (0.40)	\$ 0.21

There were 11,637,666 and 18,282,566 options excluded from the weighted-average share calculations for the three and nine month periods ended September 30, 2016 because they were anti-dilutive (three and nine months ended September 30, 2015 – 11,098,666 and 11,083,666 options).

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 23,496,591 shares of common stock, which represents 10% 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 five 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.

	Nine Months Ended September 30,			
	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	19,746,414	\$ 36.50	17,046,500	\$ 36.44
Granted	620,300	33.74	1,359,500	37.40
Exercised	(1,922,480)	28.72	(1,870,253)	19.38
Forfeited	(161,668)	38.94	(33,333)	39.17
Stock options outstanding, end of period	18,282,566	\$ 37.20	16,502,414	\$ 38.45

The weighted average trading price of the Company's common shares was \$30.29 during the nine months ended September 30, 2016 (nine months ended September 30, 2015 – \$36.94).

The following table summarizes stock options outstanding and exercisable at September 30, 2016:

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
\$20.79 - \$29.26	4,958,401	2.92	26.32	1,636,101	26.03
\$30.24 - \$39.57	4,245,165	2.54	34.86	2,674,832	33.89
\$40.18 - \$48.99	7,429,000	2.44	42.11	4,522,667	41.74
\$51.47 - \$56.76	1,650,000	2.77	53.85	1,100,000	53.85
	18,282,566	2.62	37.20	9,933,600	38.38

The fair value of options granted during the nine month period ended September 30, 2016 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	September 30,	
	2016	2015
Fair value of options granted (weighted average)	\$ 9.65	\$ 10.93
Risk-free interest rate	1.89%	2.29%
Estimated hold period prior to exercise	4 years	4 years
Expected volatility	33%	33%
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
Firm transportation and processing agreements	203,070	448,643	405,350	1,073,103	2,130,166
Capital commitments ⁽¹⁾	308,828	603,364	258,364	28,835	1,199,391
Credit facility ⁽²⁾	–	–	1,096,968	–	1,096,968
Term debt ⁽³⁾	7,711	15,422	258,828	–	281,961
Flow-through share commitments	7,128	46,860	–	–	53,988
Operating leases	5,593	10,950	2,704	–	19,247
	\$ 532,330	\$ 1,125,239	\$ 2,022,214	\$ 1,101,938	\$ 4,781,721

(1) Includes drilling commitments, and capital spending commitments under the joint arrangement in the Spirit River complex of \$300.0 million per year until 2019. The capital spending commitment under the joint arrangement can be deferred to future periods in the event of an economic downturn, and as agreed upon by both parties. Since December 31, 2015, an economic downturn event, as defined in the joint arrangement in the Spirit River complex has existed and as such capital spending for 2016 may be reduced and extended to future years.

(2) Includes interest expense at an annual rate of 2.59% being the rate applicable to outstanding debt on the credit facility at September 30, 2016.

(3) Includes interest expense at an annual rate of 3.09% being the fixed rate on the term debt at September 30, 2016.

13.SUBSEQUENT EVENTS

On October 20, 2016, the Company issued 0.9 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. The Company is committed to spend the full amount on qualified exploration expenditures by December 31, 2017.

On October 20, 2016, the Company entered into an agreement with Shell Canada Energy (“Shell Canada”) to acquire strategic assets located in the Alberta Deep Basin and the Northeast BC Montney complex for total consideration of \$1,368.8 million, before customary adjustments, including cash consideration of \$1,000.0 million and the remainder in Tourmaline common shares. The acquisition of assets is expected to close on or about November 30, 2016.

On November 10, 2016, in connection with the acquisition of assets from Shell Canada, the Company issued 2.9 million subscription receipts of Tourmaline at a price of \$34.75 per subscription receipt for gross proceeds of \$100.0 million. The subscription receipts were issued through a prospectus offering which also contains an over-allotment option to issue an additional 0.4 million subscription receipts. The over-allotment option was exercised in full resulting in gross proceeds of \$115.0 million.

On November 10, 2016, the Company, also completed a private placement where 18.3 million subscription receipts were issued at a price of \$34.75 per subscription receipt for gross proceeds of \$635.0 million. In conjunction with the private placement, certain officers, directors, and employees of Tourmaline participated through a non-brokered offering and 175,000 subscription receipts were issued at a price of \$34.75 per subscription receipt for gross proceeds of \$6.1 million.

The gross proceeds from the prospectus offering, private placement and non-brokered offering will be held in escrow pending the completion of the asset acquisition from Shell Canada at which time the net proceeds will be released from escrow to Tourmaline and each subscription receipt will be automatically exchanged for one common share of Tourmaline for no additional consideration.