



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

The following Management's Discussion and Analysis ("MD&A") is a review of the operational and financial results and outlook for Tamarack Valley Energy Ltd. ("Tamarack" or the "Company") for the three months ended March 31, 2019 and 2018. This MD&A is dated and based on information available as at May 9, 2019 and should be read in conjunction with the unaudited condensed consolidated interim financial statements ("interim financial statements") and the notes thereto for the three months ended March 31, 2019 and 2018. Additional information relating to Tamarack, including Tamarack's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and Tamarack's website at [www.tamarackvalley.ca](http://www.tamarackvalley.ca).

The interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The Company uses certain non-IFRS measures in this MD&A. For a discussion of those measures, including the method of calculation, please refer to the section titled "Non-IFRS Measures" beginning on page 19. Unless otherwise indicated, all references to dollar amounts are in Canadian currency.

### **Q1 2019 Financial and Operating Highlights**

- Production averaged 23,149 boe/d (64% oil and NGL weighting) reflecting the Company's compliance with the production curtailment order imposed by the Government of Alberta that came into effect on January 1, 2019 ("Curtailment Order"). Tamarack adjusted the timing of its capital investment and activity in order to comply with the Curtailment Order resulting in five wells being brought on production late in the period having minimal contribution to average volumes. The Company exited Q1/19 with 18 Viking oil wells and two Cardium oil wells that were drilled awaiting completion.
- Total adjusted operating field netback (see "Non-IFRS Measures") in Q1/19 was \$57.5 million (\$0.25/share basic and diluted), 50% higher than the \$38.3 million generated in Q4/18 (\$0.17/share basic and diluted).
- Operating netback (see "Non-IFRS Measures") of \$30.11/boe in Q1/19 was 58% higher than the Q4/18 netback of \$19.03/boe and was equal to Q1/18 primarily due to the continuation of strong realized pricing supported by the Company's 64% oil and NGL weighting.
- Net production and transportation expenses in Q1/19 were 5% lower at \$10.20/boe compared to \$10.76/boe in Q1/18 primarily due to increased production from the lower-cost Veteran area and a reduction in transportation expenses as a result of the recently commissioned pipeline in the Provost area of Alberta (the "Provost Pipeline").

- Invested \$71.2 million in the quarter, with 76% directed to drill, complete and equip 31 (30.2 net) Viking oil wells, 7 (6.1 net) Cardium oil wells and 2.0 net Penny oil wells. In addition, 19 (18.5 net) Viking oil wells that were drilled in late Q4/18 were completed and brought on production. The Company also drilled 18 (17.7 net) Viking oil wells and 2.0 net Cardium oil wells that will be brought on production in Q2/19, resulting in the Company being able to increase production in Q2/19.
- Completed four minor tuck-in acquisitions of assets in Q1/19 totaling \$1.1 million and subsequent to quarter end, closed a Viking oil acquisition for \$4.7 million in the Veteran/Consort area of Alberta, adding 100 bbls/d and 9.7 net sections of undeveloped Viking land.

## Production

| <b>Quarter-over-Quarter</b>               |                |         |                     |
|---|----------------|---------|---------------------|
|   | <b>Q1 2019</b> | Q4 2018 | <b>%<br/>change</b> |
| Production                                |                |         |                     |
| Light oil (bbls/d)                        | <b>12,689</b>  | 14,163  | (10)                |
| Heavy oil (bbls/d)                        | <b>483</b>     | 755     | (36)                |
| Natural gas liquids (bbls/d)              | <b>1,548</b>   | 1,485   | 4                   |
| Natural gas (mcf/d)                       | <b>50,576</b>  | 50,262  | 1                   |
| Total (boe/d)                             | <b>23,149</b>  | 24,780  | (7)                 |
| Percentage of oil and natural gas liquids | <b>64%</b>     | 66%     | (3)                 |

Average production for Q1/19 decreased 7% from the previous quarter as a result of the Curtailment Order. Instead of shutting-in wells to comply with the Curtailment Order, the Company chose to adjust the timing of drilling activity in the first half of 2019 and allow the impact from expected declines on base production to remain below the imposed production limits. The Company's drilling program added 1,062 boe/d in Veteran (88% oil and NGL), 595 boe/d in Wilson Creek/Alder Flats (53% oil and NGL) and 28 boe/d in Penny (96% oil and NGL).

In the first quarter of 2019 the Company's oil and NGL weighting was 64% compared to 66% in the fourth quarter of 2018. While complying with the Curtailment Order, the Company expects its oil and NGL weighting to remain stable and average between 64% to 66%.

## Year-over-Year

|   | Three months ended |        |                     |
|---|--------------------|--------|---------------------|
|   | March 31,          |        |                     |
|   | <b>2019</b>        | 2018   | <b>%<br/>change</b> |
| Production                                |                    |        |                     |
| Light oil (bbls/d)                        | <b>12,689</b>      | 13,239 | (4)                 |
| Heavy oil (bbls/d)                        | <b>483</b>         | 299    | 62                  |
| Natural gas liquids (bbls/d)              | <b>1,548</b>       | 1,347  | 15                  |
| Natural gas (mcf/d)                       | <b>50,576</b>      | 51,879 | (3)                 |
| Total (boe/d)                             | <b>23,149</b>      | 23,532 | (2)                 |
| Percentage of oil and natural gas liquids | <b>64%</b>         | 63%    | 2                   |

Compared to the prior year, average production for the first quarter of 2019 decreased by 2%. The decrease is solely attributed to the Curtailment Order.

## Petroleum and Natural Gas Sales

| <b>Quarter-over-Quarter</b>           |                 |                |                     |
|---------------------------------------|-----------------|----------------|---------------------|
|                                       | <b>Q1 2019</b>  | <b>Q4 2018</b> | <b>%<br/>change</b> |
| Revenue (\$ thousands)                |                 |                |                     |
| Oil and NGL                           | <b>\$82,232</b> | \$55,962       | 47                  |
| Natural gas                           | <b>12,815</b>   | 17,113         | (25)                |
| <b>Total</b>                          | <b>\$95,047</b> | \$73,075       | 30                  |
| Average realized price:               |                 |                |                     |
| Light oil (\$/bbl)                    | <b>65.47</b>    | 36.78          | 78                  |
| Heavy oil (\$/bbl)                    | <b>40.65</b>    | 49.33          | (18)                |
| Natural gas liquids (\$/bbl)          | <b>40.85</b>    | 33.72          | 21                  |
| Combined average oil and NGL (\$/boe) | <b>62.07</b>    | 37.08          | 67                  |
| Natural gas (\$/mcf)                  | <b>2.82</b>     | 3.70           | (24)                |
| <b>Revenue (\$/boe)</b>               | <b>45.62</b>    | 32.05          | 42                  |
| Benchmark pricing:                    |                 |                |                     |
| West Texas Intermediate (US\$/bbl)    | <b>54.84</b>    | 58.79          | (7)                 |
| Edmonton Par (Cdn\$/bbl)              | <b>67.44</b>    | 48.26          | 40                  |
| Hardisty Heavy (Cdn\$/bbl)            | <b>59.12</b>    | 34.23          | 73                  |
| AECO daily index (Cdn\$/mcf)          | <b>2.59</b>     | 1.55           | 67                  |
| AECO monthly index (Cdn\$/mcf)        | <b>1.94</b>     | 1.89           | 3                   |

Revenue from oil, natural gas and NGL sales was 30% higher in the first quarter of 2019 compared to the fourth quarter of 2018, attributable to the narrowing of price differentials for Canadian crude that occurred in the period. Due to continued lack of pipeline takeaway capacity in Canada, the Curtailment Order was implemented. These production curtailments, combined with active production management and engagement from the producer community, have resulted in a significant narrowing of the WTI/Edmonton Par differential through 2019 to date.

By the end of the first quarter of 2019, WTI crude oil markets rebounded from December 2018 lows. However, the average first quarter 2019 WTI price of US\$54.84/bbl was 7% lower than the average fourth quarter price of US\$58.79/bbl. The WTI/Edmonton Par light oil differential also rebounded as a result of the Curtailment Order, narrowing through Q1/19 to an average of US\$4.79/bbl versus the average Q4/18 differential of US\$29.30/bbl. As a result of these combined factors, the average Edmonton Par price increased significantly to C\$67.44/bbl compared to the fourth quarter average of C\$48.26/bbl. In addition, Tamarack's realized light oil wellhead price for the three months ended March 31, 2019 increased 78% to \$65.47/bbl from \$36.78/bbl in the previous quarter.

Although the improved differential is a positive short-term development, Tamarack believes potential differential widening poses a risk to Canadian crude prices in the second half of 2019, particularly if the Curtailment Order is removed. Currently, Tamarack has approximately 30% of forecasted 2019 oil production protected with differential hedges. While the timing, duration and magnitude of extreme oil price conditions are difficult to predict, Tamarack is committed to conservatively planning and continues to explore ways to mitigate and manage market risk through financial and physical hedges.

The stabilization of WTI prices through the quarter also improved NGL prices, as many NGL products are priced relative to WTI. Realized NGL prices increased 21% to \$40.85/bbl in Q1/19 from \$33.72/bbl in Q4/18.

Currently, NGL supply outstrips demand and suffers from a lack of pipeline egress in Canada. In particular, Alberta spot butane markets continue to struggle after plummeting in the second half of 2018. As a result, the NGL rates achieved during the contract negotiations for the April 1, 2019 to March 31, 2020 contract period were materially lower than in prior years. In particular, butane as a percentage of WTI dropped from the range of 55% to 60% to the range of 10% to 15% while frac fees increased by approximately 30% to 35%. Consequently, the realized prices for the remainder of 2019 and the first quarter of 2020 are expected to be materially lower than the prior contract period. These lower realized prices are expected to persist at a minimum until the next contract year, which begins April 1, 2020.

Tamarack's realized natural gas price decreased in the first quarter to \$2.82/mcf compared to \$3.70/mcf in Q4/18. Conversely, the AECO daily benchmark price increased quarter-over-quarter to \$2.59/mcf from \$1.55/mcf. The increase in AECO prices were largely a result of a colder than normal winter in Western Canada, while the decrease in Tamarack's realized price compared to the prior quarter was related to weaker performance from US gas markets relative to AECO. Tamarack's exposure to alternate gas markets continued to benefit the Company's realized price, albeit the benefit was somewhat muted in Q1/19 relative to prior quarters.

Tamarack's exposure to various gas markets and pricing hubs is reflected below:

| <b>Natural Gas Market</b>      | <b>Percentage Exposure<br/>(as at March 31, 2019)</b> |
|--------------------------------|---|
| AECO Daily (5A)                | 3.9   |
| AECO Daily (5A) + premium (SK) | 10.0  |
| Dawn                           | 8.2   |
| Chicago                        | 8.2   |
| Michigan City Gate             | 8.2   |
| Malin                          | 16.5  |
| Waddington                     | 10.5  |
| NYMEX (Physical Basis Swap)    | 34.5  |
|                                | 100%  |

Oversupply and takeaway capacity restrictions continue to create downward pricing pressure and volatility in the Alberta natural gas markets. Despite increased demand across the colder winter months, AECO daily index pricing is expected to remain depressed through 2019 and beyond. Tamarack continues to benefit from multiple third-party gas sales contracts with various end dates until 2022. These contracts provide diversification of the Company's natural gas price exposure and help mitigate individual market volatility risk. Through the first quarter of 2019, more than 50% of Tamarack's total natural gas production was priced at alternate markets to AECO, including Malin, Chicago, Michigan Consolidated, Dawn, Waddington and NYMEX daily index pricing less transportation tolls or fixed basis fees. Tamarack will continue to explore alternatives to minimize exposure to the historically weaker Alberta natural gas market.

## Year-over-Year

|                                       | Three months ended |          |          |
|---------------------------------------|--------------------|----------|----------|
|                                       | March 31,          |          |          |
|                                       | 2019               | 2018     | % change |
| Revenue (\$ thousands)                |                    |          |          |
| Oil and NGL                           | <b>\$82,232</b>    | \$88,226 | (7)      |
| Natural gas                           | <b>12,815</b>      | 10,510   | 22       |
| Total                                 | <b>\$95,047</b>    | \$98,736 | (4)      |
| Average realized price:               |                    |          |          |
| Light oil (\$/bbl)                    | <b>65.47</b>       | 67.92    | (4)      |
| Heavy oil (\$/bbl)                    | <b>40.65</b>       | 45.23    | (10)     |
| Natural gas liquids (\$/bbl)          | <b>40.85</b>       | 45.14    | (10)     |
| Combined average oil and NGL (\$/boe) | <b>62.07</b>       | 65.86    | (6)      |
| Natural gas (\$/mcf)                  | <b>2.82</b>        | 2.25     | 25       |
| Revenue (\$/boe)                      | <b>45.62</b>       | 46.62    | (2)      |
| Benchmark pricing:                    |                    |          |          |
| West Texas Intermediate (US\$/bbl)    | <b>54.84</b>       | 62.91    | (13)     |
| Edmonton Par (Cdn\$/bbl)              | <b>67.44</b>       | 72.30    | (7)      |
| Hardisty Heavy (Cdn\$/bbl)            | <b>59.12</b>       | 46.90    | 26       |
| AECO daily index (Cdn\$/mcf)          | <b>2.59</b>        | 2.07     | 25       |
| AECO monthly index (Cdn\$/mcf)        | <b>1.94</b>        | 1.84     | 5        |

Revenue from oil, natural gas and NGL sales for Q1/19 decreased 4% compared to the same period in 2018, primarily due to lower production volumes and the decrease in crude oil prices offset by the increase in realized natural gas prices.

The Company may use both financial derivatives and physical delivery contracts to manage fluctuations in commodity prices, foreign exchange rates and interest rates. All such transactions are conducted within risk management tolerances that are reviewed quarterly by Tamarack's Board of Directors. At March 31, 2019, the Company held derivative commodity and foreign exchange contracts as follows:

| Subject contract | Notional quantity  | Remaining term                      | Hedge type      | Strike price |
|------------------|--------------------|-------------------------------------|-----------------|--------------|
| Crude oil        | 700 bbls/day       | April 1, 2019 – June 30, 2019       | WTI fixed price | US \$65.45   |
| Crude oil        | 700 bbls/day       | January 1, 2020 – March 31, 2020    | WTI fixed price | US \$66.96   |
| Crude oil        | 3,220 bbls/day     | April 1, 2019 – June 30, 2019       | WTI put option  | US \$60.00   |
| Crude oil        | 3,105 bbls/day     | July 1, 2019 – September 30, 2019   | WTI put option  | US \$60.00   |
| Crude oil        | 2,990 bbls/day     | October 1, 2019 – December 31, 2019 | WTI put option  | US \$60.00   |
| Crude oil        | 2,000 bbls/day     | April 1, 2019 – June 30, 2019       | Edm par diff    | US (\$5.95)  |
| Crude oil        | 4,000 bbls/day     | April 1, 2019 – December 31, 2019   | Edm par diff    | US (\$12.13) |
| Foreign exchange | 6,750,000 US\$/mth | April 1, 2019 – June 30, 2019       | Exchange rate   | Cdn \$1.3046 |
| Foreign exchange | 5,750,000 US\$/mth | July 1, 2019 – September 30, 2019   | Exchange rate   | Cdn \$1.3065 |
| Foreign exchange | 4,750,000 US\$/mth | October 1, 2019 – December 31, 2019 | Exchange rate   | Cdn \$1.3111 |

At March 31, 2019, the commodity and foreign exchange contracts were fair valued with a liability of \$2.1 million (December 31, 2018 - \$19.7 million asset) recorded on the balance sheet and an unrealized loss of

\$21.8 million recorded in earnings for the three months ended March 31, 2019 (December 31, 2018 - \$27.1 million unrealized gain).

All physical commodity contracts are considered executory contracts and are not recorded at fair value on the balance sheet. On settlement, the realized benefit or loss is recognized in oil and natural gas revenue.

At March 31, 2019, the Company held the following physical commodity contracts:

| Subject contract | Quantity         | Remaining term                       | Hedge type                  | Strike price      |
|------------------|------------------|--------------------------------------|-----------------------------|-------------------|
| Natural gas      | 2,500 mmbtu/day  | April 1, 2019 – October 31, 2019     | AECO fixed price            | Cdn \$1.75        |
| Natural gas      | 10,000 mmbtu/day | April 1, 2019 – October 31, 2019     | AECO/Henry Hub differential | Index – US \$1.60 |
| Natural gas      | 5,000 mmbtu/day  | May 1, 2019 – May 31, 2019           | AECO/Henry Hub differential | Index – US \$1.68 |
| Natural gas      | 5,000 mmbtu/day  | November 1, 2019 – November 30, 2019 | AECO/Henry Hub differential | Index – US \$1.43 |
| Natural gas      | 12,500 mmbtu/day | November 1, 2019 – March 31, 2020    | AECO/Henry Hub differential | Index – US \$1.43 |
| Natural gas      | 5,000 mmbtu/day  | December 1, 2019 – December 31, 2019 | AECO/Henry Hub differential | Index – US \$1.36 |

Since March 31, 2019, the Company has entered into the following contracts:

| Subject contract | Notional quantity         | Remaining term                   | Hedge type      | Strike price |
|------------------|---------------------------|----------------------------------|-----------------|--------------|
| Crude oil        | 200 bbls/day              | January 1, 2020 – March 31, 2020 | WTI fixed price | US \$62.00   |
| Crude oil        | 200 bbls/day              | April 1, 2020 – June 30, 2020    | WTI fixed price | US \$61.00   |
| Interest rate    | 25,000,000 \$<br>Cdn/year | April 24, 2019 – April 24, 2023  | Fixed Rate Swap | 1.90%        |

Since March 31, 2019, the Company has entered into the following physical contracts:

| Subject contract | Quantity        | Remaining term               | Hedge type                  | Strike price      |
|------------------|-----------------|------------------------------|-----------------------------|-------------------|
| Natural gas      | 5,000 mmbtu/day | May 1, 2019 – May 31, 2019   | AECO/Henry Hub differential | Index – US \$1.62 |
| Natural gas      | 5,000 mmbtu/day | June 1, 2019 – June 30, 2019 | AECO/Henry Hub differential | Index – US \$1.79 |

## Royalties

### Quarter-over-Quarter

|                                 | Q1 2019         | Q4 2018 | %<br>change |
|---------------------------------|-----------------|---------|-------------|
| Royalty expenses (\$ thousands) | <b>\$10,117</b> | \$5,902 | 71          |
| \$/boe                          | <b>4.86</b>     | 2.59    | 88          |
| percent of sales                | <b>11</b>       | 8       | 38          |

Royalties as a percentage of revenue were higher in the first quarter of 2019 compared to the fourth quarter of 2018, largely caused by the sliding scale nature of some oil royalties which increases the royalty paid when commodity prices are higher.

## Year-over-Year

|                                 | Three months ended |          |          |
|---------------------------------|--------------------|----------|----------|
|                                 | March 31,          |          |          |
|                                 | 2019               | 2018     | % change |
| Royalty expenses (\$ thousands) | \$10,117           | \$10,938 | (8)      |
| \$/boe                          | 4.86               | 5.16     | (6)      |
| percent of sales                | 11                 | 11       | —        |

Royalties as a percentage of revenue were comparable in the first quarter of 2019 to the first quarter of 2018. The Company expects royalty rates as a percentage of revenue to remain in the 10% to 12% range for 2019 based on the current forecast commodity price levels.

## Net Production and Transportation Expenses

### Quarter-over-Quarter

| (\$ thousands, except per boe)                   | Q1 2019  | Q4 2018 <sup>(1)</sup> | % change |
|--|----------|------------------------|----------|
| Production and transportation expenses           | \$21,825 | \$24,291               | (10)     |
| Less: processing income                          | 571      | 426                    | 34       |
| Total net production and transportation expenses | \$21,254 | \$23,865               | (11)     |
| Total (\$/boe)                                   | \$10.20  | \$10.47                | (3)      |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

Net production and transportation expenses per boe for the first quarter of 2019 decreased 3% compared to the fourth quarter of 2018. The decrease was a result of the new lease accounting standard, IFRS 16, "Leases" ("IFRS 16"), which the Company adopted in 2019, offset by increased operating costs in the Veteran area due to facility issues which have since been rectified. On an absolute basis, overall costs were lower in the first quarter of 2019 compared to the fourth quarter of 2018 related to lower production quarter-over-quarter.

## Year-over-Year

|  | Three months ended |                     |          |
|--|--------------------|---------------------|----------|
|  | March 31,          |                     |          |
| (\$ thousands, except per boe)                   | 2019               | 2018 <sup>(1)</sup> | % change |
| Production and transportation expenses           | \$21,825           | \$23,114            | (6)      |
| Less: processing income                          | 571                | 336                 | 70       |
| Total net production and transportation expenses | \$21,254           | \$22,778            | (7)      |
| Total (\$/boe)                                   | \$10.20            | \$10.76             | (5)      |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

For the three months ended March 31, 2019, net production and transportation expenses per boe were lower compared to the same period in 2018. This is the result of reduced transportation costs in the Veteran area related to the new Provost pipeline that eliminated the trucking of sales oil as of Q4/18, the Company adopting IFRS 16 in 2019 and an increase in production volumes in the Veteran area, where production expenses are generally lower than the corporate average.

## Operating Netback

| <b>Quarter-over-Quarter</b>                |                |                        |             |
|--|----------------|------------------------|-------------|
| (\$/boe)                                   | <b>Q1 2019</b> | Q4 2018 <sup>(1)</sup> | %<br>change |
| Average realized sales                     | <b>\$45.62</b> | \$32.05                | 42          |
| Royalty expenses                           | <b>(4.86)</b>  | (2.59)                 | 88          |
| Net production and transportation expenses | <b>(10.20)</b> | (10.47)                | (3)         |
|  | <b>30.56</b>   | 18.99                  | 61          |
| Realized commodity hedging gain (loss)     | <b>(0.45)</b>  | 0.04                   | (1,225)     |
| Operating netback                          | <b>\$30.11</b> | \$19.03                | 58          |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

The Company's operating netbacks (see "Non-IFRS Measures") increased 58% in the first quarter of 2019 compared to the fourth quarter of 2018. This was due to higher wellhead pricing for crude oil and NGL and lower net production and transportation expenses, partially offset by a decrease in realized natural gas pricing, an increase in royalties and a realized commodity hedging loss compared to a realized hedging gain in the previous quarter.

## Year-over-Year

| (\$/boe)                                   | Three months ended |                     |             |
|--|--------------------|---------------------|-------------|
|  | March 31,          |                     |             |
|  | <b>2019</b>        | 2018 <sup>(1)</sup> | %<br>change |
| Average realized sales                     | <b>\$45.62</b>     | \$46.62             | (2)         |
| Royalty expenses                           | <b>(4.86)</b>      | (5.16)              | (6)         |
| Net production and transportation expenses | <b>(10.20)</b>     | (10.76)             | (5)         |
|  | <b>30.56</b>       | 30.70               | —           |
| Realized commodity hedging loss            | <b>(0.45)</b>      | (0.59)              | (24)        |
| Operating netback                          | <b>\$30.11</b>     | \$30.11             | —           |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

For the three months ended March 31, 2019, operating netbacks (see "Non-IFRS Measures") were comparable to the same period in 2018.

## General and Administrative (“G&A”) Expenses

### Quarter-over-Quarter

| (\$ thousands, except per boe)   | Q1 2019        | Q4 2018 | %<br>change |
|----------------------------------|----------------|---------|-------------|
| Gross costs                      | <b>\$3,860</b> | \$4,272 | (10)        |
| Capitalized costs and recoveries | <b>(900)</b>   | (934)   | (4)         |
| General and administrative costs | <b>\$2,960</b> | \$3,338 | (11)        |
| Total (\$/boe)                   | <b>\$1.42</b>  | \$1.46  | (3)         |

Gross and net G&A expenses were lower during the first quarter of 2019 than in the fourth quarter of 2018. This was due to lower than expected costs related to year-end expenditures. G&A expenses on a per boe basis remained relatively consistent quarter-over-quarter.

### Year-over-Year

| (\$ thousands, except per boe)   | Three months ended |         | %<br>change |
|----------------------------------|--------------------|---------|-------------|
|                                  | 2019               | 2018    |             |
| Gross costs                      | <b>\$3,860</b>     | \$4,224 | (9)         |
| Capitalized costs and recoveries | <b>(900)</b>       | (845)   | 7           |
| General and administrative costs | <b>\$2,960</b>     | \$3,379 | (12)        |
| Total (\$/boe)                   | <b>\$1.42</b>      | \$1.60  | (11)        |

Gross and net G&A costs decreased for the three months ended March 31, 2019, compared to the same period in 2018, due to lower than expected costs related to year-end expenditures. Net per boe G&A costs for the three months ended March 31, 2019 were lower than the same period in 2018 due to lower overall gross and net G&A expenses.

## Stock-Based Compensation Expenses

### Quarter-over-Quarter

| (\$ thousands, except per boe) | Q1 2019        | Q4 2018 | %<br>change |
|--------------------------------|----------------|---------|-------------|
| Gross costs                    | <b>\$1,788</b> | \$4,040 | (56)        |
| Capitalized costs              | <b>(468)</b>   | (1,140) | (59)        |
| Total stock-based compensation | <b>\$1,320</b> | \$2,900 | (54)        |
| Total (\$/boe)                 | <b>\$0.63</b>  | \$1.27  | (50)        |

Stock-based compensation expense related to stock options (“Options”) restricted share units (“RSUs”) and performance share units (“PSUs”) was lower in Q1/19 than in Q4/18. This is due to stock-based compensation expense being calculated based on graded vesting periods that are front-end loaded.

## Year-over-Year

| (\$ thousands, except per boe) | Three months ended |         |          |
|--------------------------------|--------------------|---------|----------|
|                                | March 31,          |         |          |
|                                | 2019               | 2018    | % change |
| Gross costs                    | \$1,788            | \$2,038 | (12)     |
| Capitalized costs              | (468)              | (524)   | (11)     |
| Total stock-based compensation | \$1,320            | \$1,514 | (13)     |
| Total (\$/boe)                 | \$0.63             | \$0.71  | (11)     |

Stock-based compensation expense related to Options, RSUs and PSUs for the three months ended March 31, 2019 was comparable to the same period in 2018. Stock-based compensation expense is calculated based on graded vesting periods that are front-end loaded.

During the three months ended March 31, 2019, the Company issued 0.4 million Options (at a weighted average exercise price of \$2.57 per share), 2.3 million RSUs and 1.1 million PSUs.

## Interest Expense

### Quarter-over-Quarter

| (\$ thousands, except per boe) | Quarter-over-Quarter |                        |          |
|--------------------------------|----------------------|------------------------|----------|
|                                | Q1 2019              | Q4 2018 <sup>(1)</sup> | % change |
| Interest on bank debt          | \$1,763              | \$1,706                | 3        |
| Interest on lease liabilities  | 511                  | –                      | –        |
| Total interest expense         | \$2,274              | \$1,706                | 33       |
| Total (\$/boe)                 | \$1.09               | \$0.75                 | 45       |
| Average drawings on bank debt  | \$174,745            | \$159,286              | 10       |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

Interest expense was higher in the first quarter of 2019 compared to the previous quarter, due to a higher average amount drawn quarter-over-quarter on the revolving credit facility and the Company adopting IFRS 16 in 2019, offset by increased utilization of lower interest rate options that were available through the Company's syndicate of lenders as well as favourable market conditions during the quarter.

## Year-over-Year

| (\$ thousands, except per boe) | Three months ended |                     |          |
|--------------------------------|--------------------|---------------------|----------|
|                                | March 31,          |                     |          |
|                                | 2019               | 2018 <sup>(1)</sup> | % change |
| Interest on bank debt          | \$1,763            | \$1,841             | (4)      |
| Interest on lease liabilities  | 511                | –                   | –        |
| Total interest expense         | \$2,274            | \$1,841             | 24       |
| Total (\$/boe)                 | \$1.09             | \$0.87              | 25       |
| Average drawings on bank debt  | \$174,745          | \$164,671           | 6        |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

Interest expense for the three months ended March 31, 2019 was higher than the same period in 2018 due to the Company adopting IFRS 16 in 2019, offset by increased utilization of lower interest rate options that

were available through the Company's syndicate of lenders as well as favourable market conditions during the quarter.

### **Depletion, Depreciation, Amortization and Accretion (“DDA&A”)**

The Company depletes its property, plant and equipment (“PP&E”) based on its proved plus probable reserves and depreciates its right-of-use (“ROU”) assets on a straight-line basis over the shorter of the estimated useful life or the lease term or, if the lease transfers ownership of the underlying asset to the Company at the end of the lease term or the Company is reasonably certain it will exercise its purchase option, depletes its ROU assets based on its proved plus probable reserves. The carrying value of undeveloped land in exploration and evaluation (“E&E”) assets is also amortized over its term to expiry, which is charged to DDA&A expense.

| <b>Quarter-over-Quarter</b>         |                 |                        |          |
|-------------------------------------|-----------------|------------------------|----------|
| (\$ thousands, except per boe)      | Q1 2019         | Q4 2018 <sup>(1)</sup> | % change |
| Depletion and depreciation          | <b>\$39,124</b> | \$44,498               | (12)     |
| Amortization of undeveloped leases  | <b>228</b>      | 328                    | (30)     |
| Accretion                           | <b>1,145</b>    | 1,043                  | 10       |
| <b>Total</b>                        | <b>\$40,497</b> | \$45,869               | (12)     |
| Depletion and depreciation (\$/boe) | <b>\$18.78</b>  | \$19.52                | (4)      |
| Amortization (\$/boe)               | <b>0.11</b>     | 0.14                   | (21)     |
| Accretion (\$/boe)                  | <b>0.55</b>     | 0.46                   | 20       |
| <b>Total (\$/boe)</b>               | <b>\$19.44</b>  | \$20.12                | (3)      |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

DDA&A expense per boe for the first quarter of 2019 was lower compared to the fourth quarter of 2018. This decrease is due to a net impairment taken in the fourth quarter of 2018 which resulted in a lower overall DDA&A rate, partially offset by the adoption of IFRS 16 in 2019. On an absolute basis, DDA&A expense was lower due to the lower production volumes.

| (\$ thousands, except per boe)      | Three months ended |                     |          |
|-------------------------------------|--------------------|---------------------|----------|
|                                     | 2019               | 2018 <sup>(1)</sup> | % change |
| Depletion and depreciation          | <b>\$39,124</b>    | \$43,284            | (10)     |
| Amortization of undeveloped leases  | <b>228</b>         | 174                 | 31       |
| Accretion                           | <b>1,145</b>       | 1,007               | 14       |
| <b>Total</b>                        | <b>\$40,497</b>    | \$44,465            | (9)      |
| Depletion and depreciation (\$/boe) | <b>\$18.78</b>     | \$20.44             | (8)      |
| Amortization (\$/boe)               | <b>0.11</b>        | 0.08                | 38       |
| Accretion (\$/boe)                  | <b>0.55</b>        | 0.48                | 15       |
| <b>Total (\$/boe)</b>               | <b>\$19.44</b>     | \$21.00             | (7)      |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

For the three months ended March 31, 2019, DDA&A expense per boe was lower relative to the same period in 2018. The decrease was due to the completion of the Company's year-end independent reserves evaluation which resulted in an increase in Tamarack's overall reserve base following the successful 2018 drilling program, better-than-expected well performance, additional reserves being added as a result of the Veteran waterflood project and a net impairment taken in the fourth quarter of 2018. On an absolute basis, DDA&A expense was lower for the three months ended March 31, 2019 due to the lower production volumes.

## **Income Taxes**

The Company did not incur any cash tax expense in the three months ended March 31, 2019 and does not expect to pay any cash tax in 2019 or 2020 based on current commodity prices, forecast taxable income, existing tax pools and planned capital expenditures.

For the three months ended March 31, 2019, a deferred income tax recovery of \$1.3 million was recognized compared to a deferred income tax expense of \$1.8 million for the same period in 2018.

## **Adjusted Operating Field Netback and Net Income (Loss)**

| <b>Quarter-over-Quarter</b>                          |                  |                        |             |
|--|------------------|------------------------|-------------|
| (\$ thousands, except per share)                     | <b>Q1 2019</b>   | Q4 2018 <sup>(1)</sup> | %<br>change |
| Income (loss) before taxes                           | <b>\$(6,123)</b> | \$30,415               | (120)       |
| Depletion, depreciation and amortization             | <b>39,352</b>    | 44,826                 | (12)        |
| Stock-based compensation                             | <b>1,320</b>     | 2,900                  | (54)        |
| Gain on disposition of property, plant and equipment | <b>–</b>         | (1,079)                | (100)       |
| Accretion expense on decommissioning obligations     | <b>1,145</b>     | 1,043                  | 10          |
| Unrealized loss (gain) on financial instruments      | <b>21,809</b>    | (44,759)               | (149)       |
| Impairment of property, plant and equipment, net     | <b>–</b>         | 5,000                  | (100)       |
| Adjusted operating field netback                     | <b>\$57,503</b>  | \$38,346               | 50          |
| Per share - basic                                    | <b>\$0.25</b>    | \$0.17                 | 47          |
| Per share - diluted                                  | <b>\$0.25</b>    | \$0.17                 | 47          |
| Net income (loss)                                    | <b>\$(4,826)</b> | \$18,952               | (125)       |
| Per share - basic                                    | <b>\$(0.02)</b>  | \$0.08                 | (125)       |
| Per share - diluted                                  | <b>\$(0.02)</b>  | \$0.08                 | (125)       |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

The adjusted operating field netback (see "Non-IFRS Measures") during the first quarter of 2019 was higher than the fourth quarter of 2018 primarily due to 30% higher revenue from oil and natural gas sales caused by the pricing improvement in the Canadian oil market during the period, partially offset by a realized hedging loss in Q1/19 compared to a realized hedging gain in Q4/18.

The Company recorded a net loss of \$4.8 million (\$0.02 per share basic and diluted) during the three months ended March 31, 2019, compared to net income of \$19.0 million (\$0.08 per share basic and diluted) during the previous quarter. This was primarily due to an unrealized hedging loss in Q1/19 compared to an unrealized hedging gain in Q4/18, partially offset by a 30% increase in revenue from oil and natural gas sales, a deferred tax recovery in Q1/19 compared to deferred tax expense in Q4/18 and a net impairment to PP&E in Q4/18.

## Year-over-Year

| (\$ thousands, except per boe)                       | Three months ended |                     |          |
|--|--------------------|---------------------|----------|
|  | March 31,          |                     |          |
|  | 2019               | 2018 <sup>(1)</sup> | % change |
| Income (loss) before taxes                           | <b>\$(6,123)</b>   | \$5,073             | (221)    |
| Depletion, depreciation and amortization             | <b>39,352</b>      | 43,458              | (9)      |
| Stock-based compensation                             | <b>1,320</b>       | 1,514               | (13)     |
| Gain on disposition of property, plant and equipment | <b>–</b>           | (6)                 | (100)    |
| Accretion expense on decommissioning obligations     | <b>1,145</b>       | 1,007               | 14       |
| Unrealized loss on financial instruments             | <b>21,809</b>      | 7,499               | 191      |
| Adjusted operating field netback                     | <b>\$57,503</b>    | \$58,545            | (2)      |
| Per share - basic                                    | <b>\$0.25</b>      | \$0.26              | (4)      |
| Per share - diluted                                  | <b>\$0.25</b>      | \$0.25              | –        |
| Net income (loss)                                    | <b>\$(4,826)</b>   | \$3,294             | (247)    |
| Per share - basic                                    | <b>\$(0.02)</b>    | \$0.01              | (300)    |
| Per share - diluted                                  | <b>\$(0.02)</b>    | \$0.01              | (300)    |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

The adjusted operating field netback (see “Non-IFRS Measures”) in the first quarter of 2019 was comparable to the same period in 2018.

The Company recorded a net loss of \$4.8 million (\$0.02 per share basic and diluted) during the three months ended March 31, 2019, compared to net income of \$3.3 million (\$0.01 per share basic and diluted) for the same period in 2018. This was primarily due to a higher unrealized hedging loss in Q1/19.

## **Capital Expenditures (Including Exploration and Evaluation Expenditures)**

The following table summarizes capital spending, excluding non-cash items:

| (\$ thousands)             | Three months ended |          |          |
|----------------------------|--------------------|----------|----------|
|                            | March 31,          |          |          |
|                            | 2019               | 2018     | % change |
| Land                       | <b>\$7</b>         | \$787    | (99)     |
| Geological and geophysical | <b>–</b>           | 2        | (100)    |
| Drilling and completion    | <b>54,186</b>      | 53,186   | 2        |
| Equipment and facilities   | <b>16,295</b>      | 14,899   | 9        |
| Capitalized G&A            | <b>695</b>         | 690      | 1        |
| Office equipment           | <b>60</b>          | 66       | (9)      |
| Total capital expenditures | <b>\$71,243</b>    | \$69,630 | 2        |

During the first quarter of 2019, the Company drilled, completed and equipped 31 (30.2 net) Viking oil wells, 7 (6.1 net) Cardium oil wells and 2.0 net Penny oil wells. In addition to the first quarter drilling program, the Company also completed and brought on production 19 (18.5 net) Viking oil wells that were drilled in late Q4/18. The Company also drilled 18 (17.7 net) Viking oil wells and 2.0 net Cardium oil wells that will be brought on production in the second quarter of 2019, resulting in total drilling for the quarter of 49 (47.9 net)

Viking oil wells, 9 (8.1 net) Cardium oil wells and 2.0 net Penny oil wells.

Tamarack also directed capital to the continued development of a waterflood program in the Company's Veteran, Alberta area. Two of the 49 Viking oil wells drilled at Veteran during the quarter are future injection wells, which will produce to recover the capital costs until the commencement of the injection project later in 2019. Additionally, significant investment in area pipeline and facility infrastructure that is required to operate the infield waterflood was initiated at the end of 2018 and completed in the first quarter of 2019. The waterflood project is designed to improve oil recoveries, reduce corporate decline rates and increase production rates while utilizing Tamarack's existing and owned infrastructure. These supplementary projects are subject to the same rate of return thresholds as those used for development drilling when competing for capital.

| March 31, 2019<br>Drilling Summary |              |            |
|------------------------------------|--------------|------------|
|                                    | <u>Gross</u> | <u>Net</u> |
| Viking                             | 49.0         | 47.9       |
| Cardium                            | 9.0          | 8.1        |
| Penny                              | 2.0          | 2.0        |
|                                    | 60.0         | 58.0       |

As at March 31, 2019, the Company's net undeveloped land totaled 413,052 acres.

### **Property Acquisitions**

During the three months ended March 31, 2019, Tamarack completed four minor acquisitions for \$1.1 million. Subsequent to the quarter, the Company closed a Viking oil acquisition for \$4.7 million in the Veteran/Consort area of Alberta, adding 130 boe/d and 9.4 net sections of undeveloped Viking lands that are adjacent to existing Tamarack lands.

### **Share Capital**

At March 31, 2019, Tamarack had issued and outstanding 226,392,663 common shares ("Common Shares"), of which 750,774 were held in treasury, 2,889,833 Options, 8,689,921 RSUs and 2,055,000 PSUs. At May 9, 2019, Tamarack has issued and outstanding 226,392,261 Common Shares, of which 616,176 were held in treasury, 2,654,833 Options, 8,694,823 RSUs and 2,084,000 PSUs. This compares to December 31, 2018, at which time Tamarack had issued and outstanding 226,072,693 Common Shares, of which 1,193,188 were held in treasury, 2,944,833 Options, 7,407,472 RSUs and 983,000 PSUs. No preferred shares of Tamarack are issued and outstanding.

At March 31, 2019 and December 31, 2018, Tamarack Acquisition Corp. had 1,086,974 preferred shares ("TAC Preferred Shares") issued and outstanding. At these time points, the TAC Preferred Shares were fully vested and exchangeable into 1,045,168 Common Shares of Tamarack at an exchange price of \$3.12 per Common Share.

As noted under 'Liquidity and Capital Resources' below, during the three months ended March 31, 2019, Tamarack purchased and cancelled 284,900 outstanding Common Shares under its normal course issuer bid ("NCIB") program, for a total investment of \$0.7 million. During the year ended December 31, 2018, Tamarack purchased and cancelled 3,025,000 outstanding Common Shares under its NCIB program, for a total investment of \$11.7 million. The NCIB provides management with an instrument that can be employed when there is a perceived misalignment between the Company's prevailing share price and the underlying current and future potential value of its assets. In addition to supporting the Company's commitment to generating per share value, the NCIB also helps to offset the dilutive impact that may be

associated with the exercise and settlement of Options, RSUs and PSUs issued under Tamarack's stock-based compensation programs.

## **Liquidity and Capital Resources**

| (\$ thousand)   | <b>March 31,<br/>2019</b> | March 31,<br>2018 <sup>(1)</sup> | December 31,<br>2018 <sup>(1)</sup> |
|---|---------------------------|----------------------------------|-------------------------------------|
| Working capital deficiency                              | <b>\$29,921</b>           | \$20,982                         | \$18,385                            |
| Bank debt   | <b>189,427</b>            | 165,750                          | 161,495                             |
| Net debt  | <b>219,348</b>            | 186,732                          | 179,880                             |
| Quarterly adjusted operating field netback              | <b>\$57,503</b>           | \$58,545                         | \$38,346                            |
| Annualized factor                                       | <b>4</b>                  | 4                                | 4                                   |
| Annualized adjusted operating field netback             | <b>230,012</b>            | 234,180                          | 153,384                             |
| Net debt to annualized adjusted operating field netback | <b>1.0x</b>               | 0.8x                             | 1.2x                                |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

Tamarack's net debt (see "Non-IFRS Measures"), including working capital deficiency but excluding the fair value of financial instruments, totaled \$219.3 million as at March 31, 2019. This compares to its net debt of \$179.9 million and \$186.7 million in Q4/18 and Q1/18, respectively. Tamarack's Q1/19 net debt to annualized adjusted operating field netback ratio (see "Non-IFRS Measures") was 1.0 times.

The \$72.3 million invested in capital expenditures and property acquisitions and \$22.3 million used to retire a lease during the first quarter of 2019 was funded by Tamarack's adjusted operating field netback (see "Non-IFRS Measures") of \$57.5 million and an increase in net debt of \$37.1 million.

With continued commodity price volatility and crude oil price differential volatility recently impacting the Canadian oil and gas industry, Tamarack's strategy remains focused on preserving balance sheet strength. The Company strives to achieve this by adjusting capital spending as appropriate to respond to changes in realized commodity prices and by using financial derivatives and physical delivery contracts to mitigate risk. Tamarack intends to maintain balance sheet flexibility which allows the Company to be opportunistic and take advantage of potential opportunities within core areas, whether by increasing drilling activity or by completing tuck-in acquisitions. Although Tamarack's business remains solid, at times management believes the Company's prevailing share price does not adequately reflect the underlying value of its assets. As such, Tamarack implemented the NCIB through the facilities of the Toronto Stock Exchange and alternate trading platforms, pursuant to which the Company has the option to repurchase its Common Shares for cancellation, thereby reducing the total number of shares outstanding. The NCIB represents an additional tool that can be employed as part of management's ongoing strategy to increase long-term shareholder value. For the three months ended March 31, 2019, the Company spent \$0.7 million to purchase and cancel 284,900 outstanding Common Shares under the NCIB program.

Further, the Company remains committed to executing its proven strategy of focusing on drilling wells that target a return on capital cost payout of 1.5 years or less, and will continue to control or reduce capital, production and transportation costs where possible. "Capital cost payout" or "payout" are Non-IFRS measures and are achieved when revenues, less royalties, production and transportation costs are equal to the total capital costs associated with drilling, completing, equipping and tying-in a well (see "Non-IFRS Measures").

## **Bank Debt**

Tamarack currently has available a revolving credit facility in the amount of \$260 million and a \$30 million operating facility (collectively, the “Facility”) with a syndicate of lenders. The Facility totals \$290 million, of which \$189.4 million was drawn as of March 31, 2019 (December 31, 2018 - \$161.5 million), lasts for a 364-day period and will be subject to its next 364-day extension by May 24, 2019. If not extended on May 24, 2019, the Facility will cease to revolve and all outstanding balances will become repayable in one year from that date.

During the semi-annual review of the Facility that occurred in the fourth quarter of 2018, an accordion feature was added to the lending agreement which allows Tamarack to increase the revolving credit facility portion of the Facility to \$370 million for a total Facility of \$400 million, upon exercise and syndicate approval. The accordion feature bears no fees, including standby, until exercised. As at March 31, 2019, the accordion feature had not been exercised.

The total interest rate on the Facility is determined through a pricing grid that categorizes based on a net debt to cash flow ratio as defined in the Facility. The interest rate will vary depending on the lending vehicle employed and the Company’s current net debt-to-cash-flow ratio. Interest on bankers’ acceptances (“BA”) and LIBOR Based Loans (“LIBOR”) will vary based on a BA/LIBOR pricing grid from a low of the banks’ posted rates plus 1.5% to a high of the banks’ posted rates plus 3.5%. Interest on prime lending varies based on a prime rate pricing grid from a low of the banks’ prime rates plus 0.5% to a high of the banks’ prime rates plus 2.5%. The standby fee for the Facility will vary as per a pricing grid from a low of 0.3375% to a high of 0.7875% on the undrawn portion of the Facility. The lending vehicles Tamarack employs from time to time will vary based on capital needs and current market rates. As at March 31, 2019, the Facility was secured by a \$1.0 billion supplemental debenture with a floating charge over all assets. As the available lending limits of the Facility are based on the banks’ interpretation of the Company’s reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review. The next review by the bank is scheduled to be completed by May 24, 2019.

There are no financial covenants governing the Facility.

## **Guidance**

Tamarack’s first quarter production of 23,149 boe/d (64% oil and NGL weighting) was impacted by its required compliance with the Curtailment Order, which muted the Company’s previous growth trajectory as the timing of capital spending and activity were adjusted. As a result, Tamarack anticipates that approximately 65% of its drilling program will occur in the second half of 2019 with a meaningful ramp-up in production volumes anticipated during the fourth quarter, subject to the Curtailment Order being lifted. Tamarack drilled 18 Viking oil and two Cardium oil wells in the first quarter, which subsequently were brought on production in mid-April. These wells will contribute to second quarter production growth and assist the Company in achieving its first half average production rate forecast of between 23,500 boe/d to 23,750 boe/d while still conforming with the Curtailment Order.

The Company’s full year guidance remains intact subject to the Curtailment Order concluding by the end of the third quarter of 2019. Plans to invest between \$170 million and \$180 million (excluding tuck-in acquisitions), are expected to be more than funded by total adjusted operating field netback (see “Non-IFRS Measures”) based on current WTI prices above US\$60/bbl. Tamarack intends to re-evaluate its capital allocation strategy in the second half of 2019 based on the curtailment situation and future commodity prices. Due to Tamarack’s success in accumulating an inventory of Viking and Cardium locations that payout in 1.5 years or less at current commodity prices, the Company expects to be fully self-

funding in 2019 and estimates it will achieve a 3% to 5% increase in debt adjusted production per share<sup>1</sup> growth (see “Non-IFRS Measures”) in Q4/19 compared to Q4/18. Further, based on forward strip prices, this program has the potential to generate excess total adjusted operating field netback which can be used for future Common Share purchases under the NCIB program or for additional accretive tuck-in acquisitions.

Tamarack’s 2019 budget anticipates drilling 125 net wells, including Viking wells in Alberta and Saskatchewan, Cardium oil wells in Wilson Creek and oil wells in Penny. In addition, the Company intends to continue directing capital to activities related to the Veteran waterflood with \$20 million budgeted for 15 well conversions in the first half of 2019 and the drilling and conversion of six additional injection wells in East Veteran. The majority of the 2019 waterflood capital has been invested to date, and while the impact on overall corporate decline rates will be realized starting in 2020, programs such as the Veteran waterflood serve to enhance Tamarack’s long-term sustainability.

The Company’s capital allocation strategy over the past several years has remained consistent with the objective of achieving sustainability at low oil prices, while generating debt-adjusted per share growth. With approximately 30% of its 2019 production protected with hedges including a US\$60.00/bbl WTI put option and another approximately 3% protected by fixed price contracts at US\$64.60/bbl, Tamarack remains well positioned to withstand further crude oil price volatility.

**The Company's 2019 budget is summarized in the following table:**

|  | <b>2019 Budget</b> |
|--|--------------------|
| Average annual production (boe/d)      | 23,500 – 24,500    |
| Liquids weighting (%)                  | ~64 - 66           |
| Exit production (boe/d)                | 25,500 – 26,500    |
| Liquids weighting (%)                  | ~64 – 66           |
| 2019 Capital expenditures (\$millions) | \$170 - \$180      |
| 2019 price assumptions:                |                    |
| WTI (\$US/bbl)                         | \$50.00            |
| Edmonton Par (\$CDN/bbl)               | \$52.33            |
| Edmonton Par differential (\$US/bbl)   | \$10.75            |
| AECO (\$CDN/GJ)                        | \$1.31             |
| Canadian/US dollar exchange rate       | \$0.75             |

Should forecasted realized commodity prices significantly fluctuate from levels outlined in the assumptions above, Tamarack maintains control to accelerate or reduce capital expenditures, redirect capital to purchase Common Shares through the NCIB program or pay down debt.

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<sup>1</sup> Debt adjusted production per share is a measure of changes in production on a per share basis, with the number of shares adjusted based on changes to net debt outstanding for the periods being compared. Debt adjusted share count is calculated as total shares outstanding plus incremental shares issued using \$2.30 per share to eliminate the change in net debt or in the case where net debt decreases the reduction in shares using the same \$2.30 per share.

## **Commitments**

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases for facilities on the balance sheet. These liabilities were previously reported as commitments. The following table summarizes the Company's commitments as at March 31, 2019:

| (\$ thousands)                         | 2019  | 2020    | 2021  | 2022  | 2023  | 2024 | 2025+ |
|--|-------|---------|-------|-------|-------|------|-------|
| Bank debt                              | -     | 189,427 | -     | -     | -     | -    | -     |
| Office lease <sup>(1)</sup>            | 407   | 263     | -     | -     | -     | -    | -     |
| Take or pay commitments <sup>(2)</sup> | 1,654 | 2,256   | 2,294 | 2,340 | 2,396 | -    | -     |
| Gas transportation <sup>(3)</sup>      | 548   | 229     | 76    | -     | -     | -    | -     |
| Total                                  | 2,609 | 192,175 | 2,370 | 2,340 | 2,396 | -    | -     |

(1) Relates to the operating costs for the office lease which are a non-lease component of lease liabilities.

(2) Pipeline commitment to deliver a minimum of 636 m<sup>3</sup>/d of crude oil/condensate subject to a take-or-pay provision of \$9.00/m<sup>3</sup>. The term starts on January 1, 2019 and lasts for 60 months.

(3) Gas transportation costs on long term firm contracts which are in various locations at variable rates.

Rental fees, which were in the December 31, 2018 commitments table, were removed due to the adoption of IFRS 16. The amounts removed were as follows:

| (\$ thousands) | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025+ |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| Rental fee     | 6,312 | 6,312 | 6,312 | 4,441 | 2,570 | 1,142 | 1,285 |

## **Unit Cost Calculation**

For the purpose of calculating unit costs, natural gas volumes have been converted to a barrel of oil equivalent ("boe") using six thousand cubic feet equal to one barrel, unless otherwise stated. A boe conversion ratio of 6:1 is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). Boe may be misleading, particularly if used in isolation.

## **Abbreviations**

|       |  |
|-------|--|
| AECO  | Natural gas storage facility located at Suffield, AB |
| bbl   | barrel   |
| bbl/d | barrels per day                                      |
| boe   | barrels of oil equivalent                            |
| boe/d | barrels of oil equivalent per day                    |
| GJ    | gigajoule  |
| mcf   | thousand cubic feet                                  |
| mcf/d | thousand cubic feet per day                          |
| Mmbtu | one million British thermal units                    |
| NGL   | natural gas liquids                                  |
| WTI   | West Texas Intermediate                              |
| CGU   | cash-generating unit                                 |

## **Non-IFRS Measures**

This document contains the terms “adjusted operating field netback”, “operating netback”, “operating field netback”, “net debt”, “netbacks”, “capital cost payout”, “net debt to annualized adjusted operating field netback ratio” and “debt adjusted production per share growth”, which are non-IFRS financial measures. The Company uses these measures to help evaluate its performance. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

- (a) **Adjusted Operating Field Netback** - Tamarack’s method of calculating adjusted operating field netback may differ from other companies, and therefore may not be comparable to measures used by other companies. Adjusted operating field netback is calculated by taking net income or loss before taxes and adding back items, including transaction costs, and certain non-cash items including stock-based compensation; accretion expense on decommissioning obligations; depletion, depreciation and amortization; impairment; unrealized gain or loss on financial instruments; and gain or loss on dispositions. Tamarack uses adjusted operating field netback as a key measure to demonstrate the Company’s ability to generate funds to repay debt and fund future capital investment. Adjusted operating field netback per share is calculated using the same weighted average basic and diluted shares used in calculating income (loss) per share. The calculation of the Company’s adjusted operating field netbacks is summarized starting on page 12 in the section titled “Adjusted Operating Field Netback and Net Income (Loss)”.
- (b) **Operating Netback and Operating Field netback** - Management uses certain industry benchmarks, such as operating netback and operating field netback, to analyze financial and operating performance. These benchmarks do not have standardized meanings prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback equals total petroleum and natural gas sales, including realized gains and losses on commodity and foreign exchange derivative contracts, less royalties and net production and transportation costs. Operating field netback equals total petroleum and natural gas sales, less royalties and net production and transportation costs. These metrics can also be calculated on a per boe basis. Management considers operating netback and operating field netback important measures to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices. The calculation of the Company’s netbacks can be seen starting on page 8 in the section titled “Operating Netback”.
- (c) **Net Debt** - Tamarack closely monitors its capital structure with a goal of maintaining a strong balance sheet to fund the future growth of the Company. The Company monitors net debt as part of its capital structure. Net debt does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The Company uses net debt (bank debt plus working capital surplus or deficit, excluding the fair value of financial instruments) as an alternative measure of outstanding debt. Management considers net debt an important measure to assist in assessing the liquidity of the Company.

The following outlines the Company's calculation of net debt (excluding the effect of derivative contracts):

| (\$ thousand)                            | March 31, 2019   | December 31, 2018 <sup>(1)</sup> |
|--|------------------|----------------------------------|
| Accounts payable and accrued liabilities | \$73,803         | \$41,966                         |
| Accounts receivable                      | (41,098)         | (21,211)                         |
| Prepaid expenses and deposits            | (2,784)          | (2,370)                          |
| Working capital deficiency               | 29,921           | 18,385                           |
| Bank debt                                | 189,427          | 161,495                          |
| <b>Net debt</b>                          | <b>\$219,348</b> | <b>\$179,880</b>                 |

<sup>(1)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

- (d) **Capital Cost Payout** - Management uses certain industry benchmarks, such as capital cost payout, to analyze financial and operating performance. This benchmark does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Capital cost payout is achieved when revenues, less royalties, production and transportation costs are equal to the total capital costs associated with drilling, completing, equipping and tying in a well. Management considers capital cost payout an important measure to evaluate its operational performance, as it demonstrates the economic status of the Company's projects and allows the Company to understand how quickly capital can be returned from drilling a well, which helps assess the Company's ability to generate value.
- (e) **Net debt to annualized adjusted operating field netback** – Management uses certain industry benchmarks, such as net debt to annualized adjusted operating field netback, to analyze financial and operating performance. This benchmark does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. This benchmark is calculated as net debt divided by the annualized adjusted operating field netback for the most recently completed quarter. Management considers net debt to annualized adjusted operating field netback as a key measure as it provides a snapshot of the overall financial health of a company and its ability to pay off its debt and take on new debt, if necessary, using the most recent quarter's results.
- (f) **Debt adjusted production per share growth** - Management uses certain measurements as debt adjusted production per share growth, to analyze financial and operating performance. This benchmark does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. This is a measure of changes in production on a per share basis, with the number of shares adjusted based on changes to net debt outstanding for the periods being compared. Debt-adjusted share count is calculated as total shares outstanding plus incremental shares issued at a current market price to eliminate the change in net debt or in the case where debt decreases the reduction in shares. Management of Tamarack believes that debt adjusted production per share is useful in determining the production growth on a per share basis as if changes to debt was extinguished by the issuance or redemption of shares. The presentation of production growth on a per share basis is skewed for oil and gas companies that have more debt on their balance sheet and in their capital structure. Such companies will show better results because more of their growth is financed through debt than equity (as opposed to generating growth through realizing a rate of return on capital employed). The debt adjusted production per share measure provides a means of putting oil and gas companies on an equal, enterprise-based footing with respect to debt when calculating per share numbers. This measure is relevant to investors to

appreciate the impact the debt on a company's balance sheet has on per share growth disclosure and the strength of one company's balance sheet relative to an over-leveraged peer, particularly in volatile commodity price environments where a company's indebtedness may increase as a result of lower cash flows and higher debt financing costs.

## Selected Quarterly Information

| Three months ended                              | Mar. 31,<br>2019 | Dec. 31,<br>2018 <sup>(2)</sup> | Sep. 30,<br>2018 <sup>(2)</sup> | Jun. 30,<br>2018 <sup>(2)</sup> | Mar. 31,<br>2018 <sup>(2)</sup> | Dec. 31,<br>2017 <sup>(2)</sup> | Sep. 30,<br>2017 <sup>(2)</sup> | Jun. 30,<br>2017 <sup>(2)</sup> |
|---|------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>Sales volumes</b>                            |                  |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Natural gas (mcf/d)                             | 50,576           | 50,262                          | 49,943                          | 52,376                          | 51,879                          | 51,956                          | 49,987                          | 47,696                          |
| Oil and NGL (bbls/d)                            | 14,720           | 16,403                          | 16,441                          | 15,124                          | 14,885                          | 14,148                          | 12,210                          | 11,387                          |
| Average boe/d (6:1)                             | 23,149           | 24,780                          | 24,765                          | 23,853                          | 23,532                          | 22,807                          | 20,541                          | 19,336                          |
| <b>Product prices</b>                           |                  |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Natural gas (\$/mcf)                            | 2.82             | 3.70                            | 1.63                            | 1.65                            | 2.25                            | 1.89                            | 1.62                            | 3.01                            |
| Oil and NGL (\$/bbl)                            | 62.07            | 37.08                           | 73.81                           | 72.66                           | 65.86                           | 62.34                           | 50.29                           | 51.77                           |
| Oil equivalent (\$/boe)                         | 45.62            | 32.05                           | 52.29                           | 49.69                           | 46.62                           | 42.97                           | 33.83                           | 37.91                           |
| <i>(000s, except per share amounts)</i>         |                  |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| <b>Financial results</b>                        |                  |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Gross revenues                                  | 95,047           | 73,075                          | 119,134                         | 107,859                         | 98,736                          | 90,160                          | 63,927                          | 66,715                          |
| Cash provided by operating activities           | 48,089           | 49,137                          | 62,644                          | 64,606                          | 60,285                          | 50,056                          | 35,237                          | 34,537                          |
| Adjusted operating field netback <sup>(1)</sup> | 57,503           | 38,346                          | 68,579                          | 61,005                          | 58,545                          | 57,583                          | 34,774                          | 33,670                          |
| Per share – basic                               | 0.25             | 0.17                            | 0.30                            | 0.27                            | 0.26                            | 0.25                            | 0.15                            | 0.15                            |
| Per share – diluted                             | 0.25             | 0.17                            | 0.29                            | 0.26                            | 0.25                            | 0.25                            | 0.15                            | 0.15                            |
| Net income (loss)                               | (4,826)          | 18,952                          | 13,004                          | 3,060                           | 3,294                           | (12,525)                        | (6,742)                         | 3,053                           |
| Per share – basic                               | (0.02)           | 0.08                            | 0.06                            | 0.01                            | 0.01                            | (0.05)                          | (0.03)                          | 0.01                            |
| Per share – diluted                             | (0.02)           | 0.08                            | 0.06                            | 0.01                            | 0.01                            | (0.05)                          | (0.03)                          | 0.01                            |
| Capital expenditures                            | 71,243           | 25,798                          | 78,149                          | 52,674                          | 69,630                          | 35,516                          | 74,063                          | 19,002                          |
| Net acquisitions (dispositions)                 | 1,074            | (4,823)                         | –                               | (5,009)                         | 2,790                           | 1,713                           | 2,962                           | 1,301                           |
| Total assets                                    | 1,349,508        | 1,264,053                       | 1,291,058                       | 1,237,571                       | 1,240,335                       | 1,207,809                       | 1,206,886                       | 1,178,404                       |
| Net debt <sup>(1)</sup>                         | 219,348          | 179,880                         | 192,184                         | 181,341                         | 186,732                         | 173,180                         | 194,917                         | 152,354                         |
| Bank debt                                       | 189,427          | 161,495                         | 168,970                         | 156,965                         | 165,750                         | 163,889                         | 162,164                         | 140,795                         |
| Decommissioning obligations                     | 210,198          | 193,003                         | 192,409                         | 185,038                         | 182,216                         | 177,793                         | 167,102                         | 171,909                         |

<sup>(1)</sup> Refer to definition of adjusted operating field netback and net debt under "Non-IFRS Measures".

<sup>(2)</sup> IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to the Changes in Accounting Policies section in this MD&A.

Significant factors and trends that have impacted the Company's results during the above periods include:

- The volatility in commodity prices and the resulting effect on revenue, cash provided by operating activities, adjusted operating field netbacks and earnings.
- The Company uses derivative contracts to reduce the financial impact of volatile commodity prices and foreign exchange rates which can cause significant fluctuations in earnings due to unrealized gains and losses recognized on a quarterly basis.
- The Company recorded a net impairment charge on its Cardium oil CGU that has associated natural gas being produced with the oil and includes Mannville gas wells and a Pekisko gas unit, due to falling gas prices in the amount of \$58.0 million in Q4 2018 and an impairment reversal of \$53.0 million on its Viking oil CGU. The Company recorded impairment charges on its heavy oil

and certain natural gas related CGUs due to falling oil and natural gas prices in the amount of \$17.0 million in Q4 2017.

### **Critical Accounting Estimates**

Management is required to make judgments, assumptions, and estimates in applying its accounting policies which have significant impact on the financial results of the Company. The following outlines the accounting policies involving the use of estimates that are critical to understanding the financial condition and results of operations of the Company:

- (a) **Oil and natural gas reserves** – Proved reserves, as defined by the Canadian Securities Administrators in NI 51-101 with reference to the Canadian Oil and Gas Evaluation Handbook, are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (b) **Exploration and evaluation assets (“E&E”)** – The costs of drilling exploratory wells are initially capitalized as E&E assets pending the evaluation of commercial reserves. Commercial reserves are defined as the existence of proved and/or probable reserves which are determined to be technically feasible and commercially viable to extract. Reserves may be considered commercially producible if management has the intention of developing and producing them based on factors such as project economics, quantities of reserves, expected production techniques, estimated production costs and capital expenditures.

E&E expenditures relating to activities to explore and evaluate oil and natural gas properties are initially capitalized and include costs associated with the acquisition of licenses, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and costs associated with retiring the assets. E&E assets are carried forward until technical feasibility and commercial viability of extracting a mineral resource is determined. E&E assets are tested for impairment when facts and circumstances suggest that the carrying amount of E&E assets may exceed their recoverable amount, aggregated at the segment level.

- (c) **Carrying value of property, plant and equipment (“PP&E”)** – PP&E is measured at cost less accumulated depletion, depreciation, amortization and impairment losses. The net carrying value of PP&E and estimated future development costs is depleted using the unit-of-production method based on estimated proved and probable reserves. Changes in estimated proved and probable reserves or future development costs have a direct impact on the calculation of depletion expense.

The Company is required to use judgment when designating the nature of oil and gas activities as E&E assets or development and production assets within PP&E. E&E assets and development and production assets are aggregated into CGUs based on their ability to generate largely independent cash flows. The allocation of the Company’s assets into CGUs requires significant judgment with respect to use of shared infrastructure, existence of active markets for the Company’s products and the way in which management monitors operations.

The Company assesses PP&E for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. If any such indication of impairment exists, the Company performs an impairment test related to the specific CGU. The determination of the recoverable amount of a CGU requires the use of assumptions and estimates

including quantities of recoverable reserves, production quantities, future commodity prices and development and production costs. Changes in any of these assumptions, such as a downward revision in reserves, a decrease in commodity prices or an increase in costs could impact the fair value.

- (d) **Decommissioning obligations** – The decommissioning obligations are estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a risk-free rate. The costs are included in PP&E and amortized over the useful life of the asset. The liability is adjusted each reporting period to reflect the passage of time, with the accretion expense charged to net earnings, and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements could be material.
- (e) **Income taxes** – The determination of income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.
- (f) **Business combinations** – Management’s judgment is required to determine whether a transaction constitutes a business combination or asset acquisition as determined based on the criteria in IFRS 3, “Business Combinations”. Business combinations are differentiated from an asset acquisition when business processes are associated with the assets.

Business combinations within the scope of IFRS 3 are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Deferred taxes are recognized for any differences between the fair value and the tax basis of net assets acquired. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill.

### **Future Accounting Pronouncements**

The Company did not identify any issued but not yet effective IFRSs that are expected to significantly impact the Company’s financial statements.

### **Changes in Accounting Policies**

#### **IFRS 16, Leases:**

Effective January 1, 2019, the Company adopted IFRS 16. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings (deficit) and applies the standard prospectively. Therefore, the comparative information in the interim financial statements has not been restated.

On adoption, management elected to use the following practical expedients permitted under the new standard:

- account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases;
- account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of a low dollar value; and
- the use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 requires entities to recognize lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, "Leases". Under the principles of IFRS 16 these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at January 1, 2019. Incremental borrowing rates as at January 1, 2019 ranged from 4.5% to 8.8%. The associated ROU assets were measured at the amount equal to the lease liability on January 1, 2019.

Adopting IFRS 16 impacted Tamarack's lease liabilities and ROU assets as follows, as at January 1, 2019:

- recorded lease liabilities of \$37.2 million, \$25.9 million of which is the current portion; and
- recorded ROU assets of \$37.2 million;

Adopting IFRS 16 impacted Tamarack's Q1 2019 financial results compared with what would have occurred had we not adopted the new accounting policy as follows:

- decreased production costs in the amount of \$1.6 million;
- increased DD&A expenses in the amount of \$1.0 million; and
- increased finance expenses in the amount of \$0.5 million.

### **Disclosure Controls and Internal Controls over Financial Reporting**

The Company has designed disclosure controls and procedures ("DCP") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company has designed internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's ICFR that occurred during the recent fiscal period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

No material changes in the Company's DCP and its ICFR were identified during the period ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. As a result, the Company's DCP and its ICFR were effective as at March 31, 2019.

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.

## **Business Risks**

Tamarack faces business risks, both known and unknown, with respect to its oil and gas exploration, development, and production activities that could cause actual results or events to differ materially from those forecast. Most of these risks (financial, operational or regulatory) are not within the Company's control. While the following sections discuss some of these risks, they should not be construed as exhaustive. For a more fulsome risk discussion, refer to Tamarack's AIF, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Financial Risks**

Financial risks include commodity pricing, exchange and interest rates and volatile markets.

Commodity price fluctuations result from market forces completely out of the Company's control and can significantly affect the Company's financial results. In addition, fluctuations between the Canadian dollar and the US dollar can also have a significant impact. Expenses are all incurred in Canadian dollars while oil, and to some extent natural gas, prices are based on reference prices denominated in US dollars. Due to both of these factors, Tamarack may enter into derivative instruments to partially mitigate the effects of downward price and foreign exchange volatility. To evaluate the need for hedging, management, with direction from the Board of Directors, monitors future pricing trends together with the cash flow necessary to fulfill capital expenditure requirements. Tamarack will only enter into a hedge to reduce downside uncertainty of pricing, not as a speculative venture.

## **Operational Risks**

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Tamarack depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, existing reserves and their subsequent production will decline over time as they are exploited. A future increase in Tamarack's reserves will depend not only on its ability to explore and develop any properties it may have, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by Tamarack.

Tamarack endeavors to mitigate these risks by, among other things, ensuring that its employees are highly qualified and motivated. Prior to initiating capital projects, the Tamarack technical team completes an economic analysis, which attempts to reflect the risks involved in successfully completing the project. In an effort to mitigate the risk of not finding new reserves, or of finding reserves that are not economically viable, Tamarack utilizes various technical tools, such as 2D and 3D seismic data, rock sample analysis and the latest drilling and completions technology.

Insurance is in place to protect against major asset destruction or business interruptions, and includes, but is not limited to events such as well blow-outs or pollution. In addition, Tamarack cultivates relationships with its suppliers in an effort to ensure good service regardless of the prevailing cycle of oil and gas activity.

Operational risk is mitigated by having Tamarack employees address the continued development of a new or established reservoir on a go-forward basis, using the same procedure that is used to address exploration risk. The decision to produce reserves is made based on the amount of capital required, production practices and reservoir quality. Tamarack evaluates reservoir development based on the timing, amount of additional capital required and the expected change in production values. Finding and development costs are controlled when capital is employed in a cost-effective manner.

## **Regulatory Risks**

Regulatory risks include the possibility of changes to royalty, tax, environmental and safety legislation. Tamarack endeavours to anticipate the costs related to compliance and budget sensibly for them. Changes to environmental and safety legislation may also cause delays to Tamarack's drilling plans, its production efficiencies and may adversely affect its future earnings. Restrictive new legislation is a risk the Company cannot control.

## **Forward-Looking Statements**

Certain statements contained within this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "budget", "plan", "endeavour", "continue", "estimate", "evaluate", "expect", "forecast", "monitor", "may", "will", "can", "able", "potential", "target", "intend", "consider", "focus", "identify", "use", "utilize", "manage", "maintain", "remain", "result", "cultivate", "could", "should", "believe" and similar expressions. The Company believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Without limitation, this MD&A contains forward-looking statements pertaining to:

- the intentions of management and the Company;
- the duration of the Curtailment Order;
- the Company's compliance with the Curtailment Order;
- the impact of the Curtailment Order on liquids weighting, Canadian crude prices and the Company's 2019 drilling plans, production and guidance;
- the availability, size, terms, use and renewal of the Facility;
- estimated production rates in 2019, including in respect of the Cardium and Viking oil wells;
- the Company's expectation that the Viking and Cardium oil wells will be brought on production in Q2/19 and their impact on its production rate;
- the performance of the Viking waterflood project, including oil recoveries and corporate decline rates;
- Tamarack's focus on preserving balance sheet strength by adjusting capital spending relative to commodity prices and by using financial derivatives and physical delivery contracts to manage fluctuations in commodity prices, foreign exchange rates and interest rates;
- Tamarack's intent to maintain balance sheet flexibility to allow the Company to take advantage of opportunities within the core areas, whether by increasing drilling activity or by completing tuck-in acquisitions;
- Tamarack's primary focus areas for production growth;
- future drilling plans;
- the capital cost payout of wells and Tamarack's strategy of focusing on drilling wells that target a certain return on capital cost payout and Tamarack's ability to control cost or reduce capital, production and transportation costs;
- deferred tax liabilities;
- future investment and capital allocation strategy;
- Tamarack's execution to be fully self-funding in 2019;

- estimates for debt adjusted production per share in 2019;
- expectations as to royalty rates as a percentage of revenue;
- contractual obligations and commitments;
- the estimates used to calculate the decommissioning obligations and depletion of PP&E;
- expectations for realized commodity prices in 2019 and the first quarter of 2020;
- Tamarack's intent to use excess total adjusted operating field netbacks to purchase and cancel shares under the NCIB or to close additional accretive tuck-in acquisitions;
- future RSU settlements;
- Tamarack's ability to explore alternative gas markets and diversify its gas price exposure;
- Tamarack's plan to accelerate or reduce capital expenditures, redirect capital to purchase shares or pay down debt if commodity prices significantly fluctuate from the 2019 price assumptions;
- expectations for oil, NGL and natural gas pricing in 2019 and beyond; and
- expectations for oil, NGL and natural gas weighting in 2019.

With respect to the forward-looking statements contained in this MD&A, Tamarack has made assumptions regarding, among other things:

- future commodity prices, price differentials and the actual prices received for the Company's products;
- expected net production and transportation expenses and operating costs;
- estimated reserves of oil and natural gas;
- the ability to obtain equipment and services in the field in a timely and efficient manner;
- the ability to add production and reserves through acquisition and/or drilling at competitive prices;
- the timing of anticipated future production additions from the Company's properties and acquisitions;
- accumulating an inventory of Viking and Cardium locations that payout in 1.5 years or less at current commodity prices;
- the lifting of the Curtailment Order and the timing thereof;
- drilling results, including field production rates and decline rates;
- the continued application of horizontal drilling and fracturing techniques and pad drilling;
- the continued availability of capital and skilled personnel;
- the ability to obtain financing on acceptable terms;
- the accuracy of Tamarack's geological interpretation of its drilling and land opportunities, including the ability of seismic activity to enhance such interpretation;
- the impact of increasing competition;
- the ability of the Company to secure adequate product transportation;
- the ability to enter into future commodity derivative contracts on acceptable terms; and
- the continuation of the current tax, royalty and regulatory regime.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated or implied by such forward-looking statements due to a number of factors and risks. These include:

- the material uncertainties and risks described under the headings “Unit Cost Calculation”, “Non-IFRS Measures”, “Critical Accounting Estimates”, “Future Accounting Pronouncements”, “Changes in Accounting Policies”, “Disclosure Controls and Internal Controls Over Financial Reporting”, “Business Risks”, “Financial Risks”, “Operational Risks” and “Regulatory Risks”;
- the material assumptions and observations described under the headings “Production”, “Petroleum and Natural Gas Sales”, “Royalties”, “Net Production and Transportation Expenses”, “Operating Netback”, “General and Administrative (“G&A”) Expenses”, “Stock-Based Compensation Expenses”, “Interest Expense”, “Depletion, Depreciation, Amortization and Accretion (“DDA&A”)”, “Income Taxes”, “Adjusted Operating Field Netback and Net Income (Loss)”, “Capital Expenditures (Including Exploration and Evaluation Expenditures)”, “Property Acquisitions”, “Share Capital”, “Liquidity and Capital Resources”, “Bank Debt”, “Guidance”, “Commitments” and “Selected Quarterly Information”;
- the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production;
- delays or changes in plans with respect to exploration or development projects or capital expenditures;
- volatility in market prices for oil and natural gas;
- uncertainties associated with estimating oil and natural gas reserves and the ability of the Company to realize value from its properties;
- geological, technical, drilling and processing problems;
- facility and pipeline capacity constraints and access to processing facilities and to market for production;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- marketing and transportation;
- prevailing weather and break-up conditions;
- environmental risks;
- competition for, among other things, capital, acquisition of reserves, undeveloped lands and skilled personnel;
- net production and transportation costs and future development costs;
- the ability to access sufficient capital from internal and external sources; and
- changes in tax, royalty and environmental legislation.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also to be considered are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Legal challenges to asset ownership, limitations to rights of access and adequacy of pipelines or alternative

methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of Tamarack are included in reports on file with applicable securities regulatory authorities, including but not limited to Tamarack's Annual Information Form for the year ended December 31, 2018, which may be accessed on Tamarack's SEDAR profile at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.tamarackvalley.ca](http://www.tamarackvalley.ca).

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Tamarack's prospective results of operations, capital expenditures, debt, net debt, cash flow, adjusted operating field netback, operating netback, net debt to annualized adjusted operating field netback ratio, capital cost payout, production and transportation expenses and components thereof, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "Non-IFRS Measures".

The forward-looking statements and FOFI contained in this MD&A are made as of the date hereof and Tamarack undertakes no obligation to update publicly or revise any forward-looking statements, forward-looking information or FOFI whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements and FOFI contained herein are expressly qualified by this cautionary statement.

# TAMARACK VALLEY ENERGY LTD.

Condensed Consolidated Interim Balance Sheets  
(unaudited)(thousands)

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| <b>Assets</b>                                |                   |                      |
| Current assets:                              |                   |                      |
| Accounts receivable                          | \$41,098          | \$21,211             |
| Prepaid expenses and deposits                | 2,784             | 2,370                |
| Fair value of financial instruments (note 4) | 215               | 20,518               |
|  | 44,097            | 44,099               |
| Fair value of financial instruments (note 4) | –                 | 1,533                |
| Property, plant and equipment (note 6)       | 1,302,878         | 1,215,633            |
| Exploration and evaluation assets (note 7)   | 2,533             | 2,788                |
|  | \$1,349,508       | \$1,264,053          |
| <b>Liabilities and Shareholders' Equity</b>  |                   |                      |
| Current liabilities:                         |                   |                      |
| Accounts payable and accrued liabilities     | \$73,803          | \$41,966             |
| Lease liabilities (note 9)                   | 2,923             | –                    |
| Fair value of financial instruments (note 4) | 2,364             | 2,391                |
|  | 79,090            | 44,357               |
| Bank debt (note 13)                          | 189,427           | 161,495              |
| Lease liabilities (note 9)                   | 10,800            | –                    |
| Decommissioning obligations (note 8)         | 210,198           | 193,003              |
| Deferred tax liability                       | 51,330            | 52,627               |
| Shareholders' equity:                        |                   |                      |
| Share capital (note 11)                      | 847,750           | 848,249              |
| Treasury shares (note 11)                    | (2,125)           | (3,377)              |
| Contributed surplus                          | 34,719            | 34,554               |
| Deficit                                      | (71,681)          | (66,855)             |
|  | 808,663           | 812,571              |
| Commitments (note 15)                        |                   |                      |
| Subsequent events (note 4 and 11)            |                   |                      |
|  | \$1,349,508       | \$1,264,053          |

See accompanying notes to the condensed consolidated interim financial statements.

# TAMARACK VALLEY ENERGY LTD.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

For the three months ended March 31, 2019 and 2018

(unaudited)(thousands, except per share amounts)

|   | 2019      | 2018     |
|---|-----------|----------|
| Revenue:  |           |          |
| Oil and natural gas (note 5)                            | \$95,047  | \$98,736 |
| Processing income (note 5)                              | 571       | 336      |
| Royalties   | (10,117)  | (10,938) |
| Realized loss on financial instruments (note 4)         | (939)     | (1,255)  |
| Unrealized loss on financial instruments (note 4)       | (21,809)  | (7,499)  |
|   | 62,753    | 79,380   |
| Expenses:   |           |          |
| Production  | 21,825    | 23,114   |
| General and administration                              | 2,960     | 3,379    |
| Stock-based compensation (note 14)                      | 1,320     | 1,514    |
| Finance   | 3,419     | 2,848    |
| Depletion, depreciation and amortization (note 6 and 7) | 39,352    | 43,458   |
| Gain on disposition of property, plant and equipment    | –         | (6)      |
|   | 68,876    | 74,307   |
| Income (loss) before taxes                              | (6,123)   | 5,073    |
| Deferred income tax recovery (expense)                  | 1,297     | (1,779)  |
| Net income (loss) and comprehensive income (loss)       | \$(4,826) | \$3,294  |
| Net income (loss) per share (note 12):                  |           |          |
| Basic   | \$(0.02)  | \$ 0.01  |
| Diluted   | \$(0.02)  | \$ 0.01  |

See accompanying notes to the condensed consolidated interim financial statements.

# TAMARACK VALLEY ENERGY LTD.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity  
(unaudited)(thousands)

|   | Number of<br>common shares<br>net of treasury<br>shares | Share<br>capital | Treasury<br>shares | Contributed<br>surplus | Deficit     | Total<br>Shareholders'<br>equity |
|---|---|------------------|--------------------|------------------------|-------------|----------------------------------|
| Balance at January 1, 2018                        | 228,510   | \$850,357        | \$ –               | \$27,180               | \$(103,682) | \$773,855                        |
| Issue of common shares                            | 254   | 376              | –                  | –                      | –           | 376                              |
| Transfer on exercise of stock options and<br>RSUs | –   | 675              | –                  | (675)                  | –           | –                                |
| Stock-based compensation                          | –   | –                | –                  | 2,038                  | –           | 2,038                            |
| Net income  | –   | –                | –                  | –                      | 3,294       | 3,294                            |
| Balance at March 31, 2018                         | 228,764   | \$851,408        | \$ –               | \$28,543               | \$(100,388) | \$779,563                        |
| Balance at January 1, 2019                        | 226,072   | \$848,249        | \$(3,377)          | \$34,554               | \$(66,855)  | \$812,571                        |
| Settlement of RSUs                                | 163   | 595              | –                  | (782)                  | –           | (187)                            |
| Purchase of common shares for<br>cancellation     | (285)   | (1,094)          | –                  | 411                    | –           | (683)                            |
| RSU exercise                                      | 443   | –                | 1,252              | (1,252)                | –           | –                                |
| Stock-based compensation                          | –   | –                | –                  | 1,788                  | –           | 1,788                            |
| Net loss  | –   | –                | –                  | –                      | (4,826)     | (4,826)                          |
| Balance at March 31, 2019                         | 226,393   | \$847,750        | \$(2,125)          | \$34,719               | \$(71,681)  | \$808,663                        |

See accompanying notes to the condensed consolidated interim financial statements.

# TAMARACK VALLEY ENERGY LTD.

Condensed Consolidated Interim Statements of Cash Flows  
For the three months ended March 31, 2019 and 2018  
(unaudited)(thousands)

|   | 2019      | 2018     |
|---|-----------|----------|
| Cash provided by (used in):                               |           |          |
| Operating:  |           |          |
| Net income (loss)   | \$(4,826) | \$3,294  |
| Depletion, depreciation and amortization (note 6 and 7)   | 39,352    | 43,458   |
| Stock-based compensation (note 14)                        | 1,320     | 1,514    |
| Gain on disposition of property, plant and equipment      | –         | (6)      |
| Accretion expense on decommissioning obligations (note 8) | 1,145     | 1,007    |
| Unrealized loss on financial instruments (note 4)         | 21,809    | 7,499    |
| Deferred income tax (recovery) expense                    | (1,297)   | 1,779    |
| Abandonment expenditures (note 8)                         | (271)     | (53)     |
| Changes in non-cash working capital (note 10)             | (9,143)   | 1,793    |
| Cash provided by operating activities                     | 48,089    | 60,285   |
| Financing:  |           |          |
| Change in bank debt (note 13)                             | 27,932    | 1,861    |
| Proceeds from issuance of shares                          | –         | 376      |
| Purchase of common shares for cancellation (note 11)      | (683)     | –        |
| Purchase of common shares for RSU exercise (note 11)      | (187)     | –        |
| Purchase of leased asset (note 9)                         | (22,328)  | –        |
| Repayment of lease liabilities (note 9)                   | (1,185)   | –        |
| Cash provided by financing activities                     | 3,549     | 2,237    |
| Investing:  |           |          |
| Property, plant and equipment additions (note 6)          | (71,236)  | (69,407) |
| Exploration and evaluation additions (note 7)             | (7)       | (223)    |
| Acquisitions  | (1,074)   | (2,790)  |
| Changes in non-cash working capital (note 10)             | 20,679    | 9,898    |
| Cash used in investing activities                         | (51,638)  | (62,522) |
| Change in cash and cash equivalents                       | –         | –        |
| Cash and cash equivalents, beginning of period            | –         | –        |
| Cash and cash equivalents, end of period                  | \$ –      | \$ –     |

See accompanying notes to the condensed consolidated interim financial statements.

# TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019 and 2018  
(unaudited) (thousands, except per share and per unit amounts)

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## 1. Reporting entity:

Tamarack Valley Energy Ltd. (“Tamarack” or the “Company”) is a corporation existing under the laws of Alberta. The Company is engaged in the exploration for, development and production of, oil and natural gas. The condensed consolidated interim financial statements of Tamarack consist of the Company and its subsidiaries. The Company has the following wholly owned subsidiaries, which are incorporated in Canada: Tamarack Acquisition Corp. and Tamarack Valley Ridge Holdings Ltd. The Company also has a subsidiary incorporated in the United States: Tamarack Ridge Resources Inc. No assets are held within Tamarack Ridge Resources Inc. or Tamarack Valley Ridge Holdings Ltd. Tamarack is a publicly traded company, incorporated and domiciled in Canada. The address of its registered office is Suite 4300, 888 – 3<sup>rd</sup> Street S.W., Calgary, Alberta, T2P 5C5. The address of its head office is currently Suite 600, 425 – 1<sup>st</sup> Street S.W., Calgary, Alberta T2P 3L8.

## 2. Basis of preparation:

Statement of compliance:

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” of International Financial Reporting Standards (“IFRS”).

These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2018 except as detailed in note 3. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s annual filings for the year ended December 31, 2018.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 9, 2019.

## 3. Changes in accounting policies:

### **Adoption of IFRS 16 Leases:**

Effective January 1, 2019, the Company adopted IFRS 16, “Leases” (“IFRS 16”). The Company has applied IFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings (deficit) and applies the standard prospectively. Therefore, the comparative information in the Company’s consolidated balance sheet and, consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders’ equity and cash flows have not been restated. On adoption, management elected to use the following practical expedients permitted under IFRS 16:

- account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases;
- account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of a low dollar value (less than US\$5 thousand); and

## TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(unaudited) (thousands, except per share and per unit amounts)

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- the use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The effect of initially applying the standard was a \$37.2 million increase to right-of-use assets, with a corresponding lease liability recorded. The right-of-use asset was measured at the amount equal to the lease liability on January 1, 2019 with no impact on deficit.

The preparation of the condensed consolidated interim financial statements in accordance with IFRS 16 requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 are listed below:

- Incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

The following accounting policy came into effect on January 1, 2019:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset; this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the assets is used. In rare cases where the decision is predetermined, the Company has the right to direct the use of the asset if either:
  - i. the Company has the right to operate the asset; or
  - ii. the Company designed the asset in a way that predetermines how and for what purpose it will be used.

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

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and

## TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(unaudited) (thousands, except per share and per unit amounts)

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equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured at the index or rate as at the commencement date; and
- amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amounts of the right-of-use asset has been reduced to nil.

The Company presents right-of-use assets in "property, plant and equipment" and lease obligations in "lease liabilities" in the consolidated balance sheet.

#### 4. Risk management contracts:

It is the Company's policy to economically hedge some oil and natural gas sales and foreign exchange using various financial derivative forward sales contracts and physical sales contracts. The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or based on a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long-term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet its expected sales requirements.

All financial derivative contracts are classified as fair value through profit and loss and are recorded on the balance sheet at fair value. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and level 2 published forward price curves as at the balance sheet date, using the remaining contracted amounts and a risk-free interest rate (based on published government rates). The fair value of options and swaps are based on option models that use level 2 inputs, being published information with respect to volatility, prices and interest rates. The derivatives are valued at fair value through profit or loss and therefore the carrying amount equals fair value.

## TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019 and 2018  
(unaudited) (thousands, except per share and per unit amounts)

At March 31, 2019, the Company held derivative commodity and foreign exchange contracts as follows:

| Subject contract | Notional quantity  | Remaining term                      | Hedge type      | Strike price | Fair value<br>(Cdn \$000s) |
|------------------|--------------------|-------------------------------------|-----------------|--------------|----------------------------|
| Crude oil        | 700 bbls/day       | April 1, 2019 – June 30, 2019       | WTI fixed price | US \$65.45   | \$435                      |
| Crude oil        | 700 bbls/day       | January 1, 2020 – March 31, 2020    | WTI fixed price | US \$66.96   | \$622                      |
| Crude oil        | 3,220 bbls/day     | April 1, 2019 – June 30, 2019       | WTI put option  | US \$60.00   | \$710                      |
| Crude oil        | 3,105 bbls/day     | July 1, 2019 – September 30, 2019   | WTI put option  | US \$60.00   | \$1,390                    |
| Crude oil        | 2,990 bbls/day     | October 1, 2019 – December 31, 2019 | WTI put option  | US \$60.00   | \$1,797                    |
| Crude oil        | 2,000 bbls/day     | April 1, 2019 – June 30, 2019       | Edm par diff    | US (\$5.95)  | (\$216)                    |
| Crude oil        | 4,000 bbls/day     | April 1, 2019 – December 31, 2019   | Edm par diff    | US (\$12.13) | (\$5,589)                  |
| Foreign exchange | 6,750,000 US\$/mth | April 1, 2019 – June 30, 2019       | Exchange rate   | Cdn \$1.3046 | (\$606)                    |
| Foreign exchange | 5,750,000 US\$/mth | July 1, 2019 – September 30, 2019   | Exchange rate   | Cdn \$1.3065 | (\$435)                    |
| Foreign exchange | 4,750,000 US\$/mth | October 1, 2019 – December 31, 2019 | Exchange rate   | Cdn \$1.3111 | (\$257)                    |
|                  |                    |                                     |                 |              | (\$2,149)                  |

At March 31, 2019, Tamarack's commodity and foreign exchange contracts were fair valued with a liability of \$2,149 (December 31, 2018 - \$19,660 asset) recorded on the balance sheet. The Company had an unrealized loss of \$21,809 recorded in earnings for the three months ended March 31, 2019 (December 31, 2018 - \$27,137 unrealized gain).

All physical commodity contracts are considered executory contracts and are not recorded at fair value on the balance sheet. On settlement, the realized benefit or loss is recognized in oil and natural gas revenue. At March 31, 2019, the Company held the following physical commodity contracts.

| Subject contract | Quantity         | Remaining term                       | Hedge type                  | Strike price      |
|------------------|------------------|--------------------------------------|-----------------------------|-------------------|
| Natural gas      | 2,500 mmbtu/day  | April 1, 2019 – October 31, 2019     | AECO fixed price            | Cdn \$1.75        |
| Natural gas      | 10,000 mmbtu/day | April 1, 2019 – October 31, 2019     | AECO/Henry Hub differential | Index – US \$1.60 |
| Natural gas      | 5,000 mmbtu/day  | May 1, 2019 – May 31, 2019           | AECO/Henry Hub differential | Index – US \$1.68 |
| Natural gas      | 5,000 mmbtu/day  | November 1, 2019 – November 30, 2019 | AECO/Henry Hub differential | Index – US \$1.43 |
| Natural gas      | 12,500 mmbtu/day | November 1, 2019 – March 31, 2020    | AECO/Henry Hub differential | Index – US \$1.43 |
| Natural gas      | 5,000 mmbtu/day  | December 1, 2019 – December 31, 2019 | AECO/Henry Hub differential | Index – US \$1.36 |

Risk management contracts assets and liabilities are offset, and the net amount presented in the balance sheet, when the Company has a legal right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

## TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019 and 2018  
(unaudited) (thousands, except per share and per unit amounts)

The following table sets out gross amounts relating to risk management contracts assets and liabilities that have been presented on a net basis on the balance sheet.

| Gross Amounts (\$ thousands) | March 31, 2019 | December 31, 2018 |
|------------------------------|----------------|-------------------|
| Risk management contracts    |                |                   |
| Current asset                | \$215          | \$20,518          |
| Long-term asset              | -              | 1,533             |
| Current liability            | (2,364)        | (2,391)           |
| Balance, end of the period   | \$(2,149)      | \$19,660          |

Since March 31, 2019, the Company has entered into the following derivative contracts:

| Subject contract | Notional quantity   | Remaining term                   | Hedge type      | Strike price |
|------------------|---------------------|----------------------------------|-----------------|--------------|
| Crude oil        | 200 bbls/day        | January 1, 2020 – March 31, 2020 | WTI fixed price | US \$62.00   |
| Crude oil        | 200 bbls/day        | April 1, 2020 – June 30, 2020    | WTI fixed price | US \$61.00   |
| Interest rate    | 25,000,000 Cdn\$/yr | April 24, 2019 – April 24, 2023  | Fixed rate swap | 1.90%        |

Since March 31, 2019, the Company has entered into the following physical contracts:

| Subject contract | Quantity        | Remaining term               | Hedge type                  | Strike price      |
|------------------|-----------------|------------------------------|-----------------------------|-------------------|
| Natural gas      | 5,000 mmbtu/day | May 1, 2019 – May 31, 2019   | AECO/Henry Hub differential | Index – US \$1.62 |
| Natural gas      | 5,000 mmbtu/day | June 1, 2019 – June 30, 2019 | AECO/Henry Hub differential | Index – US \$1.79 |

### 5. Revenue:

The Company sells its production pursuant to fixed-price or variable-price contracts. The transaction price for variable-price contracts is based on a benchmark 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 fixed or variable volumes of light oil, heavy oil, natural gas or natural gas liquids to the contract counterparty.

Revenue is recognized when the Company gives up control of the unit of production at the delivery point agreed to under the terms of the contract. The amount of revenue recognized is based on the agreed transaction price and the volumes delivered. Any variability in the transaction price relates specifically to Tamarack's efforts to transfer production and therefore the resulting revenue is allocated to the production volumes delivered in the period to which the variability relates. The Company does not have any factors considered to be constraining in the recognition of revenue with variable pricing factors. The Company's contracts with customers generally have a term of one year or less, except in the case of certain natural gas contracts, whereby delivery takes place throughout the contract period. Revenues are normally collected on the business day nearest the 25th day of the month following sale.

The Company's revenues were primarily generated in its core areas: the Cardium oil play in the Wilson Creek/Alder Flats areas of central Alberta; the Viking oil play in central and southern Alberta and west central Saskatchewan; and the Barons Sand oil play in the Penny area of southern Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing volumes to numerous oil and natural gas marketers under customary industry sale and

## TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(unaudited) (thousands, except per share and per unit amounts)

payment terms. As at March 31, 2019, revenue was earned from customers, of which four customers account for \$31.0 million of the accounts receivable at March 31, 2019.

The following table presents the Company's total revenues disaggregated by revenue source:

| Three months ended March 31, (\$ thousands) | 2019            | 2018     |
|---|-----------------|----------|
| Light oil                                   | <b>\$74,778</b> | \$81,534 |
| Heavy oil                                   | <b>1,765</b>    | 1,218    |
| Natural gas                                 | <b>12,815</b>   | 10,510   |
| Natural gas liquids                         | <b>5,689</b>    | 5,474    |
| Oil and natural gas revenue                 | <b>\$95,047</b> | \$98,736 |
| Processing income                           | <b>571</b>      | 336      |
| Total revenue                               | <b>\$95,618</b> | \$99,072 |

Refer to note 4 for a listing of physical delivery contracts as at March 31, 2019.

Included in accounts receivable at March 31, 2019 was \$38.2 million (December 31, 2018 - \$13.8 million) of accrued production revenue related to deliveries for the month then ended. There were no significant adjustments for prior period accrued production revenue reflected in the current period. As at March 31, 2019, the Company did not have any contracts for the sale of its future production beyond one year in term, except certain natural gas contracts that expire in 2022.

## TAMARACK VALLEY ENERGY LTD.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(unaudited) (thousands, except per share and per unit amounts)

### 6. Property, plant and equipment:

| (\$ thousands)  | Oil and natural<br>gas interests | Other<br>assets | Total       |
|---|----------------------------------|-----------------|-------------|
| Cost:   |                                  |                 |             |
| Balance at January 1, 2018                                  | \$1,624,550                      | \$1,368         | \$1,625,918 |
| Corporate acquisition                                       | 2,847                            | –               | 2,847       |
| Cash additions  | 223,102                          | 217             | 223,319     |
| Decommissioning costs                                       | 13,379                           | –               | 13,379      |
| Stock-based compensation                                    | 3,598                            | –               | 3,598       |
| Transfer from exploration and<br>evaluation assets (note 7) | 894                              | –               | 894         |
| Disposals   | (10,215)                         | –               | (10,215)    |
| Balance at December 31, 2018                                | 1,858,155                        | 1,585           | 1,859,740   |
| Right-of-use assets (note 9)                                | 37,236                           | –               | 37,236      |
| Property acquisition  | 1,074                            | –               | 1,074       |
| Cash additions  | 71,176                           | 60              | 71,236      |
| Decommissioning costs                                       | 16,321                           | –               | 16,321      |
| Stock-based compensation                                    | 468                              | –               | 468         |
| Transfer from exploration and<br>evaluation assets (note 7) | 34                               | –               | 34          |
| Balance at March 31, 2019                                   | \$1,984,464                      | \$1,645         | \$1,986,109 |
| Accumulated depletion, depreciation and impairment losses:  |                                  |                 |             |
| Balance at January 1, 2018                                  | \$462,969                        | \$677           | \$463,646   |
| Depletion and depreciation                                  | 176,255                          | 243             | 176,498     |
| Disposals   | (1,037)                          | –               | (1,037)     |
| Impairment, net   | 5,000                            | –               | 5,000       |
| Balance at December 31, 2018                                | 643,187                          | 920             | 644,107     |
| Depletion and depreciation                                  | 39,072                           | 52              | 39,124      |
| Balance at March 31, 2019                                   | \$682,259                        | \$972           | \$683,231   |
| Carrying amounts:   |                                  |                 |             |
| At December 31, 2018  | \$1,214,968                      | \$665           | \$1,215,633 |
| At March 31, 2019   | \$1,302,205                      | \$673           | \$1,302,878 |

The calculation of depletion at March 31, 2019 includes estimated future development costs of \$673,269 (December 31, 2018 – \$692,356) associated with the development of the Company's proved plus probable reserves and excludes salvage value of \$66,113 (December 31, 2018 – \$57,813).

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Certain facilities are included in property, plant and equipment as right-of-use assets:

| (\$ thousands)                       | Processing facilities |
|--------------------------------------|-----------------------|
| As at January 1, 2019                | \$37,236              |
| Exercise of purchase option (note 9) | (23,014)              |
| Depletion and depreciation           | (564)                 |
| Balance at March 31, 2019            | \$13,658              |

### 7. Exploration and evaluation assets:

| (\$ thousands)                                     | Total    |
|--|----------|
| Cost:  |          |
| Balance at January 1, 2018                         | \$23,968 |
| Additions  | 2,932    |
| Transfer to property, plant and equipment (note 6) | (894)    |
| Balance at December 31, 2018                       | 26,006   |
| Additions  | 7        |
| Transfer to property, plant and equipment (note 6) | (34)     |
| Balance at March 31, 2019                          | \$25,979 |
| Accumulated amortization and impairment:           |          |
| Balance at January 1, 2018                         | \$22,140 |
| Amortization                                       | 1,078    |
| Balance at December 31, 2018                       | 23,218   |
| Amortization                                       | 228      |
| Balance at March 31, 2019                          | \$23,446 |
|  | Total    |
| Carrying amounts:                                  |          |
| At December 31, 2018                               | \$2,788  |
| At March 31, 2019                                  | \$2,533  |

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

### 8. Decommissioning obligations:

The decommissioning obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations to be approximately \$197.5 million at March 31, 2019 (December 31, 2018 – \$191.3 million), which is expected to be incurred between 2019 and 2041. A risk-free rate of 1.9% (December 31, 2018 – 2.3%)

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and an inflation rate of 2% (December 31, 2018 – 2%) is used to calculate the present value of the decommissioning obligations at March 31, 2019 as presented in the table below:

| (\$ thousands)                   | Three months ended | Year ended        |
|----------------------------------|--------------------|-------------------|
|                                  | March 31, 2019     | December 31, 2018 |
| Balance, beginning of the period | \$193,003          | \$177,793         |
| Liabilities incurred             | 6,081              | 13,379            |
| Change in estimates              | 10,240             | –                 |
| Expenditures                     | (271)              | (1,901)           |
| Liabilities disposed             | –                  | (374)             |
| Accretion                        | 1,145              | 4,106             |
| Balance, end of the period       | \$210,198          | \$193,003         |

The change in estimate for the three months ended March 31, 2019 resulted from the decommissioning obligations being revalued using a risk-free rate of 1.9% as opposed to a risk-free rate of 2.3% used at December 31, 2018.

### 9. Lease liabilities:

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles and field equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates used during the three months ended March 31, 2019 were between 4.5% and 8.8%, depending on the duration of the lease term. The following table summarizes lease liabilities at March 31, 2019:

| (\$ thousands)                             | Three months ended |
|--|--------------------|
|  | March 31, 2019     |
| Balance, beginning of the period           | \$37,236           |
| Interest expense                           | 511                |
| Lease payments                             | (1,696)            |
| Exercise of purchase option <sup>(1)</sup> | (22,328)           |
| Balance, end of the period                 | \$13,723           |
| Current portion                            | \$2,923            |
| Long term portion                          | \$10,800           |

<sup>(1)</sup> The Company exercised an option right to purchase a leased asset.

Undiscounted cash outflows relating to the lease liabilities are:

| (\$ thousands)   | As at March 31, 2019 |
|------------------|----------------------|
| Less than 1 year | \$3,043              |
| Years 2 and 3    | 6,064                |
| Years 4 and 5    | 5,617                |
| Thereafter       | 5,010                |
| Total            | \$19,734             |

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### 10. Supplemental cash flow information:

Changes in non-cash working capital consists of:

| Three months ended March 31, (\$ thousands) | 2019              | 2018      |
|---|-------------------|-----------|
| Source/(use) of cash:                       |                   |           |
| Accounts receivable                         | <b>\$(19,887)</b> | \$(1,219) |
| Prepaid expenses and deposits               | <b>(414)</b>      | (287)     |
| Accounts payable and accrued liabilities    | <b>31,837</b>     | 13,197    |
|   | <b>\$11,536</b>   | \$11,691  |
| Related to operating activities             | <b>\$(9,143)</b>  | \$1,793   |
| Related to investing activities             | <b>\$20,679</b>   | \$9,898   |

The following are included in cash flows from operating activities:

| Three months ended March 31, (\$ thousands) | 2019           | 2018    |
|---|----------------|---------|
| Interest paid in cash on bank debt          | <b>\$1,763</b> | \$1,841 |
| Interest paid on lease liabilities          | <b>\$511</b>   | \$-     |

### 11. Shareholders' equity:

a) Share capital:

At March 31, 2019 the Company was authorized to issue an unlimited number of common shares ("Common Shares") and preferred shares without nominal or par value.

b) Restricted share units:

During the three months ended March 31, 2019 the Company settled 231,000 restricted share units ("RSUs") by issuing 163,000 Common Shares and a payment of \$0.2 million for withholding tax on behalf of the employee in exchange for the remaining balance of 68,000 RSUs.

c) Normal course issuer bid:

On April 4, 2018, the Company announced that the Toronto Stock Exchange had accepted the Company's intention to commence a normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company is permitted to purchase up to 8.6 million Common Shares between April 6, 2018 and April 5, 2019. During the three months ended March 31, 2019, the Company purchased and cancelled 284,900 Common Shares at an average price of \$2.46 per Common Share, for a total repurchase cost of \$0.7 million.

Subsequent to March 31, 2019, the Company announced that the Toronto Stock Exchange had accepted the Company's intention to commence a new NCIB. Pursuant to the NCIB, the Company is permitted to purchase up to 8.6 million Common Shares between April 8, 2019 and April 7, 2020.

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d) Treasury shares:

As at March 31, 2019, 751,000 Common Shares were classified as treasury shares to be used for the future settlements of RSUs exercised.

### 12. Income (loss) per share:

The following table summarizes the net income (loss) and weighted average shares used in calculating net income (loss) per share:

| (\$ thousands, except per share amounts) | 2019             | 2018    |
|--|------------------|---------|
| Net income (loss)                        | <b>\$(4,826)</b> | \$3,294 |
| Weighted average shares - basic          | <b>226,341</b>   | 228,621 |
| Weighted average shares - diluted        | <b>226,341</b>   | 231,713 |
| Net income (loss) per share-basic        | <b>\$(0.02)</b>  | \$ 0.01 |
| Net income (loss) per share-diluted      | <b>\$(0.02)</b>  | \$ 0.01 |

Per share amounts have been calculated using the weighted average number of Common Shares outstanding. For the three months ended March 31, 2019, 14.7 million Common Shares issuable upon the exercise and/or settlement of stock options ("Options"), RSUs, performance share units ("PSUs") and TAC Preferred Shares (as defined below) were excluded in the diluted weighted average number of shares outstanding as they were anti-dilutive. For the three months ended March 31, 2018, 5.9 million Common Shares issuable upon the exercise and/or settlement of Options, RSUs, PSUs and TAC Preferred Shares were included in the diluted weighted average numbers of Common Shares outstanding.

### 13. Bank debt:

The Company currently has available a revolving credit facility in the amount of \$260 million and a \$30 million operating facility (collectively, the "Facility") with a syndicate of lenders. The Facility, totaling \$290 million, lasts for a 364-day period and will be subject to its next 364-day extension by May 24, 2019. If not extended on May 24, 2019, the Facility will cease to revolve and all outstanding balances will become repayable in one year from that date.

In November 2018, an accordion feature was added to the lending agreement which allows Tamarack to increase the revolving credit facility to \$370 million for a total Facility of \$400 million, upon exercise and syndicate approval. The accordion feature bears no fees, including standby, until exercised. As at March 31, 2019, the accordion has not been exercised.

The total interest rate on the Facility is determined through a pricing grid that categorizes based on a net debt to cash flow ratio as defined in the Facility. The interest rate will vary depending on the lending vehicle employed and the Company's current net debt-to-cash-flow ratio. Interest on bankers' acceptances ("BA") and LIBOR Based Loans ("LIBOR") will vary based on a BA/LIBOR pricing grid from a low of the banks' posted rates plus 1.5% to a high of the banks' posted rates plus 3.5%. Interest on prime lending varies based on a prime rate pricing grid from a low of the banks' prime rates plus

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0.5% to a high of the banks' prime rates plus 2.5%. The standby fee for the Facility will vary as per a pricing grid from a low of 0.3375% to a high of 0.7875% on the undrawn portion of the Facility. The lending vehicles Tamarack employs from time to time will vary based on capital needs and current market rates. As at March 31, 2019, the Facility was secured by a \$1.0 billion supplemental debenture with a floating charge over all assets. As the available lending limits of the Facility are based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review. The next review is scheduled for May 2019.

At March 31, 2019, the Company had utilized the Facility in the amount of \$189.4 million. The interest rate applicable to the drawn amounts as of this date was 3.8%. As at March 31, 2019, the Company had letter of guarantees outstanding in the amount of \$0.2 million against the Facility.

There are no financial covenants governing the Facility. Non-financial covenants include reporting requirements, permitted indebtedness, permitted hedging and other standard business operating covenants.

### 14. Share-based payments:

#### (a) Preferred share plan:

There are 1,087,000 preferred shares of Tamarack Acquisition Corp. (the "TAC Preferred Shares") issued and outstanding. At December 31, 2018 and March 31, 2019, the TAC Preferred Shares were fully vested and exchangeable into 1,045,168 Common Shares at an exchange price of \$3.12 per Common Share.

Under the terms of the Company's preferred share plan, a cashless settlement alternative is available, whereby holders of TAC Preferred Shares can either (i) elect to receive Common Shares by delivering cash to the Company in the amount of the TAC Preferred Shares, or (ii) elect to receive a number of Common Shares equivalent to the market value of the TAC Preferred Shares in excess of the TAC Preferred Shares at the exchange price of \$3.12 per Common Share. For the three months ended March 31, 2019 no TAC Preferred Shares were exchanged.

#### (b) Options:

Pursuant to the Company's stock option plan (the "Stock Option Plan") and the Company's performance and restricted share unit plan (the "PRSU Plan"), the Company may grant up to an aggregate of 15.8 million Options, RSUs and PSUs to officers, employees, directors and consultants of the Company or its subsidiaries, as applicable. There is an aggregate of 13.6 million Options, RSUs and PSUs issued and outstanding.

Options issued under the Stock Option Plan do not have an exercise price of less than the market price of the Common Shares at the time of grant, do not exceed a five-year term and vest one-third on each of the first, second and third anniversaries from the date of grant. There were 380,000 Options granted during the three months ended March 31, 2019.

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The fair value of each Option granted during the three months ended March 31, 2019 was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value and weighted average assumptions used to fair value the options are as follows:

|  | <b>2019</b> |
|--|-------------|
| Risk free rate (%)                       | <b>1.65</b> |
| Expected volatility (%)                  | <b>80</b>   |
| Expected life (years)                    | <b>5</b>    |
| Forfeiture rate (%)                      | –           |
| Dividend (\$ per share)                  | –           |
| Fair value at grant date (\$ per option) | <b>1.59</b> |

The number and weighted average exercise prices of the Options are as follows:

|                                    | Number of Options<br>(thousands) | Weighted average<br>exercise price |
|------------------------------------|----------------------------------|------------------------------------|
| Outstanding, January 1, 2018       | 4,556                            | \$3.79                             |
| Granted                            | 195                              | 2.62                               |
| Exercised                          | (1,682)                          | 3.23                               |
| Expired                            | (124)                            | 5.68                               |
| Outstanding, December 31, 2018     | 2,945                            | \$3.95                             |
| Granted                            | 380                              | 2.57                               |
| Expired                            | (435)                            | 4.63                               |
| <b>Outstanding, March 31, 2019</b> | <b>2,890</b>                     | <b>\$3.67</b>                      |

The range of exercise prices of the Options outstanding and exercisable at March 31, 2019 is as follows:

| Range of exercise price | Options outstanding                  |  |   | Options exercisable                  |  |
|-------------------------|--------------------------------------|--|---|--------------------------------------|--|
|                         | Number<br>outstanding<br>(thousands) | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>life (years) | Number<br>exercisable<br>(thousands) | Weighted<br>average<br>exercise<br>price |
| \$ 1.86 – 3.00          | 1,282                                | \$2.67                                   | 3.1   | 742                                  | \$2.72                                   |
| \$ 3.01 – 5.00          | 1,209                                | \$3.68                                   | 2.3   | 878                                  | \$3.77                                   |
| \$ 5.01 – 6.82          | 399                                  | \$6.82                                   | 0.4   | 399                                  | \$6.82                                   |
| <b>\$ 1.86 – 6.82</b>   | <b>2,890</b>                         | <b>\$3.67</b>                            | <b>2.4</b>  | <b>2,019</b>                         | <b>\$3.99</b>                            |

(c) RSUs:

The PRSU Plan allows the Board of Directors to grant RSUs to officers, employees, consultants and non-employee directors of the Company or its subsidiaries. Each RSU entitles the holder to an award value to be paid as to one-third on each of the first, second and third anniversaries of the date of grant. There were 2.3 million RSUs granted during the three months ended March 31, 2019.

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For the purpose of calculating stock-based compensation, the fair value of each RSU is determined at the grant date using the closing price of the Common Shares. On the date of exercise, the Company has the option of settling the RSU value in cash or in Common Shares of the Company.

The following table summarizes information about the RSU:

|                                    | Number of RSU (thousands) |
|------------------------------------|---------------------------|
| Outstanding, January 1, 2018       | 5,818                     |
| Granted                            | 2,378                     |
| Exercised                          | (709)                     |
| Forfeited                          | (80)                      |
| Outstanding, December 31, 2018     | 7,407                     |
| Granted                            | 2,287                     |
| Exercised                          | (674)                     |
| Forfeited                          | (330)                     |
| <b>Outstanding, March 31, 2019</b> | <b>8,690</b>              |
| <b>Exercisable, March 31, 2019</b> | <b>3,067</b>              |

(d) PSUs:

The PRSU Plan allows the Board of Directors to grant PSU awards to officers, employees and consultants of the Company or its subsidiaries. Each PSU entitles the holder to an award value on the third anniversary of the date of grant multiplied by a payout multiplier ranging from 0 to 2.0 times. The payout multiplier for performance-based awards will be determined by the Board of Directors based on an assessment of the Company's achievement of predefined corporate performance measures in respect of the applicable period. There were 1.1 million PSUs granted during the three months ended March 31, 2019.

For the purpose of calculating stock-based compensation, the fair value of each award is determined at the grant date using the closing price of the Common Shares. On the date of exercise, the Company has the option of settling the PSU value in cash or in Common Shares.

The following table summarizes information about the performance share awards:

|                                    | Number of PSU awards<br>(thousands) |
|------------------------------------|-------------------------------------|
| Outstanding, January 1, 2018       | —                                   |
| Awarded                            | 983                                 |
| Outstanding, December 31, 2018     | 983                                 |
| Awarded                            | 1,072                               |
| <b>Outstanding, March 31, 2019</b> | <b>2,055</b>                        |
| <b>Earned, March 31, 2019</b>      | <b>246</b>                          |
| <b>Exercisable, March 31, 2019</b> | <b>—</b>                            |

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### 15. Commitments:

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases for facilities on the balance sheet. These liabilities were previously reported as commitments. The following table summarizes the Company's commitments as at March 31, 2019:

| (\$ thousands)                         | 2019  | 2020  | 2021  | 2022  | 2023  | 2024 | 2025+ |
|--|-------|-------|-------|-------|-------|------|-------|
| Office lease <sup>(1)</sup>            | 407   | 263   | -     | -     | -     | -    | -     |
| Take or pay commitments <sup>(2)</sup> | 1,654 | 2,256 | 2,294 | 2,340 | 2,396 | -    | -     |
| Gas transportation <sup>(3)</sup>      | 548   | 229   | 76    | -     | -     | -    | -     |
| Total                                  | 2,609 | 2,748 | 2,370 | 2,340 | 2,396 | -    | -     |

(1) Relates to the operating costs for the office lease which are a non-lease component of lease liabilities.

(2) Pipeline commitment to deliver a minimum of 636 m<sup>3</sup>/d of crude oil/condensate subject to a take-or-pay provision of \$9.00/m<sup>3</sup>. The term starts on January 1, 2019 and lasts for 60 months.

(3) Gas transportation costs on long term firm contracts which are in various locations at variable rates.

Rental fees, which were in the December 31, 2018 commitments table, were removed due to the adoption of IFRS 16. The amounts removed were as follows:

| (\$ thousands) | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025+ |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| Rental fee     | 6,312 | 6,312 | 6,312 | 4,441 | 2,570 | 1,142 | 1,285 |

# CORPORATE INFORMATION

## Directors

Floyd Price - Chairman<sup>(3)</sup>

David MacKenzie<sup>(1)(2)</sup>

Jeff Boyce<sup>(1)(2)</sup>

Noralee Bradley<sup>(3)(4)</sup>

John Leach<sup>(1)(3)</sup>

Ian Currie<sup>(2)(4)</sup>

Rob Spitzer<sup>(3)(4)</sup>

Brian Schmidt

- (1) Member of the Audit Committee of the Board of Directors
- (2) Member of the Reserves Committee of the Board of Directors
- (3) Member of the Compensation & Governance Committee of the Board of Directors
- (4) Member of the Health, Safety & Environmental Committee of the Board of Directors

## Management Team

Brian Schmidt  
*President & Chief Executive Officer*

Ron Hozjan  
*VP Finance & Chief Financial Officer*

Dave Christensen  
*VP Engineering*

Ken Cruikshank  
*VP Land*

Kevin Screen  
*VP Production & Operations*

Scott Reimond  
*VP Exploration*

Sony Gill  
*Corporate Secretary*

## Lead Bank Syndicate

National Bank of Canada

## Legal Counsel

Stikeman Elliot LLP

## Auditor

KPMG LLP

## Stock Exchange

Toronto Stock Exchange  
Stock symbol: TVE

## Contact Information

Tamarack Valley Energy Ltd.  
Fifth Avenue Place – East Tower  
600, 425 – 1<sup>st</sup> Street SW  
Calgary, AB T2P 3L8  
Telephone: 403 263 4440  
Fax: 403 263 5551  
[www.tamarackvalley.ca](http://www.tamarackvalley.ca)