



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

As at September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with Tourmaline's unaudited interim condensed consolidated financial statements and related notes as at and for the three and nine months ended September 30, 2020 and the consolidated financial statements for the year ended December 31, 2019. The consolidated financial statements and the MD&A can be found at www.sedar.com. This MD&A is dated November 4, 2020.

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") and sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("GAAP") as issued by the International Accounting Standards Board.

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

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

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

Forward-Looking Statements - Certain information regarding Tourmaline set forth in this MD&A, including management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Tourmaline's internal projections, forecasts, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment or expenditures, anticipated future debt, expenses, production, cash flow and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Tourmaline believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social risks, uncertainties and contingencies.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the size of, and future net revenues and cash flow from, crude oil, condensate, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, condensate, NGL and natural gas properties; crude oil, condensate, NGL and natural gas production levels and product mix; the payment of dividends and the timing and amount thereof; Tourmaline's future operating and financial results; capital investment programs; supply and demand for crude oil, condensate, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general

and administrative expenses; treatment under governmental regulatory regimes and tax and environmental laws and regulations; and estimated tax pool balances. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company's control, including the impact of general economic conditions; volatility and uncertainty in market prices for crude oil, condensate, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil, condensate, NGL and natural gas operations; environmental, political, social and regulatory risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management and skilled labour; changes in income tax and environmental laws and regulations and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, any of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; the receipt of applicable regulatory or third-party approvals; risks of war, hostilities, civil insurrection and pandemics (including the COVID-19 pandemic); the effects and impacts of the COVID-19 pandemic as further described herein and supply conflicts among the Organization of Petroleum Exporting Countries and other oil producing countries over production restrictions which impact crude oil prices, resulting in increased global supply, the extent and duration of which are uncertain at this time, on Tourmaline's business, general economic and business conditions and markets; and the other risks considered under "Risk Factors" in Tourmaline's most recent annual information form available at www.sedar.com and under "Business Risks and Uncertainties" in this MD&A.

With respect to forward-looking statements contained in this MD&A, Tourmaline has made assumptions regarding: prevailing and future commodity prices and royalty regimes and tax laws; future well production rates and reserve volumes; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; future operating costs; decommissioning obligations; and ability to market crude oil, condensate, natural gas and NGL successfully. Without limitation of the foregoing, future dividend payments, if any, and the level thereof is uncertain, as the Company's dividend policy and the funds available for the payment of dividends from time to time will be dependent upon, among other things, cash flow, financial requirements for the Company's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond the Company's control. Further, the ability of Tourmaline to pay dividends will be subject to applicable laws (including the satisfaction of the solvency test contained in applicable corporate legislation) and contractual restrictions contained in the instruments governing its indebtedness, including its credit facility.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide readers with a more complete perspective on Tourmaline's future operations and such information may not be appropriate for other purposes. Tourmaline's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking

statements will transpire or occur, or if any of them do so, what benefits, if any, that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Boe Conversions - Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrel of oil equivalents (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

The COVID-19 pandemic has had a significantly negative impact on global economic conditions in 2020. This has included a large decrease in oil demand which combined with other macro-economic conditions has resulted in significant volatility of commodity prices as well as increased economic uncertainty.

During this period of economic uncertainty, the Company is committed to maintaining its strong balance sheet and financial liquidity. At September 30, 2020, the Company had \$14.8 million in cash and \$1.3 billion in unutilized borrowing capacity on its credit facilities, all of which is covenant based and not directly tied to changes in the Company's oil and gas reserves, insulating the Company's borrowing capacity against large swings in commodity price forecasts used to calculate reserve values. At September 30, 2020, the Company was in compliance with all of its covenants under its credit facilities and has sufficient room under those covenants to allow for further deterioration of commodity prices or an increase in future borrowings to navigate through these uncertain times, if required. The Company believes it has sufficient liquidity through cash flow to execute the remainder of its 2020 capital budget and continues to monitor and adjust as necessary.

The Company has increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. The Company historically has not experienced any collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint-asset partners, the Company has the ability to withhold production in the event of non-payment and the ability to obtain the partners' share of capital expenditures in advance of a project. The Company believes that its receivables at September 30, 2020 are substantially collectible.

In response to the COVID-19 pandemic, the Company is following all applicable rules and regulations as set out by the relevant health authorities and has implemented many health and safety protocols into its operations.

Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the COVID-19 pandemic, the Company is unable at this time to predict its long-term impact on its operations, liquidity, financial condition and results, but the impact may be material. See "Business Risks and Uncertainties" in this MD&A for additional

information regarding certain risks relating to the COVID-19 pandemic which Tourmaline and its business and operations are subject to.

PRODUCTION

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Natural gas (<i>mcf/d</i>)	1,413,983	1,402,468	1%	1,437,867	1,404,200	2%
Oil (<i>bbl/d</i>)	7,516	7,354	2%	8,272	7,200	15%
Condensate (<i>bbl/d</i>)	19,732	16,702	18%	19,423	16,762	16%
NGL (<i>bbl/d</i>)	35,290	31,777	11%	34,620	29,844	16%
Oil equivalent (<i>boe/d</i>)	298,202	289,578	3%	301,960	287,839	5%
Production in (sold from) storage (<i>boe/d</i>)	1,649	501	229%	1,291	1,169	10%
Total produced volumes (<i>boe/d</i>)	299,851	290,079	3%	303,251	289,008	5%
Natural gas %	79%	81%		79%	81%	

Production for the three months ended September 30, 2020 averaged 298,202 boe/d, a 3% increase over the average production for the same quarter of 2019 of 289,578 boe/d. For the nine months ended September 30, 2020, production increased 5% to 301,960 boe/d from 287,839 boe/d for the same period of 2019.

The production increase for the three and nine months ended September 30, 2020 is a result of the Company's successful exploration and production program combined with corporate and property acquisitions completed in the first three quarters of 2020. The significant growth in condensate and NGL production reflects the continued development of the Gundy area, including the commissioning of the Company's Gundy deep-cut gas processing facility in June 2019 and the Company's consolidation activities in Northeast BC ("NEBC"). The significant increase in oil production for the nine months ended September 30, 2020 is the result of Tourmaline acquiring assets in August 2019 in the Peace River High in which the Company was already a working-interest owner.

In addition to the production discussed above, for the three and nine months ended September 30, 2020, the Company injected an incremental 1,649 boe/d and 1,291 boe/d of natural gas production into storage facilities resulting in total average produced volumes of 299,851 boe/d and 303,251 boe/d, respectively. For the three and nine months ended September 30, 2019, the Company injected an incremental 501 boe/d and 1,169 boe/d of natural gas production into storage facilities resulting in total average produced volumes of 290,079 boe/d and 289,008 boe/d, respectively. The Company has storage capacity at both Dawn and PG&E Citygate. The storage capacity allows for the opportunity to inject in periods of lower commodity prices (typically summer months) and subsequently withdraw in periods of higher prices (typically winter months). In 2020, the Company increased its total storage capacity to 4.0 Bcf from 2.0 Bcf in 2019.

REVENUE AND REALIZED GAINS (LOSSES)

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Natural gas						
Sales from production	\$ 371,392	\$ 158,647	134%	\$ 1,057,941	\$ 703,724	50%
Premium (loss) on risk management activities	(33,877)	77,842	(144)%	(83,583)	255,733	(133)%
Realized gain on financial instruments	433	7,189	(94)%	4,607	7,263	(37)%
	337,948	243,678	39%	978,965	966,720	1%
Oil						
Sales from production	31,692	43,594	(27)%	89,745	126,178	(29)%
Premium (loss) on risk management activities	(928)	846	(210)%	(2,948)	3,001	(198)%
Realized gain on financial instruments	10,904	14,145	(23)%	65,058	24,785	162%
	41,668	58,585	(29)%	151,855	153,964	(1)%
Condensate						
Sales from production	90,655	101,162	(10)%	242,719	303,971	(20)%
(Loss) on risk management activities	(3,375)	–	(100)%	(8,557)	–	(100)%
Realized (loss) on financial instruments	(188)	(572)	(67)%	(690)	(1,051)	(34)%
	87,092	100,590	(13)%	233,472	302,920	(23)%
NGL						
Sales from production	51,353	37,236	38%	122,237	124,145	(2)%
Total						
Sales from production	545,092	340,639	60%	1,512,642	1,258,018	20%
Premium (loss) on risk management activities	(38,180)	78,688	(149)%	(95,088)	258,734	(137)%
Realized gain on financial instruments	11,149	20,762	(46)%	68,975	30,997	123%
Total revenue from commodity sales, premium (loss) on risk management activities, and realized gain (loss) on financial instruments	\$ 518,061	\$ 440,089	18%	\$ 1,486,529	\$ 1,547,749	(4)%

Total sales from production for the three months ended September 30, 2020 increased 60% to \$545.1 million from \$340.6 million for the same quarter of 2019. Total sales from production for the nine months ended September 30, 2020 increased 20% from \$1,258.0 million in 2019 to \$1,512.6 million in 2020. The increase for both periods can be attributed to higher AECO and Station 2 benchmark natural gas prices and increased sales volumes which were partially offset by lower oil, condensate and NGL benchmark prices. Revenue includes all oil, condensate, natural gas and NGL sales and the realized gain on risk management activities.

The three and nine months ended September 30, 2020 included a loss on risk management activities of \$38.2 million and \$95.1 million compared to a premium of \$78.7 million and \$258.7 million for the same periods of the prior year. Included in the premium (loss) on risk management activities are the premiums that Tourmaline receives from selling gas to markets outside Alberta and British Columbia and the premium received on physical commodity contract prices compared to benchmark pricing. Tourmaline has significantly diversified the markets where its natural gas is sold including Malin, PG&E City Gate, Chicago, and Dawn, all of which have typically had higher natural gas prices as compared to AECO. For the three and nine months ended September 30, 2020, AECO prices on average were higher than the prices received (after transportation) at the other hubs where Tourmaline sells its natural gas, resulting in a loss on risk management activities as well as a loss on the Company's physical contracts compared to gains for the same periods of the prior year.

Total revenue from commodity sales and the premium (loss) on risk management activities and gain (loss) on financial instruments excludes the effect of unrealized gains (losses) on commodity contracts until these gains or losses are realized.

BENCHMARK OIL AND GAS PRICES:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Natural gas						
NYMEX Last Day (USD\$/mcf)	\$ 1.98	\$ 2.23	(11)%	\$ 1.88	\$ 2.67	(30)%
AECO 5A (CAD\$/mcf)	\$ 2.25	\$ 0.92	145%	\$ 2.10	\$ 1.53	37%
West Coast Station 2 (CAD\$/mcf)	\$ 2.26	\$ 0.68	232%	\$ 1.96	\$ 0.82	139%
Sumas (USD\$/mmbtu)	\$ 1.94	\$ 2.04	(5)%	\$ 1.78	\$ 5.97	(70)%
ATP 5A Day Ahead (CAD\$/mcf)	\$ 2.19	\$ 1.01	117%	\$ 1.98	\$ 1.65	20%
Chicago City Gate (USD\$/mmbtu)	\$ 1.84	\$ 2.08	(12)%	\$ 1.74	\$ 2.49	(30)%
Ventura (USD\$/mmbtu)	\$ 1.80	\$ 2.01	(10)%	\$ 1.70	\$ 2.44	(30)%
PG&E Malin (USD\$/mmbtu)	\$ 1.98	\$ 2.07	(4)%	\$ 1.78	\$ 2.89	(38)%
PG&E City Gate (USD\$/mmbtu)	\$ 3.03	\$ 2.72	11%	\$ 2.72	\$ 3.60	(24)%
Dawn (USD\$/mmbtu)	\$ 1.82	\$ 2.12	(14)%	\$ 1.74	\$ 2.46	(29)%
Oil and condensate						
NYMEX (USD\$/bbl)	\$ 40.92	\$ 56.44	(27)%	\$ 38.21	\$ 57.08	(33)%
Edmonton Par (CAD\$/bbl)	\$ 49.06	\$ 69.13	(29)%	\$ 43.66	\$ 69.51	(37)%
Edmonton Condensate (CAD\$/bbl)	\$ 51.71	\$ 68.22	(24)%	\$ 47.64	\$ 70.26	(32)%

CURRENCY – EXCHANGE RATES:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
CAD\$/USD\$ ⁽¹⁾	\$ 0.7507	\$ 0.7574	(1)%	\$ 0.7393	\$ 0.7523	(2)%

(1) Average rates for the period.

TOURMALINE REALIZED PRICES:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Natural gas (\$/mcf)	\$ 2.60	\$ 1.89	38%	\$ 2.48	\$ 2.52	(2)%
Oil (\$/bbl)	\$ 60.26	\$ 86.59	(30)%	\$ 67.00	\$ 78.33	(14)%
Condensate (\$/bbl)	\$ 47.98	\$ 65.46	(27)%	\$ 43.87	\$ 66.20	(34)%
NGL (\$/bbl)	\$ 15.82	\$ 12.74	24%	\$ 12.89	\$ 15.24	(15)%
Oil equivalent (\$/boe)	\$ 18.89	\$ 16.52	14%	\$ 17.97	\$ 19.70	(9)%

(1) Realized prices include sales from production, premium (loss) on risk management activities and realized gain (loss) on financial instruments.

The realized average natural gas price for the three months ended September 30, 2020 increased by 38% to \$2.60/mcf from \$1.89/mcf in the same period of the prior year. The increase is the result of significantly higher Canadian natural gas benchmark prices, including AECO and Station 2, compared to the same period of the prior year.

For the nine months ended September 30, 2020, the realized average natural gas price was \$2.48/mcf, which is 2% lower than the same period of the prior year. The decrease reflects lower benchmark prices across all the US sales hubs where the Company sells its natural gas. These decreases, relative to the AECO benchmark price, created a loss on risk management activities for the nine months ended September 30, 2020.

Realized oil prices decreased by 30% and 14% for the three and nine months ended September 30, 2020, respectively, compared to the same periods of the prior year. The decrease reflects the lower benchmark oil price for both periods partially offset by realized gains on financial instruments. The realized oil price for the nine months ended September 30, 2020 also reflects a \$21.4 million realized gain on financial instruments related to unwinding a portion of the Company's financial oil contracts early in the year to take advantage of the significant gain that had been realized.

For the three and nine months ended September 30, 2020, the realized price of condensate was \$47.98/bbl and \$43.87/bbl, which is 27% and 34%, respectively, lower than the same periods of the prior year. The decrease is consistent with the decline in benchmark prices experienced during the first nine months of 2020.

The realized NGL price for the three months ended September 30, 2020 increased by 24% compared to the same period of the prior year, reflecting an improvement in ethane and propane prices. For the nine months ended September 30, 2020, the realized NGL price decreased by 15% compared to the same period of the prior year due to lower propane, butane and pentane prices, which is consistent with the decline in oil and condensate benchmark prices.

ROYALTIES

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Natural gas	\$ (478)	\$ (6,352)	\$ 3,137	\$ 6,035
Oil, condensate and NGL	9,074	19,006	33,763	54,436
Total royalties	\$ 8,596	\$ 12,654	\$ 36,900	\$ 60,471
Royalties as a percentage of commodity sales from production	1.6%	3.7%	2.4%	4.8%

For the three and nine months ended September 30, 2020, the average effective royalty rate was 1.6% and 2.4% compared to 3.7% and 4.8%, respectively, for the same periods of the prior year. The rate decrease is generally attributable to the lower oil and condensate benchmark prices.

Natural gas royalties of \$(0.5) million for the three months ended September 30, 2020, included crown royalties of \$15.2 million offset by credits of \$15.7 million. For the nine months ended September 30, 2019, natural gas royalties of \$3.1 million included crown royalties of \$46.4 million offset by credits of \$43.3 million. Included in the credits received for the three and nine months ended September 30, 2020 and 2019 was Gas Cost Allowance ("GCA") which is provided from the Crown, to account for expenses incurred to process and transport the Crown's portion of natural gas production. Also offsetting natural gas crown royalties are credits for the New Well Royalty Reduction Program and the Natural Gas Deep Drilling Program in Alberta, as well as the Deep Well Royalty Credit Program in British Columbia.

The Company expects its royalty rate for 2020 to be approximately 3% which has been revised down from the 4-5% expected royalty rate disclosed in the Company's June 30, 2020 MD&A due to lower commodity prices and higher credits received. The royalty rate is sensitive to commodity prices and, as such, a change in commodity prices will increase or decrease the actual rate.

COMMODITY MARKETING

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Marketing revenue	\$ 10,305	\$ 9,533	8%	\$ 38,269	\$ 22,288	72%
Marketing purchases	(9,654)	(8,555)	13%	(37,464)	(20,601)	82%
	\$ 651	\$ 978	(33)%	\$ 805	\$ 1,687	(52)%

The Company operates a marketing terminal in the Gordondale area of Alberta. The throughput from the marketing terminal is comprised of Tourmaline produced oil, condensate and NGL volumes as well as oil, condensate and NGL volumes purchased from third parties.

Marketing revenue and marketing purchases represent the volume sold and purchased from third parties which is recorded gross for financial statement presentation purposes. Any gains or losses on the sale of third-party product related to the price differential are recorded in marketing revenue.

For the three and nine months ended September 30, 2020, marketing revenue increased by 8% and 72%, respectively, and marketing purchases increased by 13% and 82%, respectively, compared to the same periods of 2019. The increases in both marketing revenue and marketing purchases can be attributed to a significant increase in third-party volume purchased and sold in the three and nine months ending September 30, 2020 compared to the same period of the prior year.

OTHER INCOME

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Other income	\$ 11,964	\$ 11,191	7%	\$ 26,842	\$ 27,842	(4)%

Other income for the three months ended September 30, 2020 was \$12.0 million compared to \$11.2 million for the same period of the prior year. The increase is due to Topaz Energy Corp. (“Topaz”) entering into additional third-party processing agreements compared to the prior year, partially offset by lower Tourmaline third-party processing income.

Other income for the nine months ended September 30, 2020 was \$26.8 million compared to \$27.8 million for the same periods of the prior year. The decrease is related to lower processing income which is the result of Tourmaline increasing its production and displacing third-party production at Company-owned processing facilities.

OPERATING EXPENSES

(000s) except per unit amounts	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Operating expenses	\$ 89,370	\$ 82,904	8%	\$ 256,084	\$ 263,532	(3)%
Per boe	\$ 3.26	\$ 3.11	5%	\$ 3.10	\$ 3.35	(7)%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the third quarter of 2020, total operating expenses were \$89.4 million compared to \$82.9 million in 2019, an increase of 8% over a production base increase of 3% for the same period. Operating costs for the nine months ended September 30, 2020 were \$256.1 million compared to \$263.5 million for the same period of 2019, reflecting a 3% decrease in total costs over a 5% increase in production.

On a per-boe basis, the costs increased from \$3.11/boe for the third quarter of 2019 to \$3.26/boe in the third quarter of 2020. The increase in per-boe costs is related to higher processing and gathering fees as the Company’s production exceeded its gas processing capacity at Company owned facilities resulting in an increase in production volume processed at third-party facilities and also an increase in facility turnaround costs during the quarter. The Gundy phase 2 expansion, when commissioned, will help to reduce this capacity constraint and lower the processing fees in NEBC.

For the nine months ended September 30, 2020, operating costs on a per-boe basis were \$3.10/boe, down from \$3.35/boe for the first nine months of 2019 reflecting lower processing and gathering fees with the commissioning of the Gundy deep-cut gas processing facility in June 2019. The decrease in per boe costs also reflects the continuous operational improvements year over year.

The Company's operating costs for 2020 are expected to average approximately \$3.20/boe as disclosed in the Company's June 30, 2020 MD&A. This has been lowered from original guidance to reflect the significantly lower operating costs incurred in the first nine months of 2020 due to operational efficiencies as well as some expenditure relief which has been provided by both the Alberta and British Columbia Provincial Governments as it relates to the COVID-19 pandemic. The Company continues to monitor all announcements to determine its eligibility for any relief through this highly volatile and challenging period.

TRANSPORTATION

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Natural gas transportation	\$ 96,630	\$ 73,960	31%	\$ 299,036	\$ 224,482	33%
Oil and NGL transportation	28,484	28,213	1%	73,609	71,915	2%
Total transportation	\$ 125,114	\$ 102,173	22%	\$ 372,645	\$ 296,397	26%
Per boe	\$ 4.56	\$ 3.84	19%	\$ 4.50	\$ 3.77	19%

For the third quarter of 2020, total transportation expenses were \$125.1 million compared to \$102.2 million in the third quarter of 2019. For the nine months ended September 30, 2020, transportation expenses were \$372.6 million, compared to \$296.4 million for the same period of 2019. Both periods for 2020 reflect increased costs related to higher production volumes as well as increased volumes going to diversified sales points.

On a per-boe basis, the transportation costs increased from \$3.84/boe for the third quarter of 2019 to \$4.56/boe in the third quarter of 2020. For the nine months ended September 30, 2020, the per-boe transportation costs increased from \$3.77/boe in the prior year to \$4.50/boe. The increase in per-unit costs in 2020 reflects the increased focus on diversifying markets where Tourmaline sells its natural gas. In the fourth quarter of 2019, Tourmaline added an additional 100 mmcf/d of transportation capacity to access the Malin and PG&E markets. The increased volume transported to Malin and PG&E in the first nine months of 2020 compared to the first nine months of 2019 resulted in higher per-boe fuel and transportation costs.

GENERAL & ADMINISTRATIVE EXPENSES (“G&A”)

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
G&A expenses	\$ 24,800	\$ 21,816	14%	\$ 75,542	\$ 65,494	15%
Administrative and capital recovery	(821)	(1,414)	(42)%	(2,490)	(5,568)	(55)%
Capitalized G&A	(8,797)	(7,525)	17%	(24,502)	(22,293)	10%
Total G&A expenses	\$ 15,182	\$ 12,877	18%	\$ 48,550	\$ 37,633	29%
Per boe	\$ 0.55	\$ 0.48	15%	\$ 0.59	\$ 0.48	23%

Total G&A expenses in the third quarter of 2020 were \$15.2 million compared to \$12.9 million for the same quarter of 2019. For the nine-month period ended September 30, 2020, G&A expenses were \$48.6 million compared to \$37.6 million for the same period of 2019. The increase is primarily due to staff additions and additional office space needed to manage the larger production, reserve and land base as well as incremental costs related to corporate and property acquisitions along with higher third-party service provider fees and increased industry marketing initiatives. The decrease in administrative and capital recoveries is related to the acquisition of assets in the Peace River High area in August 2019, which resulted in a consolidation of Tourmaline’s working interest and overall lower recoveries from partners.

G&A expenses for 2020 are expected to average approximately \$0.60/boe, which is a small increase over the guidance of \$0.55/boe as disclosed in the Company’s March 31, 2020 MD&A. The increase reflects incremental costs associated with the initial public offering of Topaz and corporate acquisitions completed in 2020. Actual costs per boe can change, however, depending on a number of factors including the Company’s actual production levels.

SHARE-BASED PAYMENTS

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Share-based payments	\$ 4,538	\$ 6,170	\$ 12,816	\$ 19,257
Capitalized share-based payments	(1,889)	(2,750)	(5,280)	(8,484)
Total share-based payments	\$ 2,649	\$ 3,420	\$ 7,536	\$ 10,773
Per boe	\$ 0.10	\$ 0.13	\$ 0.09	\$ 0.14

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the third quarter of 2020, 3,466,400 stock options were granted at a weighted-average exercise price of \$17.46 per option.

The Company recognized \$2.6 million and \$7.5 million of share-based payments expense for the three and nine months ended September 30, 2020 compared to \$3.4 million and \$10.8 million in the same periods of the prior year. Capitalized share-based payments for the three and nine months ended September 30, 2020 were \$1.9 million and \$5.3 million compared to \$2.8 million and \$8.5 million, respectively, for the same periods of the prior year.

Share-based payments are lower in 2020 compared to the same period of 2019, which reflects options with a lower fair value being expensed in 2020 compared to 2019.

DEPLETION, DEPRECIATION, AMORTIZATION, AND IMPAIRMENT

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total depletion, depreciation, amortization and impairment	\$ 209,588	\$ 212,177	\$ 921,886	\$ 643,026
Less mineral lease expiries	(2,535)	(11,971)	(39,785)	(44,795)
Less impairment expense	–	–	(250,000)	–
Depletion, depreciation and amortization (“DD&A”)	\$ 207,053	\$ 200,206	\$ 632,101	\$ 598,231
Per boe	\$ 7.55	\$ 7.51	\$ 7.64	\$ 7.61

DD&A expense, excluding mineral lease expiries and impairment expense, was \$207.1 million for the third quarter of 2020 compared to \$200.2 million for the same period of 2019. For the nine-month period ended September 30, 2020, DD&A expense (excluding mineral lease expiries and impairment expense) was \$632.1 million compared to \$598.2 million for the same period of 2019. The increase in DD&A expense in 2020 over 2019 is primarily due to higher production volumes.

The per-unit DD&A rate (excluding the impact of mineral lease expiries and impairment expense) of \$7.55/boe and \$7.64/boe for the three and nine months ended September 30, 2020, respectively, increased compared to the rate of \$7.51/boe and \$7.61/boe for the same periods of the prior year. The increase in both periods is due to the creation of the Topaz CGU in November 2019 which has a higher depletion rate than the Company’s other CGUs because it does not include undeveloped reserves.

Mineral lease expiries for the three months ended September 30, 2020 were \$2.5 million, compared to expiries in the same quarter of the prior year of \$12.0 million. For the nine months ended September 30, 2020, expiries were \$39.8 million compared to \$44.8 million for the same period of 2019. The expired leases for the nine months ended September 30, 2020 amount to approximately 6% of Tourmaline’s total land base.

The Company prioritizes drilling on what it believes to be the most cost-efficient and productive acreage, and, with such a large land base, the Company has chosen not to continue some of the expiring sections of land. The Company explores all alternatives (including swaps, farm-outs, joint ventures and dispositions) to realize the value from these sections before they expire.

At September 30, 2020, the Company did not identify indicators of impairment on any of its CGUs and therefore, an impairment test was not performed. The Company also did not identify indicators of impairment reversals as the improvements in oil prices are currently focused on short term improvements, but the Company was not able to satisfy itself that the longer term prices have strengthened enough to indicate that a reversal is warranted at this time.

Impairment expense of \$250.0 million was recorded on the Company’s Spirit River CGU for the three months ended March 31, 2020. The impairment was a result of the significant decrease in the forward price curve for oil. The decrease in the oil price curve resulted in a significant drop in the net present value of the associated reserves in the Spirit River CGU. There were no impairments recorded in the Company’s other CGUs.

FINANCE EXPENSES

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Interest expense	\$ 8,090	\$ 15,948	(49)%	\$ 33,181	\$ 45,381	(27)%
Capitalized borrowing costs	–	–	–%	–	(3,026)	100%
Accretion expense	1,254	1,553	(19)%	3,390	4,300	(21)%
Lease interest expense	89	58	53%	201	177	14%
Foreign exchange (gain) loss on U.S. denominated debt	(28,787)	15,476	(286)%	(50,728)	(24,694)	105%
Realized (gain) loss on cross- currency swaps	28,787	(15,476)	(286)%	50,728	24,694	105%
Realized (gain) loss on interest rate swaps	2,384	(164)	1,554%	3,720	(962)	487%
Transaction costs on corporate acquisitions	–	–	–%	550	–	100%
Total finance expenses	\$ 11,817	\$ 17,395	(32)%	\$ 41,042	\$ 45,870	(11)%

Finance expenses for the three months ended September 30, 2020 totaled \$11.8 million compared to \$17.4 million for the same period of 2019. The average bank debt outstanding and the average effective interest rate on the debt was \$1,763.5 million and 1.57% for the three months ended September 30, 2020 compared to \$1,746.3 million and 3.21% for the same period of 2019, respectively.

For the nine months ended September 30, 2020, finance expenses totaled \$41.0 million compared to \$45.9 million for the same period of 2019. The average bank debt outstanding and the average effective interest rate on the debt for the nine months ended September 30, 2020 was \$1,744.2 million and 2.23% compared to \$1,651.8 million and 3.25% for the same period of 2019, respectively.

Interest expense decreased for the three and nine months ended September 30, 2020 due to the decrease in the effective interest rate compared to the same periods of 2019 but was partially offset by the increase in average bank debt outstanding. The decrease in the effective interest rate reflects a decrease in the Bank of Canada prime rate in 2020 over the same periods of 2019. In the first half of 2019, the Company recorded capitalized borrowing costs related to long-term capital projects which lowered finance expenses for the nine months ended September 30, 2019. No borrowing costs related to long-term capital projects were capitalized for the three and nine months ended September 30, 2020.

For the three-and-nine-month periods ended September 30, 2020, the Company drew from the credit facility in U.S. dollars, as permitted under the credit facility which, when repaid, created a foreign exchange gain due to the strengthening of the Canadian dollar. Concurrent with the draw of U.S. dollar denominated borrowings, the Company enters into cross-currency swaps to manage the foreign currency risk resulting from holding U.S. dollar denominated borrowings. This transaction allows the Company to take advantage of the interest rate spread between CDOR and LIBOR without taking on foreign exchange risk.

DEFERRED INCOME TAXES (RECOVERY)

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Deferred income taxes (recovery)	\$ 2,679	\$6,735	(60)%	\$ (37,748)	\$ (50,566)	(25)%

For the three months ended September 30, 2020, the provision for deferred income taxes was \$2.7 million compared to \$6.7 million for the same period of the prior year. The decrease in deferred income taxes is primarily due to lower income before taxes in the third quarter of 2020 of \$6.4 million compared to the third quarter of 2019 of \$22.4 million.

For the nine months ended September 30, 2020, the provision for deferred income tax recovery was \$37.7 million compared to \$50.6 million for the same period of 2019. The deferred income tax recovery for the nine months ended September 30, 2020 is primarily due to the Company having a net loss before taxes of \$50.3 million. The deferred income tax recovery for the nine months ended September 30, 2019 was impacted by the Government of Alberta reducing the corporate tax rate from 12% to 8% by 2022 which was enacted as at June 30, 2019 with an effective date of July 1, 2019. The effect of the tax rate change resulted in a deferred income tax recovery of \$108.9 million in the second quarter of 2019.

CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS (LOSS)

(000s) except per unit amounts	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Cash flow from operating activities	\$ 290,795	\$ 205,798	41%	\$ 798,610	\$ 887,200	(10)%
Per share ⁽¹⁾	\$ 1.07	\$ 0.76	41%	\$ 2.95	\$ 3.26	(10)%
Cash flow ⁽²⁾	\$ 279,923	\$ 223,984	25%	\$ 788,818	\$ 869,684	(9)%
Per share ⁽¹⁾⁽²⁾	\$ 1.03	\$ 0.82	26%	\$ 2.91	\$ 3.20	(9)%
Net earnings (loss)	\$ 4,826	\$ 15,750	(69)%	\$ (10,880)	\$ 258,400	(104)%
Per share ⁽¹⁾	\$ 0.02	\$ 0.06	(67)%	\$ (0.04)	\$ 0.95	(104)%
Operating netback per boe ⁽²⁾	\$ 10.76	\$ 9.10	18%	\$ 9.92	\$ 11.81	(16)%

(1) Per share amounts have been calculated using the weighted average number of diluted common shares except the net earnings (loss) per share amounts in periods which Tourmaline has reported a net loss. In these periods, the weighted average number of basic common shares has been used as there is an anti-dilutive impact on per-share calculations.

(2) See "Non-GAAP Financial Measures".

Cash flow for the three months ended September 30, 2020 was \$279.9 million or \$1.03 per diluted share compared to \$224.0 million or \$0.82 per diluted share for the same period of 2019. The increase in cash flow in the third quarter of 2020, compared to the same quarter of 2019, is due to the significant improvement in the AECO and Station 2 natural gas benchmark prices as well as increased production partially offset by lower oil and condensate benchmark prices.

Cash flow for the nine months ended September 30, 2020 was \$788.8 million or \$2.91 per diluted share compared to \$869.7 million or \$3.20 per diluted share for the same period of 2019. The decrease in cash flow for the first nine months of 2020 reflects lower realized prices on natural gas sold to US markets and the significant decline in oil and condensate benchmark prices in 2020 partially offset by an increase in production over the same period of 2019.

The Company had after-tax net earnings for the three months ended September 30, 2020 of \$4.8 million or \$0.02 per diluted share compared to after-tax net earnings of \$15.8 million or \$0.06 per diluted share for the same period of 2019. The lower after-tax net earnings reflects an unrealized loss on financial instruments of \$58.8 million in the third quarter of 2020 compared to an unrealized gain on financial instruments of \$14.1 million in the third quarter of 2019.

For the nine-month period ended September 30, 2020, after-tax net loss was \$10.9 million or \$0.04 per share compared to after-tax net earnings of \$258.4 million or \$0.95 per diluted share for the first nine months of 2019. The decrease in after-tax net earnings reflects the \$250.0 million in Property, Plant & Equipment (“PP&E”) impairment expense taken in the first quarter of 2020. There was no PP&E impairment expense for the same period of the prior year.

CAPITAL EXPENDITURES

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Land and seismic	\$ 1,750	\$ 1,374	\$ 6,869	\$ 4,439
Drilling and completions	188,131	165,655	469,289	513,458
Facilities	43,529	34,104	159,028	248,516
Property acquisitions	113,454	174,439	152,613	175,035
Property dispositions	–	–	(235)	(1,838)
Other	7,831	8,735	24,777	27,260
Total cash capital expenditures	\$ 354,695	\$ 384,307	\$ 812,341	\$ 966,870

During the third quarter of 2020, the Company invested \$354.7 million of cash consideration compared to \$384.3 million for the same period of 2019. Expenditures on exploration and production were \$233.4 million for the third quarter of 2020 compared to \$201.1 million for the same quarter of 2019. During the nine-month period ended September 30, 2020, the Company invested \$812.3 million of cash consideration, net of dispositions, compared to \$966.9 million for the same period of 2019.

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

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Gross	Net	Gross	Net
Drilled	142	134.83	152	145.80
Completed	149	145.30	140	133.21
Tied-in	141	136.43	152	137.72

Exploration and production capital expenditures in 2020 are now forecast to be \$835.0 million, up from the previous guidance of \$800.0 million but down from the original guidance of \$925.0 million in the December 31, 2019 MD&A. The changes in budgeted capital expenditures throughout 2020 are in response to the extremely volatile, and in some cases, significant declines in commodity prices as well as the impact of COVID-19 on the overall economy. The Company expects drilling and completions costs of approximately \$635.0 million, facilities expenditures (including equipment, pipelines and tie-ins) of \$190.0 million as well as land and seismic expenditures of \$10.0 million. The capital budget is closely monitored and will continue to be adjusted as required, depending on cash flow available.

Corporate Acquisitions

On February 14, 2020, the Company acquired all of the issued and outstanding shares of Polar Star Canadian Oil and Gas Inc. ("Polar Star") for total cash consideration of \$12.0 million, including the assumption of working capital. Total transaction costs incurred by the Company of \$0.2 million associated with this acquisition were expensed in the interim consolidated statement of income (loss) and comprehensive income (loss). The acquisition resulted in an increase in PP&E of approximately \$8.7 million, assumed working capital of \$5.6 million, a deferred income tax asset of \$33.8 million along with a gain on acquisition of \$34.2 million, primarily related to the deferred tax asset. The acquisition of Polar Star is part of the Company's consolidation activities in the core NEBC area and provides for an increase in developed lands and production and includes a compressor station.

On April 21, 2020, the Company acquired all of the issued and outstanding shares of Chinook Energy Inc. ("Chinook") for total cash consideration of \$15.1 million, including the assumption of working capital. Total transaction costs incurred by the Company of \$0.4 million associated with this acquisition were expensed in the interim consolidated statement of income (loss) and comprehensive income (loss). The acquisition resulted in an increase in PP&E of approximately \$36.0 million, assumed working capital deficit of \$3.5 million, bank debt of \$5.9 million, decommissioning obligations of \$4.8 million, a deferred income tax asset of \$81.1 million along with a gain on acquisition of \$87.8 million, primarily related to the deferred income tax asset. The acquisition of Chinook is part of the Company's consolidation activities in the core NEBC area and provides for an increase in developed lands, production and infrastructure including a gas plant, compressor station and natural gas pipeline.

Acquisitions and Dispositions

2020

On April 1, 2020, the Company acquired assets in the East Edson area of the Deep Basin for cash consideration of \$35.0 million. The acquisition resulted in an increase in PP&E of approximately \$42.0 million, E&E of approximately \$1.6 million and the assumption of \$8.6 million in decommissioning liabilities. The assets acquired include a working interest in lands, production, reserves and a gas processing facility. In addition, the Company committed to drilling eight wells in the area by April 1, 2022. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

On July 2, 2020, Topaz acquired a 12.5% working interest in a natural gas processing facility for \$100.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approx. \$100.4 million and the assumption of \$0.4 million in decommissioning liabilities. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in acquired assets being accounted for as an asset acquisition.

2019

On August 13, 2019, the Company acquired assets in the Peace River High area for cash consideration of \$175.0 million. The acquisition resulted in an increase in PP&E of approximately \$180.8 million, an increase in Exploration and Evaluation (“E&E”) assets of \$8.3 million, and the assumption of \$14.1 million in decommissioning liabilities. The assets acquired were an incremental working interest to lands, production, reserves and facilities in which the Company was already a working interest owner.

In connection with the early adoption of the amendment to IFRS 3, the Company applied the optional concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Bank debt

The Company has a covenant-based, unsecured, five-year extendible revolving credit facility in place with a syndicate of banks, the details of which are described in note 10 of the Company’s consolidated financial statements for the year ended December 31, 2019 and in note 8 of the Company’s unaudited interim condensed financial statements for the three and nine months ended September 30, 2020. The revolving credit facility is in the amount of \$1.8 billion with a maturity date of June 2024. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The revolving credit facility includes an expansion feature (“accordion”) which allows the Company, upon approval from the lenders, to increase the facility amount by up to \$500.0 million by adding a new financial institution or by increasing the commitment of its existing lenders. The revolving credit facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank’s prime lending rate, banker’s acceptance rates or LIBOR (for U.S. borrowings), plus applicable margins.

The Company has a \$950.0 million term loan with a syndicate of banks. The term loan can be drawn in either Canadian or U.S. funds and bears interest at the agent bank’s prime lending rate, banker’s acceptance rates or LIBOR (for U.S. borrowings), plus 150 basis points with a maturity date of June 2024. The maturity date may, at the request of the Company and with consent of the lenders, be extended on an annual basis. The covenants for the term loan are the same as those under the Company’s revolving credit facility and the term loan ranks equally with the revolving credit facility.

The Company also has a covenant-based, unsecured, operating credit facility with a Canadian bank in the amount of \$50.0 million. The operating credit facility has a maturity date of June 2021, which may, at the request of the Company and with consent of the lender, be extended on an annual basis. The covenants are the same as the revolving credit facility. At September 30, 2020, the operating credit facility was not drawn.

Additionally, the Company has a letter of credit facility payable on demand in the amount of \$50.0 million with a Canadian bank. Tourmaline has outstanding letters of credit in the amount of \$14.3 million at September 30, 2020 (December 31, 2019 - \$11.6 million), which reduces the credit available on this facility.

Topaz, a subsidiary of Tourmaline, has a covenant-based, secured, operating credit facility with a Canadian bank. In May 2020, Topaz increased the operating credit facility to \$75.0 million and extended the maturity date to June 2022. In September 2020, the operating credit facility was further increased to \$125.0 million. With the exception of the changes in amount and maturity date, the operating credit facility was renewed under the same terms and conditions as those described in note 10 of the Company's consolidated financial statements for the year ended December 31, 2019. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis.

The Company's aggregate borrowing capacity is \$2.975 billion at September 30, 2020. As at, and for the quarter ending September 30, 2020, the Company is in compliance with all debt covenants.

Working capital and net debt

As at September 30, 2020, the Company had an adjusted working capital deficiency of \$153.6 million, after adjusting for the fair value of financial instruments, lease liabilities and unrealized foreign exchange in working capital (the unadjusted working capital deficiency was \$170.5 million) (December 31, 2019 – working capital deficiency \$136.7 million and \$153.0 million, respectively). As at September 30, 2020, the Company had \$949.0 million in long-term debt outstanding, \$678.6 million drawn against the revolving credit facility and \$6.8 million drawn against the Topaz operating credit facility for total bank debt of \$1,634.4 million (net of debt issue costs) (December 31, 2019 - \$1,619.0 million). Net debt at September 30, 2020 was \$1,788.1 million, excluding the fair value of financial instruments, lease liabilities and unrealized foreign exchange in working capital (deficit) (December 31, 2019 - \$1,755.7 million).

Normal course issuer bid

On July 15, 2020, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase up to 13,538,778 common shares, representing 5% of its common shares outstanding at June 30, 2020, over a period of twelve months commencing on July 20, 2020. Under the NCIB, common shares may be repurchased at prevailing market prices and any common shares that are purchased under the NCIB will be cancelled upon their purchase by the Company. For the nine months ended September 30, 2020, the Company purchased 221,600 common shares for cancellation at an average price of \$9.71 per share. Since the economic impacts of the COVID-19 pandemic began, the Company has chosen to stop repurchasing shares while choosing to focus on liquidity through this volatile commodity price and macro economic environment.

Non-controlling interest and common control transactions

At December 31, 2018, Tourmaline owned 90.6% of Exshaw Oil Corp. (“Exshaw”), a private company engaged in oil and gas exploration in Canada.

In October 2019, the Company acquired the remaining 9.4% interest in Exshaw for cash consideration of \$15.0 million.

On November 8, 2019, Exshaw was renamed Topaz Energy Corp. (“Topaz”) and on November 14, 2019, pursuant to the terms of the purchase and sales agreement, between Topaz and the Company, Topaz acquired from Tourmaline: (i) a newly-created gross overriding royalty interest on all of Tourmaline’s lands as at the date of the transaction; (ii) a 45% working interest in two natural gas processing plants; and (iii) contracted interests in a portion of certain third-party revenues generated by natural gas processing and handling agreements.

On November 14, 2019, Topaz closed a private placement financing for total cash consideration of \$203.5 million (net of share issue costs of \$6.5 million) which resulted in Tourmaline reducing its ownership interest from 100% to 73.9% creating a 26.1% non-controlling interest.

On June 29, 2020, Topaz closed a private placement financing for total net consideration of \$125.8 million (net of share issue costs of \$3.6 million) which resulted in the issuance of 11.7 million common shares representing 12.8% of the total common shares outstanding. The private placement resulted in Tourmaline reducing its ownership interest from 73.9% to 64.5% and increasing the non-controlling interest to 35.5% at June 30, 2020.

On July 6, 2020, Topaz completed a second tranche to its June 29, 2020 private placement for total net consideration of \$16.3 million (net of share issue costs of \$0.5 million) which resulted in the issuance of 1.5 million common shares representing 1.6% of the total common shares outstanding. The private placement resulted in Tourmaline reducing its ownership interest from 64.5% to 63.5% and increasing the non-controlling interest to 36.5% at September 30, 2020.

The net proceeds from the June 29, 2020 and July 6, 2020, Topaz private placements reduced Tourmaline’s net debt by \$142.1 million.

On September 1, 2020, Topaz acquired from Tourmaline a 25% working interest in a natural gas processing plant owned and operated by Tourmaline. Prior to, and immediately subsequent to closing the acquisition, Topaz was a subsidiary controlled by the Company and consequently was under common control at the time of the acquisition. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for by Topaz as an asset acquisition resulting in an increase to Topaz PP&E of \$52.8 million and the assumption of \$0.3 million in decommissioning liabilities in exchange for cash to Tourmaline of \$52.5 million.

Dividends

During the three and nine months ended September 30, 2020, the Company paid a cash dividend of \$0.12 and \$0.36 per common share totalling \$32.5 million and \$97.5 million, respectively, compared to \$0.12 and \$0.34 per common share totalling \$32.6 million and \$92.5 million for the same periods of the prior year. Additionally, during the three and nine months ended September 30, 2020, Topaz paid a cash dividend of \$0.20 and \$0.60 per common share totalling \$18.6 million and \$50.6 million of which \$11.8 million and \$35.5 million was paid to Tourmaline and the remainder was paid to outside investors.

Capital management

For the remainder of 2020, management intends to continue to diligently monitor, and will continue to adjust, the capital budget based on expected cash flow and, as such, management believes the Company has sufficient resources to fund its 2020 exploration and development program. Management is dedicated to keeping a strong balance sheet, which has proven to be very important, especially in times of volatile commodity prices. Management's approach to capital management is further described in note 5(d) of the annual consolidated financial statements.

SHARES AND STOCK OPTIONS OUTSTANDING

As at November 4, 2020, the Company has 270,838,367 common shares and 21,170,931 stock options outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

PAYMENTS DUE BY YEAR

(000s)	1 Year	2-3 Years	4-5 Years	>5 Years	Total
Operating commitments ⁽¹⁾	\$ 2,013	\$ 3,987	\$ 3,933	\$ 2,950	\$ 12,883
Firm transportation agreements	499,925	975,910	897,922	3,054,615	5,428,372
Processing commitments ⁽²⁾	25,638	36,733	28,573	174,133	265,077
Capital commitments ⁽³⁾	–	13,500	–	–	13,500
Credit facility ⁽⁴⁾	–	6,986	732,027	–	739,013
Term debt ⁽⁵⁾	19,155	38,309	963,303	–	1,020,767
	\$ 546,731	\$ 1,075,425	\$ 2,625,758	\$ 3,231,698	\$ 7,479,612

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

(2) Includes processing commitments and power commitments.

(3) Includes drilling commitments.

(4) Includes interest expense at an annual rate of 1.97% being the rate applicable to outstanding debt on the credit facility at September 30, 2020. Also includes the Topaz operating credit facility.

(5) Includes interest expense at an annual rate of 2.02% being the fixed rate on the term debt at September 30, 2020.

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in note 5 of the Company's audited consolidated financial statements for the year ended December 31, 2019.

As at September 30, 2020, the Company has entered into certain financial derivative contracts in order to manage commodity price, interest rate risk and foreign exchange risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. Such financial derivative contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain (loss) on the consolidated statement of income (loss) and comprehensive income (loss). The contracts that the Company has in place at September 30, 2020 are summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 and 2019.

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the consolidated financial statements. Physical contracts in place at September 30, 2020 have been summarized and disclosed in note 3 of the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 and 2019.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company's use of estimates and judgments in preparing the interim condensed consolidated financial statements are discussed in note 1 of the consolidated financial statements for the year ended December 31, 2019.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by National Instrument 52-109, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes in the Company's DC&P or ICFR during the period beginning on July 1, 2020 and ending on September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

The Company uses the guidelines as set in the Committee of Sponsoring Organizations of the Treadway Commission 2013 Internal Control-Integrated Framework.

BUSINESS RISKS AND UNCERTAINTIES

Tourmaline monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Tourmaline maintains a level of liability, property and business interruption insurance which is believed to be adequate for Tourmaline's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

See "Forward-Looking Statements" in this MD&A and "Risk Factors" in Tourmaline's most recent annual information form for additional information regarding the risks to which Tourmaline and its business and operations are subject.

In addition, and without limitation of the foregoing, Tourmaline is also exposed to risks relating to public health emergencies and infectious diseases, including the COVID-19 pandemic, and related government responses, which has had a negative impact on global financial conditions and could have a material and adverse effect on Tourmaline's business, financial condition and results of operations. Tourmaline cannot accurately predict the impact COVID-19 will have on its ability to execute its business plans in response to government public health efforts to contain COVID-19 and to obtain financing or third parties' ability to meet their contractual obligations with Tourmaline, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the length of travel and quarantine restrictions imposed by governments of affected jurisdictions; and future demand for oil and gas. In the event that the prevalence of COVID-19 continues to increase (or fears in respect of COVID-19 continue to increase), governments may increase regulations and restrictions regarding the flow of labour or products, and travel bans, and Tourmaline's operations and service providers, and ability to advance its projects or carry out its ongoing business plan, could

be adversely affected. In particular, should any employees or consultants of Tourmaline become infected with COVID-19 or similar pathogens, it could have a material negative impact on Tourmaline's operations, prospects, business, financial condition and results of operations. In addition, government efforts to curtail the spread of COVID-19 may result in temporary or long-term suspensions, shut-downs or disruptions of Tourmaline's production, facilities or operations, impact Tourmaline's suppliers, customers, counterparties, partners and affect Tourmaline's supply chain. Such suspensions, shut-downs or disruptions may have a material and adverse effect on Tourmaline's business, financial condition and results of operations. Tourmaline is continually monitoring all recommendations from applicable government agencies and public health authorities to ensure the continued safe operation of its business operations and has implemented steps to ensure the ongoing health of its workforce, including enacting work-at-home plans across the organization, limited business travel and large group meetings, providing on-going employee support and providing additional measures to critical business processes to ensure business continuity. However, such measures and related government mandates may not be effective, and one or more of our employees, consultants or service providers may get sick and may come to work infected, necessitating a short or long-term closure of the affected sites or facilities, disrupting business and/or internal controls. Oil and gas production limitations, curtailments or stoppages, social distancing measures and other impediments affecting Tourmaline's suppliers, customers, counterparties or partners or its facilities, should they materialize, may make it difficult, more costly, or impossible for Tourmaline to conduct portions of its business. Limitations on the function of regulatory authorities as a result of remote work of its employees or redeployment of its resources to addressing the pandemic may delay our communications with the regulatory authorities and delay renewal of permits or the receipt of additional approvals required for our operations, should any such approvals be sought. If macroeconomic conditions continue to worsen in Canada and around the world, demand for oil and gas and other products may significantly decline and industry participants, including our suppliers, customers, counterparties or partners may face severe financial hardship. In addition, the increased market volatility resulting from global business and economic disruption related to the pandemic and measures to contain it has made it more difficult for companies to access capital markets. Any of the foregoing may adversely affect our business, financial position and results of operations.

IMPACT OF ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells, there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the operation of the Company's business more expensive or prevent the Company from operating its business as currently conducted. Tourmaline focuses on conducting transparent, safe and responsible operations.

NEW ACCOUNTING POLICY

Government grants:

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received. When the conditions of a grant relate to income or expense, it is recognized in profit or loss in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through DD&A.

NON-GAAP FINANCIAL MEASURES

This MD&A, or documents referred to in this MD&A, make reference to the terms "cash flow", "operating netback", "adjusted working capital" and "net debt" which are not recognized measures under GAAP, and do not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of these terms may not be comparable to similarly-defined measures presented by other companies. Management uses the terms "cash flow", "operating netback", "adjusted working capital" and "net debt", for its own performance measures and to provide shareholders and potential investors with a measurement of the Company's efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-GAAP measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of the Company's performance.

Cash Flow

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

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash flow from operating activities (per GAAP)	\$ 290,795	\$ 205,798	\$ 798,610	\$ 887,200
Change in non-cash working capital	(10,872)	18,186	(9,792)	(17,516)
Cash flow	\$ 279,923	\$ 223,984	\$ 788,818	\$ 869,684

Operating Netback

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

(\$/boe)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue, excluding processing income	\$ 18.89	\$ 16.52	\$ 17.97	\$ 19.70
Royalties	(0.31)	(0.47)	(0.45)	(0.77)
Transportation costs	(4.56)	(3.84)	(4.50)	(3.77)
Operating expenses	(3.26)	(3.11)	(3.10)	(3.35)
Operating netback	\$ 10.76	\$ 9.10	\$ 9.92	\$ 11.81

Adjusted Working Capital

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

(000s)	As at September 30, 2020	As at December 31, 2019
Working capital (deficit)	\$ (170,489)	\$ (152,987)
Fair value of financial instruments – short-term (asset) liability	15,131	10,885
Lease liabilities – short-term	1,673	2,724
Unrealized foreign exchange in working capital - (asset) liability	60	2,703
Adjusted working capital (deficit)	\$ (153,625)	\$ (136,675)

Net Debt

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

(000s)	As at September 30, 2020	As at December 31, 2019
Bank debt	\$ (1,634,443)	\$(1,619,009)
Adjusted working capital (deficit)	\$ (153,625)	(136,675)
Net debt	\$ (1,788,068)	\$(1,755,684)

SELECTED QUARTERLY INFORMATION

(\$000s, unless otherwise noted)	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
PRODUCTION								
Natural gas (mcf)	130,086,424	129,693,070	134,195,958	132,456,603	129,027,017	124,790,550	129,529,098	123,995,544
Oil, condensate and NGL (bbls)	5,753,450	5,627,083	5,693,802	5,509,543	5,136,598	4,731,375	4,820,850	4,778,286
Oil equivalent (boe)	27,434,520	27,242,595	28,059,795	27,585,644	26,641,101	25,529,800	26,409,060	25,444,210
Natural gas (mcf/d)	1,413,983	1,425,199	1,474,681	1,439,746	1,402,468	1,371,325	1,439,212	1,347,778
Oil, condensate and NGL (bbls/d)	62,538	61,836	62,569	59,886	55,833	51,993	53,565	51,938
Oil equivalent (boe/d)	298,202	299,369	308,349	299,844	289,578	280,547	293,434	276,568
FINANCIAL								
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	518,061	443,553	524,915	579,588	440,089	443,359	664,301	595,487
Cash flow from operating activities	290,795	165,857	341,958	287,729	205,798	298,282	383,120	329,997
Per diluted share	1.07	0.61	1.26	1.06	0.76	1.10	1.41	1.21
Cash flow ⁽¹⁾	279,923	225,177	283,718	335,856	223,984	226,458	419,242	391,532
Per diluted share	1.03	0.83	1.05	1.24	0.82	0.83	1.54	1.44
Net earnings (loss)	4,826	20,106	(35,812)	61,340	15,750	154,940	87,710	190,895
Per basic share	0.02	0.07	(0.13)	0.23	0.06	0.57	0.32	0.70
Per diluted share	0.02	0.07	(0.13)	0.23	0.06	0.57	0.32	0.70
Total assets	11,246,517	11,239,383	11,106,254	11,180,610	11,043,666	10,836,576	10,924,480	10,732,457
Working capital (deficit)	(170,489)	112,170	(165,667)	(152,987)	(149,467)	(159,480)	(272,500)	(228,403)
Adjusted working capital (deficit) ⁽¹⁾	(153,625)	82,382	(268,397)	(136,675)	(151,884)	(160,101)	(245,285)	(242,043)
Cash capital expenditures	354,695	140,032	317,614	320,389	384,307	198,179	384,384	395,194
Dividends paid	39,306	36,663	36,666	32,525	32,620	32,646	27,204	27,304
Total outstanding shares (000s)	270,803	270,776	270,776	270,997	271,827	272,050	272,050	272,043
PER UNIT								
Natural gas (\$/mcf)	2.60	2.41	2.45	2.77	1.89	2.07	3.59	3.13
Oil and NGL (\$/bbl)	31.31	23.24	34.54	38.59	38.24	39.08	41.43	43.40
Revenue (\$/boe)	18.89	16.28	18.71	21.01	16.52	17.37	25.15	23.40
Operating netback (\$/boe) ⁽¹⁾	10.76	8.20	10.79	13.00	9.10	9.60	16.65	15.82

(1) See "Non-GAAP Financial Measures".

The oil and gas exploration and production industry is cyclical. The Company's financial position, results of operations and cash flows are principally impacted by production levels and commodity prices, particularly natural gas prices.

On an annual basis, the Company has had continued production growth over the last two years. The Company's average annual production has increased from 265,044 boe per day in 2018 to 290,865 per day in 2019 and 301,960 boe per day in the first nine months of 2020. The production growth can be attributed primarily to the Company's exploration and development activities, and from acquisitions of producing properties.

The Company's cash flow was \$1,303.5 million in 2018, \$1,205.5 in 2019 and forecast 2020 cash flow is \$1,225.0 million. The decrease in cash flows from 2018 to 2019 reflects the significant decrease in commodity prices over the periods. Commodity price fluctuations can indirectly impact expected production by changing the amount of funds available to reinvest in exploration, development and acquisition activities in the future. Changes in commodity prices impact revenue and cash flow available for exploration, and also the economics of potential capital projects as low commodity prices can potentially reduce the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flow generated from operations and access to capital markets.