



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

As at September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021

## **CONTENTS**

- 1 Management's Discussion and Analysis
- 37 Interim Condensed Consolidated Financial Statements
- 41 Notes to the Interim Condensed Consolidated Financial Statements

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with Tourmaline Oil Corp.'s ("Tourmaline" or the "Company") unaudited interim condensed consolidated financial statements and related notes as at and for the three and nine months ended September 30, 2022 and 2021 and the audited annual consolidated financial statements for the year ended December 31, 2021. The consolidated financial statements and the MD&A can be found at [www.sedar.com](http://www.sedar.com) or [www.tourmalineoil.com](http://www.tourmalineoil.com). This MD&A is dated November 2, 2022.

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.

This MD&A contains certain specified financial measures consisting of non-GAAP financial measures, a non-GAAP financial ratio and capital management measures. See "Non-GAAP and Other Financial Measures" for information regarding the following non-GAAP financial measures, non-GAAP financial ratio and capital management measures used in this MD&A: "cash flow", "capital expenditures", "operating netback", "operating netback per boe", "adjusted working capital" and "net debt". Since these specified financial measures may not have a standardized meaning, securities regulations require that specified financial measures are clearly defined, qualified and, where required, reconciled with their nearest GAAP measure. See "Non-GAAP and Other Financial Measures" for further information on the definition, calculation and reconciliation of these measures.

**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 any dividends (regular or special) and the timing and amount thereof; the expectation

for potential share buybacks; 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 and interest rate 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; its ability to maintain its investment grade credit rating; 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; climate change risks; inflation; supply chain risks; risks of war, hostilities, cyberattacks, civil insurrection and pandemics (including the COVID-19 pandemic); the effects and impacts of the COVID-19 pandemic as further described herein; 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](http://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

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

Although we have now seen an economic recovery post the commodity price collapse of 2020, with a more positive outlook on commodity prices and general market and industry conditions, since Russia's invasion of Ukraine in early 2022, there have now been emerging global concerns over oil and natural gas supply resulting in high benchmark commodity prices and inflationary pressures on governments, businesses, and communities.

Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the above noted factors, 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.

## CLIMATE CHANGE AND ENVIRONMENTAL REGULATION

Climate-related considerations are integrated into key business planning and risk management processes throughout the Company.

### Regulatory Update

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance (ESG) and climate reporting, the International Sustainability Standards Board ("ISSB") has issued an exposure draft for its IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators ("CSA") published for comment Proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. The comment period for the proposed National Instrument has closed and the CSA is actively considering international developments and how they may impact the proposed National Instrument. The Company is awaiting further guidance from the ISSB and CSA.

If the Company is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified. The Company continues to monitor the evolving ESG regulations and its potential impact on the Company.

### Sustainability Reporting

The Company publishes an annual Sustainability Report containing comprehensive information relating to ESG performance which can be found on the Company's website at [www.tourmalineoil.com](http://www.tourmalineoil.com).

The Sustainability Report was developed using the Global Reporting Initiative standards as a baseline for the sustainability factors significant to Tourmaline stakeholders. The Company has also included recommendations from the Task Force on Climate Related Disclosures and incorporated discussion points and metrics outlined by the International Sustainability Standards Board.

## SIGNIFICANT ACQUISITION ACTIVITY

The following table summarizes the significant acquisition activity of the Company for the nine months ended September 30, 2022, and the year ended December 31, 2021:

Acquisition	Type	Date	CGU	Purchase Price <sup>(1)</sup> (\$ MMs)	Production <sup>(2)</sup> (boe/d)
Saguaro	Property	April 15, 2021	BC Montney	\$ 205.0	9,000
Paramount	Property	July 15, 2021	BC Montney	\$ 85.6	2,400
Black Swan	Corporate	July 15, 2021	BC Montney	\$ 869.5	50,000
Aitken Creek	Infrastructure	April 12, 2022	BC Montney	\$ 235.3	N/A
Rising Star	Corporate	August 10, 2022	Spirit River	\$ 191.1	5,700

(1) These amounts reflect the purchase price in cash and/or common shares.

(2) Estimated production at the effective date of the acquisition.

## TOPAZ ENERGY CORP. ("TOPAZ") LOSS OF CONTROL

On June 8, 2021, Topaz, a previously controlled subsidiary of Tourmaline, completed a public offering and concurrent private placement equity financing and issued 14.3 million common shares reducing Tourmaline's ownership interest in Topaz to 45.2%. As a controlled subsidiary the financial statements of Topaz were consolidated with Tourmaline and any intercompany balances and transactions were eliminated. Subsequent to the completion of the public offering and concurrent private placement equity financing, Tourmaline determined that, in accordance with IFRS, it no longer controlled Topaz. Accordingly, Tourmaline derecognized the assets and liabilities of Topaz and the associated non-controlling interest ("NCI") and recorded a gain on loss of control of \$321.2 million.

Tourmaline's remaining equity interest in Topaz was measured at fair value of \$870.5 million, using the market price of the Topaz shares on the day that Tourmaline lost control, and is included on the consolidated financial statements as at September 30, 2022, as an investment in Topaz. Topaz is now classified as an associate which is an entity in which the Company has significant influence, but not control, over Topaz's financial and operating policies. Interests in associates are accounted for using the equity method whereby subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and dividends paid by the associate until the date on which significant influence ceases.

Subsequent to June 8, 2021, intercompany transactions between Tourmaline and Topaz were no longer eliminated on consolidation. As such, there was an increase in the Company's royalty expenses and operating expenses reflecting the royalty interests sold to Topaz and interests in infrastructure assets sold to Topaz on which Tourmaline incurs processing fees. The Company also experienced a decrease in other income as a significant portion of the other income stream was sold to Topaz on its formation along with other third-party processing agreements Topaz entered into with third parties. The Company records quarterly dividends received from Topaz as cash flow from operating activities. At September 30, 2022, Tourmaline owns 31.3% of the Topaz common shares outstanding.

## PRODUCTION

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Natural gas ( <i>mcf/d</i> )	<b>2,240,641</b>	2,146,477	4%	<b>2,314,655</b>	1,994,091	16%
Oil ( <i>bbl/d</i> )	<b>10,915</b>	9,954	10%	<b>10,817</b>	10,114	7%
Condensate ( <i>bbl/d</i> )	<b>29,813</b>	29,109	2%	<b>31,895</b>	26,386	21%
NGL ( <i>bbl/d</i> )	<b>67,729</b>	59,680	13%	<b>68,718</b>	57,451	20%
Oil equivalent ( <i>boe/d</i> )	<b>481,897</b>	456,489	6%	<b>497,206</b>	426,300	17%
Production in (sold from) storage ( <i>boe/d</i> )	<b>2,931</b>	1,334	120%	<b>746</b>	442	69%
Total produced volumes ( <i>boe/d</i> )	<b>484,828</b>	457,823	6%	<b>497,952</b>	426,742	17%
Natural gas %	<b>77%</b>	78%		<b>78%</b>	78%	

Production for the three months ended September 30, 2022, increased 6% up to an average of 481,897 boe/d compared to 456,489 boe/d for the same quarter of 2021. For the nine months ended September 30, 2022, production increased 17% to 497,206 boe/d from 426,300 boe/d for the same period of 2021.

The production increase for the three months ended September 30, 2022, is a result of the Company's successful exploration and production program and from the Rising Star Resources Ltd. ("Rising Star") corporate acquisition.

The production increase for the nine months ended September 30, 2022, is a result of corporate and property acquisitions completed in 2021 and 2022, which account for approximately 44% of the increase in production for the period. The remaining increase is attributable to the Company's successful exploration and production program, including the growth in condensate and NGL production which reflects the continued development of the Gundy area and the commissioning of Gundy Phase 2 in January 2022.

In addition to the average production volumes discussed above, for the third quarter of 2022, the Company injected 2,931 boe/d of natural gas into storage facilities. Average produced volumes for the third quarter of 2022 were 484,828 boe/d. For the third quarter of 2021, 1,334 boe/d of natural gas was injected into storage facilities resulting in average produced volumes of 457,823 boe/d.

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). The Company has total storage capacity of 4.0 bcf.

Full-year average production guidance for 2022 remains at approximately 507,000 boe/d.

## REVENUE AND REALIZED GAINS (LOSSES)

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
<b>Natural gas</b>						
Sales from production	\$ 989,106	\$ 826,225	20%	\$ 3,874,154	\$ 2,098,495	85%
Premium (loss) on risk management activities	331,230	14,069	2,254%	102,666	(9,557)	1,174%
Realized (loss) on financial instruments	(212,779)	(73,930)	(188)%	(489,665)	(90,924)	(439)%
	<b>1,107,557</b>	<b>766,364</b>	<b>45%</b>	<b>3,487,155</b>	<b>1,998,014</b>	<b>75%</b>
<b>Oil</b>						
Sales from production	111,488	73,957	51%	352,276	201,256	75%
Premium on risk management activities	3,338	1,599	109%	8,987	5,188	73%
Realized (loss) on financial instruments	(14,766)	(11,224)	(32)%	(56,343)	(26,084)	(116)%
	<b>100,060</b>	<b>64,332</b>	<b>56%</b>	<b>304,920</b>	<b>180,360</b>	<b>69%</b>
<b>Condensate</b>						
Sales from production	306,184	230,699	33%	1,069,742	576,857	85%
Premium (loss) on risk management activities	183	(365)	150%	(3,785)	(3,267)	(16)%
Realized (loss) on financial instruments	(41,046)	(34,304)	(20)%	(168,082)	(71,721)	(134)%
	<b>265,321</b>	<b>196,030</b>	<b>35%</b>	<b>897,875</b>	<b>501,869</b>	<b>79%</b>
<b>NGL</b>						
Sales from production	270,592	192,322	41%	882,150	467,940	89%
Realized gain (loss) on financial instruments	326	(5,672)	106%	(5,726)	(8,265)	31%
	<b>270,918</b>	<b>186,650</b>	<b>45%</b>	<b>876,424</b>	<b>459,675</b>	<b>91%</b>
<b>Total</b>						
Sales from production	1,677,370	1,323,203	27%	6,178,322	3,344,548	85%
Premium (loss) on risk management activities	334,751	15,303	2,087%	107,868	(7,636)	1,513%
Realized (loss) on financial instruments	(268,265)	(125,130)	(114)%	(719,816)	(196,994)	(265)%
Total revenue from commodity sales, premium (loss) on risk management activities, and realized gain (loss) on financial instruments	<b>\$ 1,743,856</b>	<b>\$ 1,213,376</b>	<b>44%</b>	<b>\$ 5,566,374</b>	<b>\$ 3,139,918</b>	<b>77%</b>

Total sales from production for the three months ended September 30, 2022, increased 27% to \$1.7 billion from \$1.3 billion for the same quarter of 2021. Total sales from production for the nine months ended September 30, 2022, increased 85% from \$3.3 billion in 2021 to \$6.2 billion in 2022. The increase for both periods can be attributed to a significant increase in commodity prices and increased sales volumes.

Included in the premium (loss) on risk management activities is the premium (loss) that Tourmaline receives from selling gas to markets outside Alberta and British Columbia and the premium (loss) received on physical commodity contract prices compared to benchmark pricing. Tourmaline has significantly diversified the markets where its natural gas is sold including Sumas, PG&E Malin, PG&E Citygate, Chicago, Ventura and Dawn, all of which have historically had higher natural gas prices as compared to AECO.

The three and nine months ended September 30, 2022, included a premium on risk management activities of \$334.8 million and \$107.9 million, respectively, compared to a premium of \$15.3 million and a loss of \$7.6 million, respectively, for the same periods of the prior year. For the three and nine months ended September 30, 2022, AECO prices, on average, were lower than the prices received (after transportation) at the other hubs where Tourmaline sells its natural gas, resulting in a premium received on risk management activities, as well as a gain on the Company's physical contracts during the periods.

Total revenue, for the three and nine months ended September 30, 2022, was also impacted by a realized loss on financial instruments of \$268.3 million and \$719.8 million, respectively, (three and nine months ended September 30, 2021 - \$125.1 million and \$197.0 million, respectively) reflecting lower prices received on financial commodity contracts when compared to higher benchmark prices.

Total revenue from commodity sales and the premium (loss) on risk management activities and realized (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,		
	2022	2021	Change	2022	2021	Change
Natural gas						
NYMEX Last Day (USD\$/mcf)	\$ 8.20	\$ 4.01	104%	\$ 6.77	\$ 3.18	113%
AECO 5A (CAD\$/mcf)	\$ 4.18	\$ 3.62	15%	\$ 5.41	\$ 3.30	64%
West Coast Station 2 (CAD\$/mcf)	\$ 3.11	\$ 3.44	(10)%	\$ 4.88	\$ 3.18	53%
Sumas (USD\$/mmbtu)	\$ 6.74	\$ 4.14	63%	\$ 6.01	\$ 3.49	72%
ATP 5A Day Ahead (CAD\$/mcf)	\$ 4.68	\$ 4.26	10%	\$ 5.82	\$ 4.02	45%
Chicago Citygate (USD\$/mmbtu)	\$ 7.38	\$ 4.10	80%	\$ 6.33	\$ 5.39	17%
Ventura (USD\$/mmbtu)	\$ 7.25	\$ 4.02	80%	\$ 6.25	\$ 6.43	(3)%
PG&E Malin (USD\$/mmbtu)	\$ 7.51	\$ 4.37	72%	\$ 6.39	\$ 3.47	84%
PG&E Citygate (USD\$/mmbtu)	\$ 8.82	\$ 5.69	55%	\$ 7.51	\$ 4.53	66%
Dawn (USD\$/mmbtu)	\$ 7.37	\$ 3.98	85%	\$ 6.33	\$ 3.24	95%
Oil and condensate						
NYMEX (USD\$/bbl)	\$ 91.43	\$ 70.52	30%	\$ 98.17	\$ 65.07	51%
Edmonton Par (CAD\$/bbl)	\$ 115.02	\$ 84.16	37%	\$ 122.87	\$ 76.74	60%
Edmonton Condensate (CAD\$/bbl)	\$ 115.19	\$ 89.23	29%	\$ 123.43	\$ 81.49	51%

**CURRENCY – EXCHANGE RATES:**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
CAD\$/USD\$ <sup>(1)</sup>	\$ 0.7658	\$ 0.7939	(4)%	\$ 0.7792	\$ 0.7993	(3)%

(1) Average rates for the period.

**TOURMALINE REALIZED PRICES:**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Natural gas (\$/mcf)	\$ 5.37	\$ 3.88	38%	\$ 5.52	\$ 3.67	50%
Oil (\$/bbl)	\$ 99.64	\$ 70.25	42%	\$ 103.26	\$ 65.32	58%
Condensate (\$/bbl)	\$ 96.73	\$ 73.20	32%	\$ 103.12	\$ 69.67	48%
NGL (\$/bbl)	\$ 43.48	\$ 33.99	28%	\$ 46.72	\$ 29.31	59%
Oil equivalent (\$/boe)	\$ 39.33	\$ 28.89	36%	\$ 41.01	\$ 26.98	52%

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

The realized average natural gas price for the three months ended September 30, 2022, increased by 38% to \$5.37/mcf from \$3.88/mcf for the same period of the prior year. For the nine months ended September 30, 2022, the realized average natural gas price was \$5.52/mcf, which is 50% higher than the same period of the prior year. The increase is the result of significantly higher natural gas benchmark prices across all the major hubs where the Company sells its natural gas, compared to the same periods of the prior year, except at West Coast Station 2 for the three months ended September 30, 2022 and Ventura for the nine months ended September 30, 2022, prior to any deductions for transportation.

Realized oil prices increased by 42% and 58% for the three and nine months ended September 30, 2022, respectively, compared to the same periods of the prior year. The increase reflects the increase in benchmark oil prices in the first nine months of 2022 compared to the first nine months of 2021, partially offset by the realized loss on financial instruments.

For the three and nine months ended September 30, 2022, the realized price of condensate was \$96.73/bbl and \$103.12/bbl, which is 32% and 48%, respectively, higher than the same periods of the prior year. The increase reflects the higher benchmark prices received during the first nine months of 2022 which was partially offset by the realized loss on financial instruments.

The realized NGL price for the three and nine months ended September 30, 2022, increased by 28% and 59%, respectively, compared to the same periods of the prior year. The increase reflects significantly higher benchmark prices for ethane, propane, butane and pentane prices, which correlates with the increase in natural gas, oil and condensate benchmark prices in the periods.

## ROYALTIES

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Natural gas						
Crown royalties	\$ 214,635	\$ 62,264	245%	\$ 561,621	\$ 161,134	249%
GORR royalties	29,701	27,227	9%	115,956	35,456	277%
Royalty credits	(86,071)	(39,248)	(119)%	(243,641)	(107,259)	(127)%
	<b>158,265</b>	50,243	215%	<b>433,936</b>	89,331	386%
Oil, condensate and NGL						
Crown royalties	160,576	79,926	101%	470,054	180,947	160%
GORR royalties	14,606	9,664	51%	47,281	14,215	233%
Royalty credits	(39,627)	(30,410)	(30)%	(128,506)	(64,747)	(98)%
	<b>135,555</b>	59,180	129%	<b>388,829</b>	130,415	198%
Total royalties	\$ 293,820	\$ 109,423	169%	\$ 822,765	\$ 219,746	274%
Royalties as a percentage of commodity sales from production	<b>17.5%</b>	8.3%		<b>13.3%</b>	6.6%	

For the three and nine months ended September 30, 2022, the average effective royalty rate was 17.5% and 13.3%, respectively, compared to 8.3% and 6.6%, respectively, for the same periods of the prior year. The significantly higher benchmark commodity prices in 2022 resulted in higher natural gas, oil, condensate and NGL royalties compared to the prior year. The higher prices have essentially accelerated the payout on the Company's Alberta wells thereby reducing the period in which they are eligible for a lower royalty rate (C\* royalty rate). Additionally, royalties in 2022 reflect gross overriding royalties paid by the Company to Topaz which was deconsolidated on June 8, 2021. These royalties were previously eliminated as Topaz was a subsidiary of Tourmaline and its operating results were reported on a consolidated basis.

Included in the royalty credits received for the three and nine months ended September 30, 2022 and 2021 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 Drilling and Completion Cost Allowance ("C\*") in Alberta, as well as the Deep Well Royalty Credit Program in British Columbia. The higher commodity prices have resulted in the Company depleting some of these credits on an accelerated timeline and subsequently paying higher royalty rates on producing wells.

The Company expects its royalty rate for 2022 to be approximately 14%. The increase over the 2021 effective royalty rate reflects higher commodity prices as well as a full year of gross overriding royalty payments to Topaz. The royalty rate is sensitive to commodity prices, and as such, a change in commodity prices will impact the actual rate.

## COMMODITY MARKETING

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Marketing revenue	\$ 5,456	\$ 13,195	(59)%	\$ 34,325	\$ 40,530	(15)%
Marketing purchases	\$ (4,793)	\$ (11,494)	(58)%	\$ (29,305)	\$ (37,731)	(22)%

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 months ended September 30, 2022, marketing revenue decreased by 59% and marketing purchases decreased by 58% compared to the same period of 2021. For the nine months ended September 30, 2022, marketing revenue decreased by 15% and marketing purchases decreased by 22%, respectively, compared to the nine months ended September 30, 2021. The decrease in marketing revenue and in marketing purchases reflects lower third-party volumes purchased and sold in 2022, compared to the same period of the prior year, partially offset by the higher oil benchmark prices in 2022. Lower third-party volume purchased is a result of less third-party volumes available for purchase as well as Tourmaline using its own incremental proprietary volumes through the terminal leaving less room for third-party volumes.

## OTHER INCOME

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Other income	\$ 17,818	\$ 10,453	70%	\$ 38,854	\$ 37,245	4%

Other income for the three and nine months ended September 30, 2022, was \$17.8 million and \$38.9 million, respectively, compared to \$10.5 million and \$37.2 million, respectively, for the same periods of the prior year. The increase in other income is related to an increase in power generation income and income generated from the sale of carbon credits in the first nine months of 2022. The increases are offset by lower processing and gathering fees received from third parties after Topaz was deconsolidated as that income is now assigned directly to Topaz.

## OPERATING EXPENSES

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Operating expenses	\$ 193,331	\$ 157,854	22%	\$ 579,267	\$ 430,932	34%
Per boe	\$ 4.36	\$ 3.76	16%	\$ 4.27	\$ 3.70	15%

Operating expenses include all periodic lease and field-level expenses and exclude income recoveries from processing third-party volumes. For the third quarter of 2022, total operating expenses were \$193.3 million compared to \$157.9 million in 2021, an increase of 22% over a production base increase of 6%. Operating costs for the nine months ended September 30, 2022, were \$579.3 million compared to \$430.9 million for the same period in 2021, reflecting a 34% increase in total costs over a 17% increase in production.

On a per-boe basis, the costs increased from \$3.76/boe for the third quarter of 2021 to \$4.36/boe in the third quarter of 2022. For the nine months ended September 30, 2022, operating costs were \$4.27/boe, up from \$3.70/boe for the first nine months of 2021. The increase in per-boe costs can partially be attributed to processing and gathering fees paid to Topaz post June 8, 2021, which were previously eliminated. This impacted the per-boe costs by approximately \$0.14/boe for the nine months ended September 30, 2022, when compared to the same period of the prior year. The higher per-boe costs also reflect incremental gathering and processing fees paid to third parties on additional Company production which exceeded processing capacity at Company-owned facilities combined with higher fuel and power costs as energy prices have increased significantly. Additionally, the production acquired through corporate and asset acquisitions over the past year generally carried higher operating expenses per-boe which the Company continues to bring down as the assets are integrated and operational efficiencies are realized.

The Company's operating costs for 2022 are expected to average approximately \$4.25/boe. The increase over 2021 per-boe costs takes into consideration inflationary pressures, higher operating costs associated with the volumes acquired in the corporate acquisitions as well as higher property taxes and carbon taxes. The higher forecasted costs, compared to the prior year, also reflect the incremental processing fees paid to Topaz for the full year of 2022. The Company continues to increase its liquids portfolio which also carries higher operating costs. Actual cash costs can change, however, depending on a number of factors, including the Company's actual production levels.

## TRANSPORTATION

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Natural gas transportation	\$ 158,604	\$ 133,340	19%	\$ 510,618	\$ 369,116	38%
Oil and NGL transportation	48,044	41,803	15%	149,316	116,084	29%
Total transportation	\$ 206,648	\$ 175,143	18%	\$ 659,934	\$ 485,200	36%
Per boe	\$ 4.66	\$ 4.17	12%	\$ 4.86	\$ 4.17	17%

For the third quarter of 2022, total transportation expenses were \$206.6 million compared to \$175.1 million in the third quarter of 2021. For the nine months ended September 30, 2022, transportation expenses were \$659.9 million compared to \$485.2 million for the same period of 2021. Transportation expenses in 2022, when compared to the prior year, reflect increased costs related to higher production volumes as well as higher costs as a result of the Company's ongoing market diversification strategy.

On a per-boe basis, transportation costs increased from \$4.17/boe in the third quarter of 2021 to \$4.66/boe in the third quarter of 2022. For the nine months ended September 30, 2022, the per-boe transportation costs increased from \$4.17/boe in the prior year to \$4.86/boe. The increase in the per-unit costs reflects an increase in natural gas pipeline tariffs in 2022, higher fuel gas expense due to the higher natural gas benchmark prices and higher oil and NGL trucking costs.

## GENERAL & ADMINISTRATIVE EXPENSES ("G&A")

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
G&A expenses	\$ 38,380	\$ 33,461	15%	\$ 120,441	\$ 98,204	23%
Administrative and capital recovery	(2,283)	(1,992)	(15)%	(6,481)	(4,588)	(41)%
Capitalized G&A	(11,806)	(10,156)	(16)%	(36,966)	(28,174)	(31)%
Total G&A expenses	\$ 24,291	\$ 21,313	14%	\$ 76,994	\$ 65,442	18%
Per boe	\$ 0.55	\$ 0.51	8%	\$ 0.57	\$ 0.56	2%

Total G&A expenses in the third quarter of 2022 were \$24.3 million compared to \$21.3 million for the same quarter of 2021. For the nine-month period ended September 30, 2022, G&A expenses were \$77.0 million compared to \$65.4 million for the same period of 2021. The increase is primarily due to staff additions, additional office space, and other costs related to corporate and property acquisitions as well as higher third-party service provider fees, insurance and increased costs related to industry marketing initiatives.

G&A expenses for 2022 are expected to average approximately \$0.60/boe. 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,	
	2022	2021	2022	2021
Share-based payments	\$ 9,997	\$ 10,181	\$ 29,497	\$ 19,533
Capitalized share-based payments	(4,287)	(4,346)	(12,870)	(8,147)
Total share-based payments	\$ 5,710	\$ 5,835	\$ 16,627	\$ 11,386
Per boe	\$ 0.13	\$ 0.14	\$ 0.12	\$ 0.10

The Company uses the fair-value method for the determination of non-cash share-based payments expense. During the third quarter of 2022, 3,308,175 stock options were granted at a weighted-average exercise price of \$77.07 per option and 1,850,788 options were exercised, bringing \$43.4 million of cash into treasury.

The Company recognized \$5.7 million and \$16.6 million of share-based payments expense for the three and nine months ended September 30, 2022, compared to \$5.8 million and \$11.4 million, respectively, in the same periods of the prior year. Capitalized share-based payments for the three and nine months ended September 30, 2022, were \$4.3 million and \$12.9 million compared to \$4.3 million and \$8.1 million, respectively, for the same periods of the prior year.

Share-based payments are higher for the nine months ended September 30, 2022, which reflects options with a higher fair value being expensed in 2022 compared to 2021, consistent with the appreciation in share price.

## DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

<i>(000s) except per unit amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Total depletion, depreciation and amortization	\$ 284,930	\$ 276,506	\$ 876,284	\$ 795,499
Less mineral lease expiries	(3,942)	(19,982)	(31,500)	(27,120)
Depletion, depreciation and amortization	\$ 280,988	\$ 256,524	\$ 844,784	\$ 768,379
Per boe	\$ 6.34	\$ 6.11	\$ 6.22	\$ 6.60

DD&A expense, excluding mineral lease expiries, was \$281.0 million for the third quarter of 2022 compared to \$256.5 million for the same period of 2021. For the nine-month period ended September 30, 2022, DD&A expense, excluding mineral lease expiries, was \$844.8 million, compared to \$768.4 million for the same period of the prior year, which included depletion of oil and gas interests (excluding plant and facilities) of \$788.1 million (nine months ended September 30, 2021 - \$717.4 million). The increase in DD&A expense in 2022 over 2021 is primarily due to higher production volumes as well as a higher depletable base.

The per-unit DD&A rate (excluding the impact of mineral lease expiries) of \$6.34/boe for the third quarter increased compared to the rate of \$6.11/boe for the same quarter of 2021 primarily due to an increase in production in the Spirit River CGU, as a result of the Rising Star acquisition, which carries a higher per-unit DD&A rate than the Company's other CGUs.

For the nine-month period ended September 30, 2022, the DD&A rate (excluding the impact of mineral lease expiries) of \$6.22/boe decreased compared to the rate of \$6.60/boe for the same period of the prior year. The decrease in the per boe rate continues to reflect the benefit of acquisitions completed over the past two years which added proportionately higher reserve volumes compared to the fair value of the PP&E acquired. Additionally, there was a significant increase in the proportion of production coming from the NEBC CGU which has a lower depletion rate than the Company's other CGUs.

Mineral lease expiries for the three months ended September 30, 2022, were \$3.9 million, compared to expiries in the same quarter of the prior year of \$20.0 million. For the nine months ended September 30, 2022, expiries were \$31.5 million compared to \$27.1 million for the same period of 2021. The expired leases for the three and nine months ended September 30, 2022, amount to less than 1% 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.

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment. At September 30, 2022, the Company did not identify indicators of impairment on any of its CGUs and therefore, an impairment test was not performed.

At December 31, 2021, the Company did not identify indicators of impairment on any of its CGUs; therefore an impairment test was not performed. The Company did however, identify indicators of impairment reversal on the Spirit River CGU due to the increase in expected future cash flows and the sustained improvement in forecasted oil and gas commodity prices.

The Company determined that there was a reversal of impairment to PP&E at December 31, 2021 and reversed the full amount of the impairment loss of \$250.0 million, net of DD&A, that would have been recorded had no impairment been recorded. The net impairment reversal recorded in the Company's consolidated statement of income and comprehensive income for the year ended December 31, 2021, was \$236.8 million. At December 31, 2021, after the reversal of impairment in the Spirit River CGU, there are no historical impairment charges that have not been reversed in any of the Company's CGUs.

## FINANCE EXPENSES

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Interest expense	\$ 6,814	\$ 9,821	(31)%	\$ 20,707	\$ 28,927	(28)%
Capitalized Interest	–	(609)	100%	–	(609)	100%
Accretion expense	5,586	3,233	73%	14,340	8,786	63%
Lease interest expense	82	85	(4)%	237	265	(11)%
Foreign exchange (gain) loss on U.S. denominated debt	–	22,167	(100)%	(7,210)	(10,794)	33%
Realized loss on cross-currency swaps	–	(22,167)	100%	7,210	10,794	(33)%
Realized loss on interest rate swaps	–	2,692	(100)%	–	8,088	(100)%
Transaction costs on corporate and property acquisitions	429	3,533	(88)%	439	3,608	(88)%
Total finance expenses	\$ 12,911	\$ 18,755	(31)%	\$ 35,723	\$ 49,065	(27)%

Finance expenses for the three months ended September 30, 2022, totaled \$12.9 million compared to \$18.8 million for the same period of 2021. The average bank debt and senior unsecured notes outstanding and the average effective interest rate on the debt was \$651.6 million and 3.11% for the three months ended September 30, 2022, compared to \$1,654.4 million and 1.90% for the same period of 2021, respectively.

For the nine months ended September 30, 2022, finance expenses totaled \$35.7 million compared to \$49.1 million for the same period of 2021. The average bank debt outstanding and the average effective interest rate on the debt for the nine months ended September 30, 2022, was \$846.4 million and 2.44% compared to \$1,759.4 million and 1.75% for the same period of 2021, respectively.

Interest expense decreased for the three and nine months ended September 30, 2022, due to the decrease in average bank debt outstanding compared to the same periods of 2021 which was partially offset by the increase in the effective interest rate. The increase in the effective interest rate reflects the higher Bank of Canada prime rate in 2022 over the same period of 2021 as well as the \$200.0 million senior unsecured notes which were issued on August 9, 2021, bearing an interest rate of 2.529%.

U.S. dollar LIBOR benchmarks were phased out beginning December 31, 2021 and replaced with the Secured Overnight Financing Rate ("SOFR"), an alternative that will apply to our U.S. dollar borrowings to be used at our option. We do not expect this change to have a material impact to the Company.

For the three months ended September 30, 2022, there were no U.S. dollar draws on the credit facility. For the nine-month period ended September 30, 2022, 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 at that time. Concurrent with the draw of U.S. dollar denominated borrowings, the Company entered into cross-currency swaps to manage the foreign currency risk resulting from holding U.S. dollar denominated borrowings. The cross-currency swap allows the Company to take advantage of the interest rate spread between CDOR and SOFR without taking on foreign exchange risk.

## DEFERRED INCOME TAXES

(000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Deferred income taxes	\$ 637,884	\$ 106,806	497%	\$ 1,393,471	\$ 218,603	537%

For the three and nine months ended September 30, 2022, the provision for deferred income taxes was \$0.6 billion and \$1.4 billion, respectively, compared to \$0.1 billion and \$0.2 billion, respectively, for the same periods of the prior year. The deferred income tax expense is primarily due to the higher income before taxes for the three and nine months ended September 30, 2022, of \$2.7 billion and \$5.9 billion, respectively, compared to \$0.5 billion and \$1.3 billion in the same periods of the prior year. Included in the income before taxes, for the nine months ended September 30, 2022, are unrealized gains on financial instruments of \$3.2 billion, which are not taxable until the gains are realized. Included in income before taxes for the nine months ended September 30, 2021, is a gain on the loss of control of Topaz for \$321.2 million, which is not taxable.

## CASH FLOW FROM OPERATING ACTIVITIES, CASH FLOW AND NET EARNINGS

(000s) except per unit amounts	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Cash flow from operating activities	\$ 1,112,202	\$ 543,855	105%	\$ 3,577,332	\$ 1,788,657	100%
Per share <sup>(1)</sup>	\$ 3.24	\$ 1.66	95%	\$ 10.46	\$ 5.77	81%
Cash flow <sup>(2)</sup>	\$ 1,051,400	\$ 761,333	38%	\$ 3,481,302	\$ 1,960,890	78%
Per share <sup>(1)(2)</sup>	\$ 3.06	\$ 2.32	32%	\$ 10.18	\$ 6.33	61%
Net Earnings	\$ 2,097,929	\$ 361,057	481%	\$ 4,517,415	\$ 1,029,743	339%
Per share <sup>(1)</sup>	\$ 6.11	\$ 1.10	455%	\$ 13.21	\$ 3.32	298%
Operating netback per boe <sup>(2)</sup>	\$ 23.68	\$ 18.35	29%	\$ 25.82	\$ 17.22	50%

(1) Per share amounts have been calculated using the weighted average number of diluted common shares.

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

Cash flow for the three months ended September 30, 2022, was \$1.1 billion or \$3.06 per diluted share compared to \$0.8 billion or \$2.32 per diluted share for the same period of 2021. Cash flow for the nine months ended September 30, 2022, was \$3.5 billion or \$10.18 per diluted share compared to \$2.0 billion or \$6.33 per diluted share for the same period of 2021. The increase in cash flow for the first nine months of 2022, compared to the same period of 2021, is due to the significant increase in the benchmark prices of commodities as well as increased production volume.

The Company had after-tax net earnings for the three months ended September 30, 2022, of \$2.1 billion or \$6.11 per diluted share compared to after-tax net earnings of \$0.4 billion or \$1.10 per diluted share for the same period of 2021. For the nine-month period ended September 30, 2022, after-tax net earnings were \$4.5 billion or \$13.21 per diluted share compared to after-tax net earnings of \$1.0 billion or \$3.32 per diluted share for the first nine months of 2021. After-tax net earnings for the three and nine months ended September 30, 2022, reflect an unrealized gain of \$2.1 billion and \$3.8 billion, respectively, relating to a natural gas embedded derivative recorded in 2022. Additionally, after-tax earnings for the three and nine months ended September 30, 2022, reflect a 29% and 50% increase, respectively, in the Company's operating netback per boe combined with the increase in production volume in the first nine months of 2022. After tax-net earnings for the nine months ended September 30, 2021, include the \$321.2 million gain on the loss of control of Topaz.

## CAPITAL EXPENDITURES

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Land and seismic	\$ 9,288	\$ 9,038	\$ 33,515	\$ 28,599
Drilling and completions	392,621	292,983	921,836	702,243
Facilities	66,873	77,700	184,639	250,479
Property acquisitions	41	54,482	261,717	519,140
Property dispositions	(67,659)	(390,200)	(71,380)	(390,996)
Other	14,283	12,105	43,038	33,445
Total capital expenditures	\$ 415,447	\$ 56,108	\$ 1,373,365	\$ 1,142,910

During the third quarter of 2022, the Company invested \$415.4 million of cash consideration, net of dispositions, compared to \$56.1 million for the same period of 2021. Expenditures on exploration and production were \$468.8 million for the third quarter of 2022 compared to \$379.7 million for the same quarter of 2021. During the nine-month period ended September 30, 2022, the Company invested \$1.4 billion of cash consideration, net dispositions, which included \$261.7 million in property acquisitions (nine months ended September 30, 2021 - \$1.1 billion and \$519.1 million, respectively).

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

	Nine Months Ended September 30, 2022		Nine Months Ended September 30, 2021	
	Gross	Net	Gross	Net
Drilled	199	185.85	214	201.14
Completed	190	172.65	185	176.50
Tied-in	198	181.15	204	187.56

Exploration and production capital expenditures in 2022 are forecast to be approximately \$1.5 billion, consistent with the updated capital guidance provided in July 2022. The Company continues to expect drilling and completions costs of approximately \$1.22 billion, facilities expenditures (including equipment, pipelines and tie-ins) of \$250.0 million as well as land and seismic expenditures of \$35.0 million. The capital budget is closely monitored and will continue to be adjusted as required, depending on cash flow available.

## **Corporate Acquisition**

On August 10, 2022, the Company acquired all of the issued and outstanding shares of Rising Star. As consideration, the Company included 6.0 million common shares of Topaz which were owned by Tourmaline at a price of \$20.56 for Topaz share consideration of \$123.4 million and cash consideration of \$67.8 million for total consideration of \$191.1 million, including working capital. Total transaction costs incurred by the Company of \$0.4 million associated with this acquisition were expensed in the unaudited interim consolidated statement of income and comprehensive income. The acquisition has been accounted for as a business combination and resulted in an increase in PP&E of approximately \$306.8 million, decommissioning obligations of \$25.4 million, a deferred income tax liability of \$44.1 million along with a gain on acquisition of \$49.2 million. The acquisition of Rising Star provides for an increase in developed lands, production and infrastructure in Spirit River which complements Tourmaline's existing assets in the area.

## **Property Acquisitions**

On February 15, 2022, the Company acquired land in NEBC for cash consideration of \$20.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately \$20.0 million and the assumption of nil in decommissioning liabilities.

On April 12, 2022, the Company acquired the remaining interest in two gas processing facilities in NEBC in which the Company was already a working interest owner for cash consideration of \$235.3 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approximately \$236.2 million and the assumption of \$0.9 million in decommissioning liabilities.

The Company applied the optional IFRS 3 concentration test to each of the above acquisitions which resulted in the acquisitions being accounted for as asset acquisitions.

## **Property Dispositions**

On September 1, 2022, the Company sold a royalty interest on some of its developed and undeveloped lands to Topaz for cash consideration of \$51.0 million, before customary closing adjustments. The transaction resulted in a gain on disposition of \$28.9 million which was recorded in the Company's consolidated income statement for the three and nine months ended September 30, 2022.

On September 29, 2022, the Company sold non-core assets acquired from Rising Star for cash consideration of \$16.7 million, before customary closing adjustments. The disposition resulted in a decrease in PP&E of approximately \$43.1 million and decommissioning obligations of \$26.2 million.

## **Total Property Acquisitions and Dispositions**

In total, for the nine months ended September 30, 2022, the Company completed property acquisitions for cash consideration of \$261.7 million, including the acquisitions discussed above (December 31, 2021 - \$545.9 million) and \$7.4 million in acquisitions involving non-cash consideration (December 31, 2021 - \$89.4 million). The Company assumed \$18.1 million in decommissioning liabilities as a result of these acquisitions (December 31, 2021 - \$27.3 million).

The Company also completed property dispositions, for the nine months ended September 30, 2022, for total cash consideration of \$71.4 million (December 31, 2021 - \$392.6 million) and non-cash consideration of \$7.4 million (December 31, 2021 - \$21.5 million). The Company removed \$26.3 million in decommissioning liabilities as a result of these dispositions (December 31, 2021 - \$0.9 million).

## **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, in the amount of \$2.55 billion. In June 2022, the Company extended the maturity date of the revolving credit facility to June 2027. With the exception of the change in maturity date, the revolving credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2021. 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 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/SOFR (for U.S. borrowings), plus applicable margins. As at September 30, 2022, the revolving credit facility was not drawn.

The Company also has a covenant-based, unsecured, operating credit facility with a Canadian bank in the amount of \$50.0 million. In June 2022, the Company extended the maturity date of the operating credit facility to June 2024. With the exception of the change in maturity date, the operating credit facility was renewed under the same terms and conditions as those described in note 9 of the Company's consolidated financial statements for the year ended December 31, 2021. The maturity date 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. As at September 30, 2022, 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 \$27.2 million at September 30, 2022 (December 31, 2021 - \$22.5 million), which reduces the credit available on this facility.

### **Senior unsecured notes**

On January 25, 2021, the Company issued \$250.0 million of senior unsecured notes. The notes bear interest at a fixed rate of 2.077%, payable semi-annually commencing on July 25, 2021, with a maturity date of January 25, 2028, and rank equally with all other present unsecured and subordinated debt of the Company. There are no financial covenants on these senior unsecured notes.

On August 9, 2021, the Company issued \$200.0 million of senior unsecured notes. The notes bear interest at a fixed rate of 2.529%, payable semi-annually commencing on February 12, 2022, with a maturity date of February 12, 2029, and rank equally with all other present unsecured and subordinated debt of the Company. There are no financial covenants on these senior unsecured notes.

The Company's aggregate borrowing capacity is \$3.1 billion at September 30, 2022 including the bank debt and senior unsecured notes.

### **Adjusted working capital <sup>(1)</sup> and net debt <sup>(1)</sup>**

As at September 30, 2022, the Company had an adjusted working capital deficit of \$116.4 million, after adjusting for the fair value of financial instruments, short-term lease liabilities, short-term decommissioning obligations and unrealized foreign exchange in working capital (the working capital was \$513.1 million) (December 31, 2021 – adjusted working capital deficit of \$103.4 million and working capital deficit of \$361.0 million, respectively). As at September 30, 2022, the Company had nil drawn against the operating credit facility and \$448.3 million of senior unsecured notes outstanding for total bank debt and senior unsecured notes of \$448.3 million (net of debt issue costs) (December 31, 2021 - \$869.6 million). Net debt at September 30, 2022 was \$564.6 million, excluding the fair value of short-term financial instruments, short-term lease liabilities, short-term decommissioning obligations and unrealized foreign exchange in working capital deficit (December 31, 2021 - \$973.0 million).

*(1) See "Non-GAAP and Other Financial Measures".*

### **Normal course issuer bid**

On July 27, 2022, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase up to 16,800,668 common shares, representing 5% of its common shares outstanding at July 19, 2022, over a period of twelve months commencing on August 2, 2022. 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, 2022, the Company did not purchase any common shares for cancellation.

## Dividends

During the three and nine months ended September 30, 2022, the Company paid a quarterly cash dividend of \$0.225 and \$0.65 per common share totalling \$75.9 million and \$218.0 million, respectively, compared to \$0.17 and \$0.49 per common share, totalling \$55.7 million and \$161.8 million, respectively, for the same periods of the prior year.

On February 1, 2022, the Company paid a special dividend of \$1.25 per common share totalling \$414.5 million.

On May 19, 2022, the Company paid a special dividend of \$1.50 per common share totalling \$502.3 million.

On August 12, 2022, the Company paid a special dividend of \$2.00 per common share totalling \$672.6 million.

## Capital management

For the remainder of 2022, management will continue to use internally-generated cash flow to fund its 2022 exploration and development program and is dedicated to keeping a strong statement of financial position, which has proven to be very important, especially in times of volatile commodity prices. The significant increase in cash flow in 2021 and 2022 has consistently been directed towards modest, sustainable dividend increases, special dividends and continued debt reduction. On a go-forward basis, the Company intends to return the vast majority of cash flow, less capital expenditures, back to shareholders which will be achieved through continued modest and sustainable base dividend increases, special dividends when appropriate, and tactical share buybacks. Management's approach to capital management is further described in note 4(d) of the Company's annual consolidated financial statements.

## SHARES AND STOCK OPTIONS OUTSTANDING

As at November 2, 2022, the Company has 338,016,872 common shares and 13,139,536 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 <sup>(1)</sup>	\$ 3,080	\$ 7,129	\$ 5,645	\$ 2,079	\$ 17,933
Firm transportation agreements	874,683	1,681,218	1,398,958	4,955,449	8,910,308
Processing commitments <sup>(2)</sup>	152,211	284,500	248,648	491,134	1,176,493
Capital commitments <sup>(3)</sup>	74,250	11,554	–	–	85,804
Senior unsecured notes <sup>(4)</sup>	10,378	20,757	20,757	458,747	510,639
	\$ 1,114,602	\$ 2,005,158	\$ 1,674,008	\$ 5,907,409	\$10,701,177

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

(2) Includes processing and power commitments.

(3) Includes drilling commitments.

(4) Includes interest expense at an annual rate of 2.31% being the fixed rate on the senior unsecured notes.

## 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 4 of the Company's audited consolidated financial statements for the year ended December 31, 2021.

As at September 30, 2022, the Company has entered into certain financial derivative contracts in order to manage commodity price 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 or loss on the consolidated statement of income and comprehensive income. The contracts that the Company has in place at September 30, 2022 are summarized and disclosed in note 4 of the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022 and 2021.

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, 2022 have been summarized and disclosed in note 4 of the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022 and 2021.

In July 2021, the Company entered into a 15-year natural gas supply agreement, under which Tourmaline will deliver 140,000 mmbtu/d (approximately 140,000 mcf/d), commencing in January 2023. Under the terms of the agreement, Tourmaline will deliver natural gas to its counterparty at a delivery point in Louisiana, USA and receive a Japan Korea Marker ("JKM") index price less deductions for transport and liquefaction. Due to the fact that the volumes are delivered to the counterparty in the United States but that Tourmaline ultimately receives a JKM index price, it was determined that the contract contained an embedded derivative as a result of the pricing spread between JKM and NYMEX. The Company defined the host contract as a natural gas sales contract with an underlying natural gas price of NYMEX.

The Company determines the fair value of the natural gas embedded derivative, at the end of each period, through the use of internal models which incorporate significant unobservable inputs (Level 3 inputs). In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks, such as future prices of energy for unobservable periods, volatility, foreign exchange and contract duration. When determining fair value estimates, the Company attempts to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company will have unrealized gains (losses) on the natural gas embedded derivative based on the movements in the JKM and NYMEX price forecasts. The Company will not have realized gains (losses) on the embedded derivative until the Company begins delivering natural gas, which is expected to commence in January 2023. For the three and nine months ended September 30, 2022, the natural gas embedded derivative resulted in an unrealized gain of \$2.1 billion and \$3.8 billion, respectively, as a result of the strengthening forecast JKM price relative to the forecast NYMEX price. At September 30, 2022, the total fair value of the natural gas embedded derivative was \$3.8 billion.

## ACCOUNTING RESTATEMENT

During the third quarter of 2022, the Company identified a gas supply agreement, entered into in July 2021, that had been originally determined to be exempt from IFRS 9 – Financial Instruments, consistent with the convention in the oil and gas industry for physical delivery contracts. After further review, the Company determined that the agreement also included an embedded derivative in accordance with IFRS 9 – Financial Instruments. As a result, an embedded derivative is being recognized as a component of the agreement and will be fair valued at each reporting period over the life of the 15-year agreement. The Company has restated values in each of the first two quarters of 2022 to reflect the material impact of the embedded derivative. The fair value of financial instruments was not material at September 30, 2021 or December 31, 2021.

	2022	
(000s) (unaudited)	Q2	Q1
Fair value of financial instruments – current asset previously reported	\$ 8,924	\$ 10,979
Restatement adjustment	400,860	92,016
<b>Fair value of financial instruments - restated</b>	<b>409,784</b>	<b>102,995</b>
Total current assets previously reported	871,609	797,525
Restatement adjustment	400,860	92,016
<b>Total current assets - restated</b>	<b>1,272,469</b>	<b>889,541</b>
Fair value of financial instruments – long-term asset previously reported	11,743	9,814
Restatement adjustment	1,354,441	453,081
<b>Fair value of financial instruments - restated</b>	<b>1,366,184</b>	<b>462,895</b>
Total Assets previously reported	15,717,713	15,492,762
Restatement adjustment	1,755,301	545,097
<b>Total assets - restated</b>	<b>17,473,014</b>	<b>16,037,859</b>
Deferred tax liability previously reported	1,372,819	1,122,025
Restatement adjustment	420,043	130,442
<b>Deferred tax liability - restated</b>	<b>1,792,862</b>	<b>1,252,467</b>
Retained earnings previously reported	3,864,823	3,619,733
Restatement adjustment	1,335,258	414,655
<b>Retained earnings – restated</b>	<b>5,200,081</b>	<b>4,034,388</b>
Total shareholders' equity previously reported	11,776,727	11,478,909
Restatement adjustment	1,335,258	414,655
<b>Total shareholders' equity – restated</b>	<b>13,111,985</b>	<b>11,893,564</b>
Total Liabilities and Shareholders' Equity previously reported	15,717,713	15,492,762
Restatement adjustment	1,755,301	545,097
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$17,473,014</b>	<b>\$16,037,859</b>

	<b>2022</b>	
(000s) except per-share amounts (unaudited)	Q2 <sup>(1)</sup>	Q1
Unrealized gain (loss) on financial instruments previously reported	\$ 9,871	\$ (437,023)
Restatement adjustment	1,210,204	545,097
<b>Unrealized gain (loss) on financial instruments - restated</b>	<b>1,220,075</b>	<b>108,074</b>
Income from operations previously reported	1,085,968	356,616
Restatement adjustment	1,210,204	545,097
<b>Income from operations – restated</b>	<b>2,296,172</b>	<b>901,713</b>
Income before tax previously reported	1,073,738	346,034
Restatement adjustment	1,210,204	545,097
<b>Income before tax – restated</b>	<b>2,283,942</b>	<b>891,131</b>
Deferred tax expense previously reported	250,794	84,750
Restatement adjustment	289,601	130,442
<b>Deferred tax expense - restated</b>	<b>540,395</b>	<b>215,192</b>
Net income and comprehensive income previously reported	822,944	261,284
Restatement adjustment	920,603	414,655
<b>Net income and comprehensive income - restated</b>	<b>1,743,547</b>	<b>675,939</b>
Earnings per share – Basic previously reported	2.46	0.79
Restatement adjustment	2.74	1.24
<b>Basic earnings per share – restated</b>	<b>5.20</b>	<b>2.03</b>
Earnings per share – Diluted previously reported	2.40	0.77
Restatement adjustment	2.69	1.22
<b>Diluted earnings per share - restated</b>	<b>\$ 5.09</b>	<b>\$ 1.99</b>

(1) Adjustments to the statement of income and comprehensive income are for the three months ended June 30, 2022.

## 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, 2021.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") 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 CEO and CFO 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.

Under the supervision, and with the participation, of the Company's CEO and CFO, management conducted an evaluation of the effectiveness of the Company's ICFR, as at September 30, 2022 based on the framework set forth in Internal Control – Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or a combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the annual financial statements, or interim financial statements, will not be prevented or detected on a timely basis. Based on its evaluation under this framework, management concluded that, as at September 30, 2021, December 31, 2021, March 31, 2022, June 30, 2022 and September 30, 2022, it had identified a material weakness related to the detection of embedded derivatives within marketing contracts. As a result, the Company did not identify whether the definition of a derivative was met and whether the market between the host contract and the embedded derivative was closely related. As such, the Company did not account for an embedded derivative in relation to an existing natural gas supply agreement. As a result, the Company has restated the fair value of financial instruments, total current assets, total assets, deferred tax liability, retained earnings, total shareholders' equity, total liabilities and shareholders equity, unrealized gains (losses) on financial instruments, deferred tax expense, net income and comprehensive income, basic earnings per share and diluted earnings per share for the three months ended March 31, 2022 and June 30, 2022. The fair value of financial instruments was not material to require restating at September 30, 2021 or December 31, 2021. Refer to the "Accounting Restatement" section in the MD&A for details of the restatement.

### Material Changes in Internal Controls

Except with respect to the identification of the material weakness identified this quarter, discussed above, which existed since the date the natural gas supply agreement was entered into being the quarter ended September 30, 2021, there have been no changes in our internal controls over financial reporting. The impact to interim and annual 2021 financial statements was not material.

## Remediation of Material Weakness

The control deficiency described above was detected by management during the third quarter of 2022, prior to the filing of Tourmaline's interim financial statements for the three and nine months ended September 30, 2022. The Company has prioritized the remediation of the material weakness described above and is working under the oversight of the Audit Committee to resolve the issue.

Specific actions to remediate this material weakness include the following:

- i. Strengthen the controls to identify embedded derivatives within the contract review process, including performing an enhanced analysis on the definition of a derivative and the closely related markets criteria; and
- ii. Enhance contract analysis, including revision of the process used to assess accounting implications for complex contracts.

As the determination regarding the material weakness in ICFR was reached in late October 2022, the Company has not had adequate time to implement and evaluate the controls and procedures described above, as limited complex and material transactions requiring an application of the foregoing remediation actions have occurred in this period. The Company has, therefore, not had adequate time or opportunity to apply its proposed remediation actions to evidence the remediation of the material weakness described above and the material weakness will continue to be addressed throughout the remainder of 2022 with the intention of being rectified by December 31, 2022.

## CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

When applying IFRS 9 – Financial instruments the Company uses judgement when determining the definition of the host contract and the separate embedded derivative. The judgements made in determining the host contract can influence the fair value of the embedded derivative. Management must also make judgements regarding the unobservable inputs used to fair value a Level 3 financial instrument including assumptions about future energy prices and market risks.

## 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.

On October 7, 2021, the Government of British Columbia launched a comprehensive review of its oil and gas royalty system. Results of the public engagement portion of the review released in February 2022 indicated that the majority of British Columbians are in favour of a "revamped royalty system that puts the interest of British Columbians first and eliminates outdated, inefficient fossil fuel subsidies". Until the changes to the regime are implemented, the current system, established under the *1992 Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*, will continue to apply.

On May 19, 2022, the Government of British Columbia announced several highlights which will be included in the new oil and gas royalty system which includes the elimination of the following royalty programs: the Deep Well Royalty, the Marginal Well, Ultra-marginal Well, Low Productivity Well Rate Reduction and the Clean Growth Infrastructure Royalty programs. The new system will apply to all new wells and be phased in over two years starting on September 1, 2022. A new minimum royalty rate of 5% will be in effect, which is an increase from the current 3% minimum royalty rate. Additionally, under the new system, existing credits will expire in four years unless transferred to an environmentally-focused land healings and emissions reduction pool. Current wells and any wells that began drilling before September 1, 2022, will pay royalties based on the current royalty framework and effective September 1, 2024, these wells will transition to the rules of the new royalty system. The Company continues to evaluate the impact of these changes and is awaiting further details on all aspects of the final royalty system.

On June 29, 2021, the British Columbia Supreme Court issued a judgement in *Yahey v British Columbia* (the "Blueberry Decision"), in which it determined that the cumulative impacts of industrial development on the traditional territory of the Blueberry River First Nation ("BRFN") in northeast British Columbia had breached the BRFN's rights guaranteed under Treaty 8. Going forward, the Blueberry Decision may have significant impacts on the regulation of industrial activities in northeast British Columbia. Further, it may lead to similar claims of cumulative effects across Canada in other areas covered by numbered treaties.

On October 7, 2021, the Government of British Columbia and the BRFN reached an initial agreement in response to the Blueberry Decision in which the parties agreed to negotiate a land management process for BRFN territory, and certain previously authorized forestry and oil and gas projects were put on hold pending further negotiation. Currently, the Government of British Columbia and the BRFN continue to negotiate in an effort to finalize a new regime for assessment, authorization and management of industrial activities on BRFN territory in a manner consistent with the Blueberry Decision. The BRFN elected Judy Desjarlais as Chief in January 2022, replacing Marvin Yahey Sr. in the role. The long-term impacts and risks of the Blueberry Decision and the election of a new BRFN Chief on the Canadian oil and gas industry remain uncertain.

In addition, pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19, or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity. On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has negatively impacted the Canadian, U.S., and global economies; disrupted Canadian, U.S., and global supply chains; disrupted financial markets; impacted interest rates; resulted in ratings downgrades, credit deterioration and defaults in many industries; forced the closure of many businesses, led to loss of revenues, increased unemployment and bankruptcies; and necessitated the imposition of quarantines, physical distancing, business closures, travel

restrictions, and sheltering-in-place requirements in Canada, the U.S., and other countries. If the pandemic is prolonged, including through subsequent waves, or if additional variants of COVID-19 emerge which are more transmissible or cause more severe disease, or if other diseases emerge with similar effects, the adverse impact on the economy could worsen. Moreover, it remains uncertain how the macroeconomic environment, and societal and business norms will be impacted following this COVID-19 pandemic. Unexpected developments in financial markets, regulatory environments, interest rates or consumer behaviour may also have adverse impacts on the Company's results, business, financial condition or liquidity, for a substantial period of time.

Additionally, in 2022, Russia's invasion of Ukraine has raised global concerns over oil and natural gas supply and significantly increased benchmark commodity prices also resulting in inflationary pressures on governments, businesses, and communities. This invasion, and the subsequent war in the region, has led to sanctions being levied against Russia by the international community and may result in additional sanctions or other international action, any of which may have a destabilizing effect on commodity prices, supply chains and global economies more broadly. As a major exporter of oil and natural gas, any disruption in the supply of oil and natural gas from Russia may cause a supply shortage globally and significantly impact commodity prices.

The Company's business, financial condition, results of operations, cash flows, reputation, access to capital, cost of borrowing, access to liquidity, and/or business plans may, in particular, and without limitation, be adversely impacted as a result of the pandemic and/or decline in commodity prices.

In 2022, industry has been impacted by significant cost inflation, rising interest rates, labour shortages and supply constraints, and the Company expects these pressures will continue through the balance of the year and into next year. The Company will continue to actively monitor inflationary pressures and supply chain constraints and their impact on the Company's business.

In addition, if the Company is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified. The Company continues to monitor the evolving ESG regulations and its potential impact on the Company.

Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the above noted factors, the Company is unable at this time to predict the long-term impact on its operations, liquidity, financial condition and results, but the impact may be material.

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 to.

## 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.

## NON-GAAP AND OTHER FINANCIAL MEASURES

This MD&A contains the terms cash flow, capital expenditures, and operating netback which are considered "non-GAAP financial measures" and operating netback per boe which is considered a "non-GAAP financial ratio". These terms do not have a standardized meaning prescribed by GAAP. In addition, this MD&A contains the terms adjusted working capital and net debt, which are considered "capital management measures". Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that these measures should not be construed as an alternative to net income determined in accordance with GAAP and these measures should not be considered to be more meaningful than GAAP measures in evaluating the Company's performance.

## Non-GAAP Financial Measures

### Cash Flow

Management uses the term "cash flow" for its own performance measure and to provide shareholders and potential investors with a measurement of the Company's efficiency and its ability to generate the cash (net of current income taxes) necessary to fund its future growth expenditures, to repay debt or to pay dividends. The most directly comparable GAAP measure for cash flow is cash flow from operating activities. A summary of the reconciliation of cash flow from operating activities to cash flow, is set forth below:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash flow from operating activities (per GAAP)	<b>\$1,112,202</b>	\$ 543,855	<b>\$ 3,577,332</b>	\$ 1,788,657
Current income taxes	<b>(4,335)</b>	–	<b>(4,335)</b>	–
Change in non-cash working capital	<b>(56,467)</b>	217,478	<b>(91,695)</b>	172,233
Cash flow	<b>\$ 1,051,400</b>	\$ 761,333	<b>\$ 3,481,302</b>	\$ 1,960,890

### Capital Expenditures

Management uses the term "capital expenditures" as a measure of capital investment in exploration and production activity, as well as property acquisitions and divestitures, and such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable GAAP measure for capital expenditures is cash flow used in investing activities. A summary of the reconciliation of cash flow used in investing activities to capital expenditures, is set forth below:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash flow (from) used in investing activities (per GAAP)	<b>\$ 303,048</b>	\$ (223,170)	<b>\$ 1,422,658</b>	\$ 911,727
Corporate acquisitions	<b>(67,770)</b>	–	<b>(67,770)</b>	–
Proceeds from sale of investments	–	103,824	–	103,824
Change in non-cash working capital	<b>180,169</b>	175,454	<b>18,477</b>	127,359
Capital expenditures	<b>\$ 415,447</b>	\$ 56,108	<b>\$ 1,373,365</b>	\$ 1,142,910

## Operating Netback

Management uses the term "operating netback" as a key performance indicator and one that is commonly presented by other oil and natural gas producers. Operating netback is defined as the sum of commodity sales from production, premium (loss) on risk management activities and realized gains (loss) on financial instruments less the sum of royalties, transportation costs and operating expenses. A summary of the reconciliation of operating netback from commodity sales from production, which is a GAAP measure, is set forth below:

(000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Commodity sales from production	\$ 1,677,370	\$ 1,323,203	\$ 6,178,322	\$ 3,344,548
Premium (loss) on risk management activities	334,751	15,303	107,868	(7,636)
Realized (loss) on financial instruments	(268,265)	(125,130)	(719,816)	(196,994)
Royalties	(293,820)	(109,423)	(822,765)	(219,746)
Transportation costs	(206,648)	(175,143)	(659,934)	(485,200)
Operating expenses	(193,331)	(157,854)	(579,267)	(430,932)
Operating netback	\$ 1,050,057	\$ 770,956	\$ 3,504,408	\$ 2,004,040

## Non-GAAP Financial Ratio

### Operating Netback per-boe

Management calculates "operating netback per-boe" as operating netback divided by total production for the period. Operating netback per-boe is a key performance indicator and measure of operational efficiency and one that is commonly presented by other oil and natural gas producers. A summary of the calculation of operating netback per boe, is set forth below:

(\$/boe)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue, excluding processing income	\$ 39.33	\$ 28.89	\$ 41.01	\$ 26.98
Royalties	(6.63)	(2.61)	(6.06)	(1.89)
Transportation costs	(4.66)	(4.17)	(4.86)	(4.17)
Operating expenses	(4.36)	(3.76)	(4.27)	(3.70)
Operating netback	\$ 23.68	\$ 18.35	\$ 25.82	\$ 17.22

## **Capital Management Measures**

### **Adjusted Working Capital**

Management uses the term "adjusted working capital" for its own performance measures and to provide shareholders and potential investors with a measurement of the Company's liquidity. A summary of the composition of adjusted working capital (deficit), is set forth below:

<i>(000s)</i>	As at September 30, 2022	As at December 31, 2021
Working capital (deficit)	<b>\$ 513,115</b>	\$ (361,034)
Fair value of financial instruments – short-term liability, net of short-term asset	<b>(656,281)</b>	240,970
Lease liabilities – short-term	<b>3,101</b>	2,997
Decommissioning obligations – short-term	<b>30,000</b>	20,103
Unrealized foreign exchange in working capital - asset	<b>(6,306)</b>	(6,441)
Adjusted working capital (deficit)	<b>\$ (116,371)</b>	\$ (103,405)

### **Net Debt**

Management uses the term "net debt", as a key measure for evaluating its capital structure and to provide shareholders and potential investors with a measurement of the Company's total indebtedness. A summary of the composition of net debt, is set forth below:

<i>(000s)</i>	As at September 30, 2022	As at December 31, 2021
Bank debt	<b>\$ –</b>	\$ (421,539)
Senior unsecured notes	<b>(448,262)</b>	(448,035)
Adjusted working capital (deficit)	<b>(116,371)</b>	(103,405)
Net debt	<b>\$ (564,633)</b>	\$ (972,979)

## SELECTED QUARTERLY INFORMATION

(\$000s, unless otherwise noted)	2022 <sup>(2)</sup>			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>PRODUCTION</b>								
Natural gas (mcf)	206,138,993	213,277,064	212,484,691	208,774,653	197,475,909	174,322,330	172,588,310	146,464,921
Oil, condensate and NGL (bbls)	9,978,028	10,221,120	10,221,181	9,831,392	9,084,310	8,287,097	8,277,417	6,531,062
Oil equivalent (boe)	44,334,527	45,767,297	45,635,296	44,627,168	41,996,962	37,340,819	37,042,135	30,941,882
Natural gas (mcf/d)	2,240,641	2,343,704	2,360,941	2,269,290	2,146,477	1,915,630	1,917,648	1,592,010
Oil, condensate and NGL (bbls/d)	108,457	112,320	113,569	106,863	98,743	91,067	91,971	70,990
Oil equivalent (boe/d)	481,897	502,937	507,059	485,078	456,489	410,339	411,579	336,325
<b>FINANCIAL</b>								
Total revenue from commodity sales and premium (loss) on risk management activities and realized gain (loss) on financial instruments	1,743,856	2,108,834	1,713,684	1,529,345	1,213,376	921,278	1,005,264	688,374
Cash flow from operating activities	1,112,202	1,351,481	1,113,649	1,058,460	543,855	494,673	750,129	326,526
Per diluted share	3.24	3.95	3.29	3.14	1.66	1.64	2.51	1.18
Cash flow <sup>(1)</sup>	1,051,400	1,353,926	1,075,976	968,236	761,333	570,232	629,325	396,869
Per diluted share	3.06	3.95	3.18	2.88	2.32	1.89	2.11	1.44
Net earnings (loss) <sup>(2)</sup>	2,097,929	1,743,547	675,939	996,248	361,057	420,849	247,837	629,191
Per basic share <sup>(2)</sup>	6.23	5.20	2.03	3.01	1.12	1.41	0.84	2.28
Per diluted share <sup>(2)</sup>	6.11	5.09	1.99	2.96	1.10	1.40	0.83	2.28
Total assets <sup>(2)</sup>	20,051,706	17,473,014	16,037,859	15,292,093	14,923,735	13,153,137	12,728,515	12,790,200
Working capital (deficit) <sup>(2)</sup>	513,115	(132,556)	(672,285)	(361,034)	(591,736)	(301,459)	(249,592)	111,744
Adjusted working capital (deficit) <sup>(1)</sup>	(116,371)	29,500	(154,563)	(103,405)	(70,391)	(86,363)	(165,236)	157,339
Capital expenditures <sup>(1)</sup>	415,447	478,545	479,373	447,461	56,108	664,696	422,106	271,284
Dividends paid	748,480	577,854	481,080	306,765	55,739	47,656	58,395	48,991
Total outstanding shares (000s)	337,765	335,914	334,157	330,860	329,598	298,452	296,914	296,572
<b>PER UNIT</b>								
Natural gas (\$/mcf)	5.37	6.31	4.86	4.66	3.88	3.25	3.86	3.19
Oil and NGL (\$/bbl)	63.77	74.63	66.54	56.67	49.21	42.84	41.06	33.85
Revenue (\$/boe)	39.33	46.08	37.55	34.27	28.89	24.67	27.14	22.25
Operating netback (\$/boe) <sup>(1)</sup>	23.68	29.70	23.99	22.10	18.35	15.47	17.70	13.65

(1) See Non-GAAP and Other Financial Measures.

(2) The first and second quarters of 2022 have been restated. See "Accounting Restatement" and note 2 to the interim condensed financial statements.

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 310,598 boe per day in 2020 to 411,115 per day in 2021 and 497,206 boe per day in the first nine months of 2022. 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 \$1.2 billion in 2020, \$2.9 billion in 2021 and forecast 2022 cash flow is \$4.8 billion. The COVID-19 pandemic resulted in a large decrease in oil demand, which combined with other macro-economic conditions, resulted in significantly lower oil and liquids prices as well as increased volatility in natural gas prices which resulted in lower cash flow in 2020. The increase in 2021 cash flow reflects the significant improvement in commodity prices as well as the significant increase in production for the year. Continued increases in commodity prices and production volumes have resulted in higher cash flow for the first nine months of 2022.

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 (high) commodity prices can potentially reduce (increase) the quantities of reserves that are commercially recoverable. The Company's capital program is dependent on cash flow generated from operations.